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SALISBURY BANCORP INC

Form 10-Q

November 16, 2009

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

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

Commission file number 0-24751

SALISBURY BANCORP, INC.

(Exact name of registrant as specified in its charter)

Connecticut  
(State or other jurisdiction  
of incorporation or organization)

06-1514263  
(I.R.S. Employer  
Identification No.)

5 Bissell Street, Lakeville, CT  
(Address of principal executive offices)

06039  
(Zip code)

(860) 435-9801

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (ss.232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes \_\_\_\_\_ No \_\_\_\_\_

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer, accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐  
Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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Yes [ ] No [X]

The number of shares of Common Stock outstanding as of November 16, 2009, is 1,686,701.

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## PART I - FINANCIAL INFORMATION

Item 1.	FINANCIAL STATEMENTS
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## Salisbury Bancorp, Inc. and Subsidiary CONSOLIDATED BALANCE SHEETS

(unaudited, dollars in thousands)	September 30, 2009	December 31, 2008
<hr/>		
ASSETS		
Cash and due from banks	\$ 7,259	\$ 7,259
Interest bearing demand deposits with other banks	23,724	23,724
Money market mutual funds	4,319	4,319
Federal funds sold	--	--
<hr/>		
Total cash and cash equivalents	35,302	35,302
Interest bearing time deposit with other banks	5,000	5,000
Securities		
Available-for-sale at fair value	174,765	174,765
Held-to-maturity at amortized cost (fair value: \$63 and \$67)	63	63
Federal Home Loan Bank stock at cost	5,893	5,893
Loans held-for-sale	1,173	1,173
Loans (net of allowance for loan losses: \$3,429 and \$2,724)	311,251	311,251
Investment in real estate	75	75
Other real estate owned	418	418
Bank premises and equipment, net	8,890	8,890
Goodwill	9,829	9,829
Intangible assets (net of accumulated amortization: \$880 and \$757)	1,042	1,042
Accrued interest receivable	2,467	2,467
Cash surrender value of life insurance policies	3,636	3,636
Deferred taxes	2,046	2,046
Other assets	2,437	2,437
<hr/>		
Total Assets	\$ 564,287	\$ 495,287
<hr/>		
LIABILITIES and SHAREHOLDERS' EQUITY		
Deposits		
Demand (non-interest bearing)	\$ 64,718	\$ 64,718
NOW accounts	35,915	35,915
Money market	65,252	65,252
Savings and other	87,804	87,804
Certificates of deposit	161,110	161,110
<hr/>		
Total deposits	414,799	414,799
Repurchase agreements	15,462	15,462
Federal Home Loan Bank advances	76,767	76,767
Due to broker	--	--
Accrued interest and other liabilities	4,781	4,781
<hr/>		
Total Liabilities	511,809	511,809
<hr/>		
Commitments and contingencies	--	--
<hr/>		
Shareholders' Equity		
Preferred stock - \$.01 per share par value		
Authorized: 25,000 and 0; Shares issued: 8,816 and 0	--	--
Common stock - \$.10 per share par value		
Authorized: 3,000,000 and 3,000,000;		
Shares issued: 1,686,701 and 1,685,861	169	169
Unused common stock warrants outstanding	112	112
Paid-in capital	21,889	21,889
Retained earnings	34,997	34,997

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Accumulated other comprehensive loss, net	(4,689)	(8)
Total Shareholders' Equity	52,478	38
Total Liabilities and Shareholders' Equity	\$ 564,287	\$ 495

See accompanying notes to consolidated financial statements.

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## Salisbury Bancorp, Inc. and Subsidiary CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(dollars in thousands except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Interest and dividend income				
Interest and fees on loans	\$ 4,642	\$ 4,686	\$ 13,633	\$ 13,633
Interest on debt securities:				
Taxable	1,369	1,358	3,965	3,965
Tax exempt	635	622	1,912	1,912
Dividends on equity securities	--	39	--	--
Other interest	57	7	67	67
Total interest and dividend income	6,703	6,712	19,577	19,577
Interest expense				
Deposits	1,433	1,485	4,428	5,428
Repurchase agreements	33	46	100	100
FHLB Advances	791	1,056	2,322	3,322
Total interest expense	2,257	2,587	6,850	8,850
Net interest and dividend income	4,446	4,125	12,727	11,127
Provision for loan losses	180	520	925	925
Net interest and dividend income after provision for loan losses	4,266	3,605	11,802	10,202
Non-interest income				
Trust and wealth advisory	463	543	1,433	1,433
Service charges on deposit accounts	225	209	641	641
Losses on available-for-sale securities	--	(2,671)	(692)	(2,671)
Gains on sales of mortgage loans, net	101	77	555	555
Other	469	497	1,223	1,223
Total non-interest income (loss)	1,258	(1,345)	3,160	1,160
Non-interest expense				
Salaries and employee benefits	2,784	2,147	7,332	6,332
Occupancy	238	258	740	740
Equipment	265	219	705	705
Data processing	327	310	1,040	1,040
Insurance	40	41	96	96
FDIC insurance	204	17	737	737
Printing and stationary	58	66	225	225
Postage and telecommunications	162	145	307	307

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Professional fees	308	218	832	
Legal	68	116	276	
Amortization of intangibles	41	41	123	
Other	307	257	1,014	
<hr/>				
Total non-interest expense	4,802	3,835	13,427	11
<hr/>				
Income before income taxes	722	(1,575)	1,535	1
Income tax provision	2	337	(83)	
<hr/>				
Net income (loss)	\$ 720	\$ (1,912)	\$ 1,618	\$
<hr/>				
Net income (loss) available to common shareholders	\$ 549	\$ (1,912)	\$ 1,368	\$
<hr/>				
Per common share				
<hr/>				
Diluted earnings	\$ 0.33	\$ (1.13)	\$ 0.81	\$
<hr/>				
Cash dividends	0.28	0.28	0.56	

See accompanying notes to consolidated financial statements.

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Salisbury Bancorp, Inc. and Subsidiary

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited, dollars in thousands)	Common Stock Shares	Common Stock Amount	Preferred stock	Warrants	Paid-in capital	
<hr/>						
Balances at						
December 31, 2008	1,685,861	\$ 169	\$ --	\$ --	\$ 13,157	\$
Net income for period	--	--	--	--	--	--
Other comprehensive income net of taxes	--	--		--	--	--
Total comprehensive income						
Common stock dividends paid	--	--		--	--	--
Issuance of preferred stock and warrants	--	--	--	112	8,704	
Amortization of warrants	--	--	--	--	9	
Preferred stock dividends paid	--	--	--	--	--	--
Issuance of common stock for Directors fees	840	--	--	--	19	
<hr/>						
Balances at September 30, 2009	1,686,701	\$ 169	\$ --	\$ 112	\$ 21,889	\$
<hr/>						
Balances at						
December 31, 2007	1,685,021	\$ 169	\$ --	\$ --	\$ 13,130	\$
Net income for period	--	--	--	--	--	--
Other comprehensive loss, net of taxes	--	--	--	--	--	--

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Total comprehensive loss

Common stock dividends paid	--	--	--	--	--
Issuance of common stock for					
Directors fees	840	--	--	--	28
Cumulative effect of change in					
Accounting principles:					
Initial application of					
EITF Issue No. 06-4	--	--	--	--	--

Balances at September 30, 2008	1,685,861	\$	169	\$	--	\$	--	\$	13,158	\$
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See accompanying notes to consolidated financial statements.

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## Salisbury Bancorp, Inc. and Subsidiary CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, dollars in thousands)

Nine months end  
September 30,  
2009 20

### Operating Activities

Net income	\$	1,618	\$
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of securities, net		392	
Gain on sales of available-for-sale securities, net		(436)	
Write-downs of available-for-sale securities		1,128	2,
Provision for loan losses		925	
Decrease (increase) in loans held-for-sale		1,141	
Change in deferred loan costs, net		(112)	
Increase in mortgage servicing rights, net		(254)	
Depreciation and amortization of bank premises and equipment		535	
Amortization of intangible assets		123	
Accretion of fair value adjustment on deposits and borrowings		(54)	
Amortization of fair value adjustment on loans		36	
Decrease in interest receivable		207	
Deferred tax benefit		(20)	
Increase in taxes receivable		(477)	
Increase in prepaid expenses		(345)	
Increase in cash surrender value of life insurance policies		(215)	
Proceeds from life insurance policies		404	
Increase in other assets		(19)	
Increase in accrued expenses		114	
Increase (decrease) in interest payable		72	
Increase (decrease) in other liabilities		11	
Issuance of shares for Directors' fees		19	
Increase (decrease) in unearned income on loans		6	

Net cash provided by operating activities 4,799 3,

### Investing Activities

Placement of interest-bearing time deposit with other bank	(5,000)	
Purchase of Federal Home Loan Bank stock	(570)	
Purchases of available-for-sale securities	(98,738)	(102,

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Proceeds from sales of available-for-sale securities	44,124	94,
Proceeds from maturities of available-for-sale securities	27,991	
Proceeds from maturities of held-to-maturity securities	4	
Loan originations, advances and principal collections, net	(15,105)	(24,
Purchase of loans	(76)	(1,
Recoveries of loans previously charged-off	25	
Proceeds from sale of other real estate owned	205	
Payments to improve other real estate owned	--	(
Purchases of bank premises and equipment, net	(2,270)	(
<hr/>		
Net cash utilized by investing activities	(49,410)	(35,
<hr/>		
Financing Activities		
Net increase in demand deposits, NOW and savings accounts	34,284	24,
Net increase in time deposits	35,590	1,
Net increase in securities sold under agreements to repurchase	4,259	12,
Federal Home Loan Bank advances	12,000	17,
Principal payments on Federal Home Loan Bank advances	(2,215)	(16,
Net change in Federal Home Loan Bank short term advances	(20,878)	(8,
Proceeds from issuance of preferred stock	8,824	
Cash dividends paid	(1,611)	(1,
<hr/>		
Net cash provided by financing activities	70,253	29,
<hr/>		
Increase (decrease) in cash and cash equivalents	25,642	(2,
Cash and cash equivalents, beginning of period	9,660	15,
<hr/>		
Cash and cash equivalents, end of period	\$ 35,302	\$ 12,
<hr/>		
Cash paid during period		
Interest to depositors and on borrowings	\$ 6,777	\$ 8,
Income taxes	415	1,
Non-Cash Transfers		
From Loans to OREO	418	

See accompanying notes to consolidated financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### NOTE 1 - BASIS OF PRESENTATION

The interim consolidated financial statements of Salisbury Bancorp, Inc. ("Salisbury") include those of Salisbury and its wholly owned subsidiary, Salisbury Bank and Trust Company (the "Bank"). In the opinion of management, the interim unaudited consolidated financial statements include all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position of Salisbury and the statements of income and shareholder's equity and cash flows for the interim periods presented.

The financial statements have been prepared in accordance with generally accepted accounting principles. In preparing the financial statements, management is required to make extensive use of estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of real estate

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acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and valuation of real estate, management obtains independent appraisals for significant properties.

Certain financial information, which is normally included in financial statements prepared in accordance with generally accepted accounting principles, but which is not required for interim reporting purposes, has been condensed or omitted. Operating results for the three and nine month periods ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The accompanying condensed financial statements should be read in conjunction with the financial statements and notes thereto included in Salisbury's Annual Report for the period ended December 31, 2008.

The allowance for loan losses is a significant accounting policy and is presented in the Notes to Consolidated Financial Statements and in Management's Discussion and Analysis, which provide information on how significant assets are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions and estimates underlying those amounts, management has identified the determination of the allowance for loan losses to be the accounting area that requires the most subjective judgments, and as such could be most subject to revision as new information becomes available.

### Impact of New Accounting Pronouncements Issued

In June 2009, the Financial Accounting Standards Board ("FASB") issued an update to Accounting Standard Codification 105-10, "Generally Accepted Accounting Principles." This standard establishes the FASB Accounting Standard Codification ("Codification" or "ASC") as the source of authoritative U.S. GAAP recognized by the FASB for nongovernmental entities. The Codification is effective for interim and annual periods ending after September 15, 2009. The Codification is a reorganization of existing U.S. GAAP and does not change existing U.S. GAAP. Salisbury adopted this standard during the third quarter of 2009. The adoption had no impact on Salisbury's financial position or results of operations.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets", and SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)." These standards are effective for the first interim reporting period of 2010. SFAS No. 166 amends the guidance in ASC 860 to eliminate the concept of a qualifying special-purpose entity ("QSPE") and changes some of the requirements for derecognizing financial assets. SFAS No. 167 amends the consolidation guidance in ASC 810-10. Specifically, the amendments will (a) eliminate the exemption for QSPEs from the new guidance, (b) shift the determination of which enterprise should consolidate a variable interest entity ("VIE") to a current control approach, such that an entity that has both the power to make decisions and right to receive benefits or absorb losses that could potentially be significant, will consolidate a VIE, and (c) change when it is necessary to reassess who should consolidate a VIE. Salisbury is evaluating the impact that these standards will have on its financial statements.

In August 2009, the FASB issued Accounting Standards Update ("ASU") 2009-05, "Measuring Liabilities at Fair Value," which updates ASC 820-10, "Fair Value Measurements and Disclosures." The updated guidance clarifies that the fair value of a liability can be measured in relation to the quoted price of the liability when it trades as an asset in an active market, without adjusting the

price for restrictions that prevent the sale of the liability. This guidance is



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effective beginning January 1, 2010. Salisbury does not expect that the guidance will change its valuation techniques for measuring liabilities at fair value.

In May 2009, the FASB updated ASC 855, "Subsequent Events." ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Salisbury adopted this guidance during the second quarter of 2009. In accordance with the update, Salisbury evaluates subsequent events through the date its financial statements are issued. The adoption of this guidance did not have an impact on Salisbury's financial position or results of operations.

In April 2009, the FASB updated ASC 320-10, "Investments - Debt and Equity Securities." The guidance amends the other-than-temporary impairment ("OTTI") guidance for debt securities. If the fair value of a debt security is less than its amortized cost basis at the measurement date, the updated guidance requires Salisbury to determine whether it has the intent to sell the debt security or whether it is more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis. If either condition is met, an entity must recognize full impairment. For all other debt securities that are considered other-than-temporarily impaired and do not meet either condition, the guidance requires that the credit loss portion of impairment be recognized in earnings and the temporary impairment related to all other factors be recorded in other comprehensive income. In addition, the guidance requires additional disclosures regarding impairments on debt and equity securities. Salisbury adopted this guidance effective April 1, 2009. The adoption of this guidance did not have an impact on Salisbury's financial position or results of operations.

In April 2009, the FASB updated ASC 820-10, "Fair Value Measurements and Disclosures," to provide guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. This issuance provides guidance on estimating fair value when there has been a significant decrease in the volume and level of activity for the asset or liability and for identifying transactions that may not be orderly. The guidance requires entities to disclose the inputs and valuation techniques used to measure fair value and to discuss changes in valuation techniques and related inputs, if any, in both interim and annual periods. Salisbury adopted this guidance during 2009 and the adoption did not have a material impact on Salisbury's financial position and results of operations. The enhanced disclosures related to this guidance are included in Note 5, "Fair Value Measurements," to the consolidated Financial Statements.

In April 2009, the FASB updated ASC 825-10 "Financial Instruments." This update amends the fair value disclosure guidance in ASC 825-10-50 and requires an entity to disclose the fair value of its financial instruments in interim reporting periods as well as in annual financial statements. The methods and significant assumptions used to estimate the fair value of financial instruments and any changes in methods and assumptions used during the reporting period are also required to be disclosed both on an interim and annual basis. Salisbury adopted this guidance during 2009. The required disclosures have been included in Note 5, "Fair Value Measurements," to the consolidated Financial Statements.

In June 2008, the FASB updated ASC 260-10, "Earnings Per Share." The guidance concludes that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities that should be included in the earnings allocation in computing earnings per share under the two-class method. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior period earnings per share data presented must be adjusted retrospectively. The adoption of this update, effective January 1, 2009, did not have a material impact on Salisbury's financial position, results of operations, and earnings per share.

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In March 2008, the FASB updated ASC 815, "Derivatives and Hedging." This guidance changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The guidance in ASC 815 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This guidance encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The adoption of this guidance did not have a material impact on its financial condition and results of operations.

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In February 2008, the FASB updated ASC 860, "Transfers and Servicing." This guidance clarifies how the transferor and transferee should separately account for a transfer of a financial asset and a related repurchase financing if certain criteria are met. This guidance became effective January 1, 2009. The adoption of this guidance did not have a material effect on Salisbury's results of operations or financial position.

In December 2007, the FASB updated ASC 810-10, "Consolidation", which provides new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest should be reported as a component of equity in the consolidated financial statements. This guidance also required expanded disclosures that identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of an entity. The adoption of this guidance did not have a material impact on Salisbury's results of operations or financial position.

In December 2007, the FASB updated ASC 805, "Business Combinations." The updated guidance significantly changes the accounting for business combinations. Under ASC 805, an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. It also amends the accounting treatment for certain specific items including acquisition costs and non controlling minority interests and includes a substantial number of new disclosure requirements. ASC 805 applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The adoption of this statement did not have a material impact on Salisbury's financial condition and results of operations.

### Pending Acquisition

On August 25, 2009, Salisbury announced the Bank had entered into a purchase and assumption agreement (the "Agreement") to purchase the Canaan, Connecticut branch of Webster Bank. The Agreement provides that, subject to the receipt of regulatory approvals and the satisfaction of normal closing conditions, the Bank will assume certain deposits, fixed assets, and certain loans. The Bank also agreed to retain all branch-based employees of the Webster Canaan Branch as part of the transaction.

In the aggregate, the transaction includes approximately \$17 million in deposits and approximately \$4 million in loans. Under the terms of the Agreement, the acquisition is expected to be completed in the fourth quarter of 2009.

NOTE 2 - COMPREHENSIVE INCOME (LOSS)

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Disclosure of comprehensive income includes net income and any changes in equity from non-owner sources that are not recorded in the income statement (such as changes in the net unrealized gains (losses) on securities). The purpose of reporting comprehensive income (loss) is to report a measure of all changes in equity that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners. Salisbury's sources of other comprehensive income (loss) are the net changes in unrealized holding (losses) or gains on securities and the net change in unrecognized pension plan expense.

The components of comprehensive income (loss) are as follows:

(in thousands)	Three months ended September 30, 2009		Nine months ended September 30, 2009	
Net income (loss)	\$	720	\$	1,618
Other comprehensive income (loss), before tax				
Net change in unrealized (losses) gains on securities available-for-sale and net change in unrecognized pension plan expense				
Income tax (expense) benefit				
Other comprehensive income (loss)				
Comprehensive income (loss)				
	\$	720	\$	1,618
		\$(1,912)		\$ 152
	6,554	(3,644)	9,924	(9,250)
	(2,208)	1,241	(5,708)	3,925
	4,346	(2,403)	4,216	(5,325)
	\$ 5,066	\$ (4,315)	\$ 5,834	\$ (5,173)

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### NOTE 3 - SECURITIES

Securities classified as available-for-sale (carried at fair value) were as follows:

(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
September 30, 2009				
U.S. Treasury bills				
Within 1 year	\$ 3,248	\$ 1	\$ --	\$ 3,2
U.S. Government Agency notes				
Within 1 year	23,289	126	(6)	23,4
After 1 year but within 5 years	14,947	84	(8)	15,0
After 5 years but within 10 years	3,539	51	(29)	3,5
After 10 years but within 15 years	3,000	--	(16)	2,9
Municipal bonds				
Within 1 year	555	--	--	5
After 1 year but within 5 years	3,996	31	(8)	4,0
After 5 years but within 10 years	26,105	348	(683)	25,7
After 10 years but within 15 years	11,211	25	(740)	10,4
After 15 years	15,987	33	(1,701)	14,3

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U.S. Government Agency mortgage backed securities	36,926	580	(163)	37,3
Non-agency collateralized mortgage obligations	28,201	474	(2,811)	25,8
SBA bonds	6,921	22	(32)	6,9
Corporate bonds				
After 1 year but within 5 years	1,076	34	--	1,1
After 15 years	20	132	--	1

Total securities available-for-sale	\$ 179,021	\$ 1,941	\$ (6,197)	\$ 174,7
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(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
----------------	----------------	------------------------	-------------------------	------------

December 31, 2008

U.S. Government Agency notes				
Within 1 year	\$ 35,472	\$ 48	\$ (298)	\$ 35,2
After 1 year but within 5 years	5,987	62	--	6,0
Municipal bonds				
After 1 year but within 5 years	2,201	--	(73)	2,1
After 5 years but within 10 years	9,524	90	(380)	9,2
After 10 years but within 15 years	18,907	33	(2,290)	16,6
After 15 years	32,883	11	(5,210)	27,6
U.S. Government Agency mortgage backed securities	28,651	137	(178)	28,6
Non-agency collateralized mortgage obligations	24,901	307	(2,873)	22,3
Agency collateralized mortgage obligations	2,538	57	--	2,5
After 15 years	20	--	--	
Preferred Stock	119	--	--	

Total securities available-for-sale	\$ 161,084	\$ 745	\$ (11,302)	\$ 150,5
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Securities classified as held-to-maturity (carried at amortized cost) were as follows:

(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
----------------	----------------	------------------------	-------------------------	------------

September 30, 2009

Mortgage backed security	\$63	\$ --	\$ --	\$63
--------------------------	------	-------	-------	------

December 31, 2008

Mortgage backed securities	\$66	\$ 1	\$ --	\$67
----------------------------	------	------	-------	------

The following table summarizes, for all securities in an unrealized loss position at September 30, 2009, the aggregate fair value, gross unrealized loss, and number of securities that have been continuously in an unrealized loss position for less than and greater than twelve months:

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	Less than 12 Months		12 Months or Longer		
September 30, 2009 (in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
Municipal Bonds	\$ 8,610	\$ 90	\$ --	\$ --	\$ 8,610
Mortgage backed securities	10,054	1,002	23,029	2,128	33,083
Collateralized mortgage backed securities	11,620	590	10,855	2,377	22,476
Total Temporarily impaired securities	\$30,284	\$ 1,682	\$ 33,884	\$ 4,505	\$64,169

Salisbury adopted ASC 320-10-65, Investments-Debt and Equity Securities/Transition and Open Effective Date Information, (previously FSP FAS No. 115-2 and FAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments), effective April 1, 2009. ASC 320-10-65 (FSP FAS No. 115-2 and FAS No. 124-2) requires an assessment of OTTI whenever the fair value of a security is less than its amortized cost basis at the balance sheet date. Amortized cost basis includes adjustments made to the cost of a security for accretion, amortization, collection of cash and previous OTTI recognized into earnings.

Salisbury evaluates its individual available for sale investment securities for OTTI on at least a quarterly basis. As part of this process, Salisbury considers its intent to sell each debt security and whether it is more likely than not that it will be required to sell the security before its anticipated recovery. If either of these conditions is met, Salisbury recognizes an OTTI charge to earnings equal to the entire difference between the security's amortized cost basis and its fair value at the balance sheet date. For securities that meet neither of these conditions, an analysis is performed to determine if any of these securities are at risk for OTTI.

Salisbury believes that principal and interest on U.S Treasury securities, mortgage-backed securities or securities backed by a U.S. government sponsored entity and the Small Business Administration and bank qualified insured municipal securities are deemed recoverable.

As of September 30, 2009, Salisbury performed a detailed cash flow analysis of its non-agency Collateralized Mortgage Obligations ("CMO") to assess whether any of the securities were OTTI. Salisbury uses a third party provider to generate cash flow forecasts of each security based on a variety of market driven assumptions and securitization terms, including prepayment speed, default or delinquency rate, and default severity for losses including interest, legal fees, property repairs, expenses and realtor fees, that, together with the loan amount are subtracted from collateral sales proceeds to determine severity.

For the quarter ended June 30, 2009 Salisbury determined that five non-agency CMO securities reflected OTTI and recognized credit losses of \$1,128,000. No additional OTTI was determined for the quarter ended September 30, 2009 and all other CMO securities were judged not to be OTTI as of September 30, 2009. It is possible that future loss assumptions could change and cause future OTTI credit losses in these securities.

Salisbury does not intend to sell the securities which it has judged to be OTTI and it is not more likely than not that it will be required to sell these securities before its anticipated recovery of each security's remaining amortized cost basis. For the remainder of Salisbury's securities portfolio that have experienced decreases in the fair value, the decline is considered to be

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temporary as Salisbury expects to recover the entire amortized cost basis on the securities and neither intends to sell these securities nor is it more likely than not that it will be required to sell these securities.

The following table presents the non-agency CMOs for which an OTTI has been recognized based on Salisbury's impairment analysis of its securities portfolio:

(in thousands)	September 30, 2009
Amortized cost (net of credit related OTTI write-down)	\$5,758
Unrealized losses	(1,671)
Fair value	\$4,087

The following table presents activity related to credit losses recognized into earnings on the non-agency CMOs held by Salisbury for which a portion of an OTTI charge was recognized in accumulated other comprehensive income:

(in thousands)	Three months ended September 30, 2009		Nine months ended September 30, 2009	
	2008		2008	
Balance, beginning of period	\$ 1,128	\$ --	\$ --	\$ --
Credit losses for which OTTI was not previously recognized	--	--	1,128	--
Balance, end of period	\$ 1,128	\$ --	\$ 1,128	\$ --

## NOTE 4 - PLEDGED ASSETS

At September 30, 2009 and December 31, 2008, certain securities and loans were pledged to secure public and trust deposits, assets sold under agreements to repurchase, other borrowings and credit facilities available.

(in thousands)	September 30, 2009	December 31, 2008
Securities available-for-sale	\$ 66,876	\$ 91,120
Loans and Leases	100,742	99,619
Total pledged assets	\$167,618	\$190,739

## NOTE 5 - LOANS

The composition of the loan portfolio is as follows:

(in thousands)	September 30, 2009	December 31, 2008
Real estate mortgages:		
Residential	\$155,607	\$151,441
Commercial	67,220	62,796
Construction, land & land development	30,228	33,343
Home equity credit	30,995	25,608

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Total mortgage loans	284,050	273,188
Commercial and industrial	24,514	20,784
Consumer and other	5,611	5,726
<hr/>		
Total loans, gross	314,175	299,698
Deferred loan origination fees and costs, net	505	393
Allowance for loan losses	(3,429)	(2,724)
<hr/>		
Total loans, net	\$311,251	\$297,367
<hr/>		

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## Impaired loans

(in thousands)	September 30, 2009	December 31, 2008
<hr/>		
With no valuation allowance	\$ 8,636	\$ 3,709
With valuation allowance	2,164	797
<hr/>		
Total impaired loans	\$ 10,800	\$ 4,506
<hr/>		
Valuation allowance	\$ 144	\$ 83

Salisbury's loans consist primarily of residential and commercial real estate loans located principally in western Connecticut and proximate areas of New York State and Massachusetts, which constitute Salisbury's service area. Salisbury offers a broad range of loan and credit facilities to borrowers in its service area, including residential mortgage loans, commercial real estate loans, construction loans, working capital loans, equipment loans, and a variety of consumer loans, including home equity lines of credit, and installment and collateral loans. All residential and commercial mortgage loans are collateralized by first or second mortgages on real estate. The ability and willingness of borrowers to satisfy their loan obligations are dependent in large part upon the status of the regional economy and regional real estate market. Accordingly, the ultimate collectability of a substantial portion of the Salisbury's loan portfolio and the recovery of a substantial portion of Other Real Estate Owned ("OREO") are susceptible to changes in market conditions.

Changes in the allowance for loan losses are as follows:

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
<hr/>				
Balance, beginning of period	\$3,309	\$2,625	\$2,724	\$2,475
Provision for loan losses	180	520	925	690
Charge-offs	(69)	(54)	(245)	(96)
Recoveries	9	14	25	36
<hr/>				
Balance, end of period	\$3,429	\$3,105	\$3,429	\$3,105
<hr/>				

## NOTE 6 - NON-PERFORMING ASSETS

The components of non-performing assets are as follows:

(in thousands)	September 30, 2009	December 31, 2008
<hr/>		

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Non-accruing loans	\$ 6,240	\$ 5,075
Accruing loans past due 90 days or more	160	100
Accruing restructured loans	350	--
<hr/>		
Total non-performing loans	6,750	5,175
Real estate acquired in settlement of loans	418	205
<hr/>		
Total non-performing assets	\$7,168	\$5,380
<hr/>		

Real estate acquired in settlement of loans consists of collateral acquired through foreclosure, forgiveness of debt or otherwise in lieu of debt.

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## NOTE 7 - INCOME TAXES

The components of the income tax provision are as follows:

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
<hr/>				
Federal	\$	(8)	\$	653
State		10		10
			\$	(219)
				31
				987
				33
<hr/>				
Total Current provision		2		663
				(188)
				1,020
<hr/>				
Federal		--		(326)
State		--		--
				(21)
				(138)
<hr/>				
Total Deferred benefit		--		(326)
				(21)
				(138)
<hr/>				
Income tax provision	\$	2	\$	337
			\$	(83)
			\$	883
<hr/>				

Connecticut tax legislation permits banks to shelter certain mortgage income from the Connecticut corporation business tax through the use of a special purpose entity called a passive investment company ("PIC"). In accordance with this legislation, in 2004 Salisbury formed a PIC, Salisbury Mortgage Company. Salisbury's income tax provision reflects the full impact of the Connecticut legislation. Salisbury does not expect to pay other than minimum state income tax in the foreseeable future unless there is a change in the State of Connecticut corporate tax law.

## NOTE 8 - SHAREHOLDERS' EQUITY

### Capital Requirements

Salisbury and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. The Bank was classified at its most recent notification as "well capitalized". Salisbury and the Bank's regulatory capital ratios at September 30, 2009 are as follows:

Well Capitalized	Salisbury	Bank
<hr/>		



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Leverage ratio	5.00%	8.57%	6.78%
Tier 1 risk-based ratio	6.00	12.29	9.74
Total risk-based ratio	10.00	13.22	10.68

### Restrictions on Cash Dividends to Common Shareholders

Salisbury's ability to pay cash dividends is dependent on the Bank's ability to pay cash dividends to Salisbury. There are certain restrictions on the payment of cash dividends and other payments by the Bank to Salisbury. Under Connecticut law the Bank cannot declare a cash dividend except from net profits, defined as the remainder of all earnings from current operations. The total of all cash dividends declared by the Bank in any calendar year shall not, unless specifically approved by the Commissioner of Banking, exceed the total of its net profits of that year combined with its retained net profits of the preceding two years.

Federal Reserve Board Supervisory Letter SR 09-4, February 24, 2009 revised March 27, 2009 notes that, as a general matter, the board of directors of a bank holding company ("BHC") should inform the Federal Reserve and should eliminate, defer, or significantly reduce dividends if (1) net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (2) the prospective rate of earnings retention is not consistent with capital needs and overall current and prospective financial condition; or (3) the BHC will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. Moreover, a BHC should inform the Federal Reserve reasonably in advance of declaring or paying a dividend that exceeds earnings for the period (e.g., quarter) for which the dividend is being paid or that could result in a material adverse change to the BHC capital structure.

Further restrictions on cash dividends are imposed on Salisbury Capital Purchase Program because of Salisbury's participation in the United States Treasury's Troubled Asset Relief Program, Capital Purchase Program ("TARP, CPP"). These preclude the payment of any common stock cash dividends if Salisbury is not paying the preferred stock dividend. Additionally, the common stock dividend may not be increased without prior approval from the Treasury for the first three years Salisbury is a TARP participant unless all TARP preferred shares are redeemed or transferred to third parties.

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### NOTE 9 - RETIREMENT PLANS

Salisbury has retirement plans, which are described more fully in Note 9 (Employee Benefits) to the Consolidated Financial Statements in Salisbury's 2008 Form 10-K. Salisbury has a non-contributory defined benefit pension plan (the "Pension Plan") covering all eligible employees. In 2006, the Pension Plan was amended, effective September 1, 2006, to provide that employees hired or rehired on or after September 1, 2006 are not eligible to participate in the plan. The following are components of net periodic benefit expense for Salisbury's Pension Plan:

(in thousands)	Three months ended		Nine months ended	
	2009	2008	2009	2008
Components of net periodic expense:				
Service cost	\$ 69	\$ 101	\$ 284	\$ 303

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Interest cost	79	92	280	275
Expected return on plan assets	(85)	(107)	(265)	(320)
Amortization of prior service cost	--	--	--	--
Amortization of unrecognized net loss	21	11	86	34
Amortization of net transition obligation	437	--	437	--
<hr/>				
Net periodic benefit expense	\$ 521	\$ 97	\$ 822	\$ 292

Actuarial assumptions:

Discount rate	6.00%	6.00%	6.00%	6.00%
Average wage increase	Note 1	Note 1	Note 1	Note 1
Expected return on plan assets	7.50	7.25	7.50	7.25

Note 1. 5% at age 20 grading down to 3% at age 60 and beyond (roughly 3.25% on average).

## NOTE 10 - FAIR VALUE OF ASSETS AND LIABILITIES

Salisbury uses fair value measurements to state certain assets and liabilities at fair value and to support fair value disclosures. Securities available for sale and impaired loans are recorded at fair value on a recurring basis. Additionally, from time to time, Salisbury may be required to record other financial assets at fair value on a nonrecurring basis, such as loans held for sale. These nonrecurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or write-downs of individual assets.

### Fair Value Hierarchy

Under ASC 820-10 (SFAS No. 157), Salisbury groups its assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 -- Valuation is based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 -- Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market, or are derived principally from or corroborated by observable market data, by correlation or by other means.

Level 3 -- Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect Salisbury's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Assets and liabilities measured at fair value on a recurring basis were as follows:

September 30, 2009 (in thousands)	Total	Level 1	Level 2	Level 3
Securities available-for sale	\$174,765	\$151	\$174,614	\$ --
Impaired loans	10,800	--	10,800	--
Total	\$185,565	\$151	\$185,414	\$ --

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Changes in Level 3 of assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	Available-for-sale Securities	
	Three months ended, September 30, 2009	Nine months September 30,
Balance, beginning of period	\$ 1	\$
Total gains or losses (realized/unrealized)		
Included in earnings (or changes in net assets)	--	
Included in other comprehensive income	--	
Amortization of securities, net	--	
Transfers in and/or out of Level 3	(1)	
Balance, end of period	\$ --	\$
Amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date		
	\$ --	\$

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

(in thousands)	September 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 35,302	\$ 35,302	\$ 9,660	\$ 9,660
Available-for-sale securities	174,766	174,766	150,527	150,527
Held-to-maturity securities	63	63	66	67
Federal Home Loan Bank stock	5,893	5,893	5,323	5,323
Loans held-for-sale	1,173	1,744	2,314	2,314
Loans, net	311,251	301,139	297,367	287,063
Accrued interest receivable	2,467	2,467	2,704	2,704
Financial liabilities				
Deposits	414,799	414,832	344,925	346,035
FHLB advances	76,766	81,710	87,914	90,206
Securities sold under agreements to repurchase	15,462	15,462	11,203	11,203
Due to broker	--	--	7,632	7,632

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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### Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations of Salisbury and its subsidiary should be read in conjunction with Salisbury's Annual Report on Form 10-K for the period ended December 31, 2008.

#### BUSINESS

Salisbury Bancorp, Inc. ("Salisbury"), a Connecticut corporation, formed in 1998, is a bank holding company for Salisbury Bank and Trust Company ("Bank"), a Connecticut-chartered and Federal Deposit Insurance Corporation (the "FDIC") insured commercial bank headquartered in Lakeville, Connecticut. Salisbury's principal business consists of the business of the Bank. The Bank, formed in 1848, is engaged in customary banking activities, including general deposit taking and lending activities to both retail and commercial markets, and trust and wealth advisory services. The Bank conducts its banking business from seven full-service offices in the towns of Canaan, Lakeville, Salisbury and Sharon, Connecticut, South Egremont and Sheffield, Massachusetts, and Dover Plains, New York, and its trust and wealth advisory services from offices in Lakeville, Connecticut. In addition, the Bank has received regulatory approvals to open a full-service branch in Millerton, NY.

#### Pending Acquisition

On August 25, 2009 Salisbury announced the Bank had entered into a purchase and assumption agreement (the "Agreement") to purchase the Canaan, Connecticut branch of Webster Bank. The Agreement provides that, subject to the receipt of regulatory approvals and the satisfaction of normal closing conditions, the Bank will assume certain deposits, fixed assets, and certain loans. The Bank also agreed to retain all branch-based employees of the Webster Canaan Branch as part of the transaction.

In the aggregate, the transaction includes approximately \$17 million in deposits and approximately \$4 million in loans. Under the terms of the Agreement, the acquisition is expected to be completed in the fourth quarter of 2009.

#### Application of Critical Accounting Policies

Salisbury's consolidated financial statements are prepared in accordance with US GAAP and follow general practices within the banking industry in which it operates. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements. These estimates, assumptions and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event.

Salisbury's significant accounting policies are presented in Note 1 of Notes to Consolidated Financial Statements. These policies, along with the disclosures presented in Notes to Consolidated Financial Statements and in Management's Discussion and Analysis, provide information on how significant assets are

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valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions and estimates underlying those amounts, management has identified the determination of the allowance for loan losses to be the accounting area that requires the most subjective judgments, and as such could be most subject to revision as new information becomes available.

The allowance for loan losses represents management's estimate of credit losses in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic

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trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the balance sheet. Note 1 describes the methodology used to determine the allowance for loan losses. A discussion of the factors driving changes in the amount of the allowance for loan losses is included in the "Provision and Allowance For Loan Losses" section of Management's Discussion and Analysis.

### RESULTS OF OPERATIONS

For the three-month periods ended September 30, 2009 and 2008

#### Overview

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Net income available to common shareholders was \$549,000, or \$.33 per common share, for the third quarter ended September 30, 2009, compared to a net loss of \$(1,912,000), or \$(1.13) per common share, for the third quarter of 2008. Annualized return on average common shareholder's equity was 5.40% for the third quarter of 2009 compared with -18.03% for the third quarter of 2008. Third quarter 2008 included a securities loss arising from a \$2,856,000 OTTI write-down of Federal Home Loan Mortgage Corporation ("FHLMC") preferred stock following the U.S. Government placing FHLMC into conservatorship.

Net interest and dividend income for the quarter increased \$321,000 due primarily to a \$78.6 million increase in average earning assets, which more than offset a 33 basis point decrease in the net interest margin to 3.52%. Excluding securities losses, all other non-interest income decreased \$68,000 as a result of a decrease in credit card fees, attributable to the sale of the credit card portfolio in 2008, and lower Trust/Wealth Advisory Services income, offset in part by a \$130,000 one-time life insurance benefit and increased banking service fees. Non-interest expense increased \$967,000 due primarily to a \$637,000 increase in compensation expense and \$330,000 in all other operating expenses. The increase in compensation expense included \$378,000 in additional pension expense. The increase in all other operating expense included \$187,000 in additional FDIC deposit insurance premiums due to an increase in assessments and deposit growth.

#### Analysis of net interest and dividend income Fully-Taxable Equivalent Basis

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("FTE")

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Salisbury's net interest margin was 3.52% for the quarter compared to 3.43% in the second quarter of 2009 and 3.85% in the third quarter of 2008. The compression in the net interest margin was mostly due to the decline in short

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term rates and the prolonged flatness of the yield curve, which has reduced the gap between short- and intermediate-term interest rates and the spread between what banks earn on loans and securities and pay on deposits and borrowings. Also contributing to the year-over-year decrease in the net interest margin were reduced spreads on new loans and securities as a result of an intensely competitive market, an increase in low yielding cash and cash equivalents in relation to total earning assets, the absence of Federal Home Loan Bank of Boston ("FHLBB") dividend income for the quarter, and, to a lesser extent to other changes in the mix of earning assets and funding liabilities, asset and liability growth, and the impact of asset and liability re-pricing. During the last twelve-months the Federal Funds Target Rate has fallen by 175 basis points, while the yield on the 5-year US Treasury Note has fallen by 67 basis points. During the last twenty-four months the Federal Funds Target Rate has fallen by 450 basis points while the yield on the 5-year US Treasury Note has fallen by 194 basis points.

Salisbury seeks to grow earning assets and during the current quarter average earning assets increased \$27.8 million, or 5.5%, over the second quarter of 2009, and \$78.6 million, or 17.2%, over the third quarter of 2008. Fully taxable equivalent ("FTE") net interest and dividend income increased \$320,000 for the quarter ended September 30, 2009 as compared with the prior year period. Average interest bearing deposits increased \$83.0 million, or 31.3% over the prior year period.

The following table sets forth the components of Salisbury's FTE net interest income and FTE yields on average interest-earning assets and interest-bearing funds.

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Three months ended September 30, (in thousands)	Average Balance		Income/ Expense		
	2009	2008	2009	2008	
Loans (a)	\$309,756	\$292,111	\$ 4,637	\$ 4,678	5.
Short term funds (b)	44,786	2,643	56	6	0.
MBS and CMO securities (c)	64,270	48,191	889	637	5.
Other securities (c) (d)	117,530	114,841	1,410	1,681	4.
Total earning assets	536,342	457,786	6,992	7,002	5.
Other assets	25,122	22,903			
Total assets	\$561,464	\$480,689			
NOW accounts	\$ 38,802	\$ 26,186	85	14	0.
Money market accounts	66,262	62,624	102	276	0.
Savings & other	84,801	64,973	158	228	0.
Certificates of deposit	158,502	111,613	1,088	967	2.
Total interest-bearing deposits	348,367	265,396	1,433	1,485	1.
Repurchase agreements	14,242	7,912	33	46	0.
FHLB advances	76,910	92,566	791	1,056	4.
Total interest-bearing funds	439,519	365,874	2,257	2,587	2.
Demand deposits	68,238	69,735			
Other liabilities	4,499	2,923			

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Shareholders' equity	49,208	42,157
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Total liabilities &

shareholders' equity	\$561,464	\$480,689
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Net interest income

\$ 4,735      \$ 4,415

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Spread on interest-bearing funds

Net interest margin (e)

- (a) Includes non-accrual loans.
- (b) Includes interest-bearing deposits in other banks and federal funds sold.
- (c) Average balances of securities are based on historical cost.
- (d) Includes tax benefits of \$289,000 and \$290,000, respectively for periods 2009 and 2008 on tax-exempt securities whose income and yields are calculated on an FTE basis.
- (e) FTE net interest income divided by average interest-earning assets.

The following table sets forth the changes in FTE interest due to volume and rate.

Three months ended September 30,	2009 versus 2008
(in thousands)	Change in interest due to

	Volume (1)	Rate (1)	Net
-----			
Interest-earning assets:			
Loans	\$ 283	\$ (324)	\$ (41)
Short term funds	101	(51)	50
MBS and CMO securities	212	40	252
Other securities	39	(310)	(271)
-----			
Total	635	(645)	(10)
-----			
Interest-bearing liabilities:			
Deposits	499	(551)	(52)
FHLB advances & other	(142)	(136)	(278)
Long term debt	--	--	--
-----			
Total	357	(687)	(330)
-----			
Net change to interest income	\$ 278	\$ 42	\$ 320
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(1) Changes attributable to rate/volume are allocated proportionately to both rate and volume.

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Interest income (FTE)

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Total interest and dividend income changed at \$6,992,000 for the quarter ended September 30, 2009, as compared with \$7,002,000 for the same period a year ago. Loan income decreased slightly, by \$41,000, primarily as a result of lower yields offset in part by higher volume during the period. Average loans grew by \$17.6 million, or 6.0%. The decrease in the average loan yield, down 42 basis points, resulted from lower interest rates in 2009 and their effect on loan

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re-pricing and loan re-financing activity.

Investment income increased slightly, by \$31,000, over the prior year period, as a result of higher average volume offset by lower yields due to portfolio re-pricing, the discontinuation of FHLBB dividend income for the quarter, compared with \$53,000 for the prior year period, and a change in mix arising from the increase in short term funds relative to total investments. Average securities grew by \$18.8 million, or 11.5%, while short term funds increased by \$42.1 million from \$2.6 million for the prior year period.

### Interest expense

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Interest expense for the quarter ended September 30, 2009 decreased \$330,000, or 12.7%, as compared with the prior year period as a result of decreases in interest rates paid offset by higher average interest bearing balances.

Deposit expense decreased \$52,000, or 3.5%, as a result of lower deposit rates and changes in deposit mix offset by a significant increase in average deposit levels. Average interest bearing deposits increased \$83.0 million, or 31.3%. The average cost of interest-bearing deposits decreased 59 basis points to 1.65%.

Interest expense on FHLB advances and other borrowings decreased \$278,000, or 25.2%, primarily due to lower average FHLB advances, down \$15.7 million, and a decrease in borrowing rates, down 45 basis points to 4.11%, over the period.

### Provision and Allowance for Loan Losses

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The provision for loan losses for the quarter ended September 30, 2009 of \$180,000 compares with \$315,000 for the second quarter and \$520,000 for the third quarter of 2008. The following table sets forth key data and ratios for the periods presented.

At or for the three months ended, (dollars in thousands)	September 30, 2009	June 30 2009	December 31, 2008	September 30, 2008
Provision for loan losses	\$ 180	\$ 315	\$ 589	\$ 520
Charge offs, net of recoveries	60	160	1,029	40
Allowance for loan losses	3,429	3,309	2,724	3,105
Non-performing loans	6,750	6,707	5,175	1,591
Ratio of allowance for loan losses:				
to gross loans	1.10%	1.11%	0.92%	1.05%
to non-performing loans	50.80	52.62	54.81	195.16
Ratio of non-performing loans				
to gross loans	2.15	2.11	1.73	0.54
Ratio of past-due loans				
to gross loans	3.51	3.44	3.15	2.86

As of September 30, 2009, reserve coverage, as measured by the ratio of allowance for loan losses to gross loans was substantially unchanged as compared with last quarter. Similarly, the level of past-due loans and non-performing loans were also substantially unchanged. For additional discussion on loan quality see "Non-Performing Assets".

Salisbury determines its allowance and provisions for loan losses based upon a detailed evaluation of the loan portfolio through a process which considers



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numerous factors, including estimated credit losses based upon internal and external portfolio reviews, delinquency levels and trends, estimates of the current value of underlying collateral, concentrations, portfolio volume and mix, changes in lending policy, current economic conditions and historical loan loss experience over a 10-to-15 year economic cycle. Determining the level of the allowance at any given period is difficult, particularly during deteriorating or uncertain economic periods, and therefore management takes a relatively long view of loan loss asset quality measures. Management must make

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estimates using assumptions and information that are often subjective and changing rapidly. The review of the loan portfolio is a continuing event in the light of a changing economy and the dynamics of the banking and regulatory environment. In management's judgment, Salisbury remains adequately reserved both against total loans and non-performing loans at September 30, 2009.

Should the economic climate deteriorate, borrowers could experience difficulty and the level of non-performing loans, charge-offs and delinquencies could rise and require increased provisions. The allowance for loan losses is reviewed and approved by the Bank's Board of Directors on a quarterly basis. The allowance for loan losses is computed by segregating the portfolio into various risk rating and product categories. Some loans have been further segregated and carry specific reserve amounts. All other loans that do not have specific reserves assigned are reserved based on a loss percentage assigned to the outstanding balance. The percentage applied to the outstanding balance varies depending on the loan's risk rating and product category, as well as present economic conditions, which have or may adversely affect the financial capacity and/or collateral values supporting the loan.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies could require the Bank to recognize additions to the allowance based on their judgments of information available to them at the time of their examination. The Bank was last examined by the FDIC in February 2009 and by the State of Connecticut's Department of Banking in August 2007 and no additions to the allowance were warranted as a result of these examinations.

### Non-interest income

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The following table details the principal categories of non-interest income.

Three months ended September 30,

(in thousands)	2009	2008	Change	
-----				
Losses on securities, net	\$ --	\$ (2,671)	\$ 2,671	100.0%
Trust and wealth advisory	463	543	(80)	(14.7)
Service charges	268	237	31	13.1
Gains on sales of mortgage loans	63	50	13	26.0
Mortgage servicing	65	58	7	12.1
Other	399	438	(39)	(8.9)
-----				
Total non-interest income (loss)	\$ 1,258	\$ (1,345)	\$ 2,603	193.5%
=====				

The increase in non-interest income for the quarter ended September 30, 2009 as compared to the prior year period principally resulted from the inclusion in 2008 of a securities loss arising from a \$2,856,000 write-down of FHLMC preferred stock following the U.S. Government placing FHLMC into

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conservatorship. Excluding securities losses, all other non-interest income decreased \$68,000 as a result of a decrease in credit card fees, attributable to the sale of the credit card portfolio in 2008, and lower Trust/Wealth Advisory Services fees, due to the decline in asset values, offset in part by a \$130,000 one-time life insurance benefit and increased banking service fees.

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### Non-interest expense

The following table details the principal categories of non-interest expense.

Three months ended September 30, (in thousands)	2009	2008	Change	
Salaries and employee benefits	\$ 2,784	\$ 2,147	\$ 637	29.7%
Occupancy	238	258	(20)	(7.8)
Equipment	265	219	46	21.0
Data processing	327	310	17	5.5
Insurance	40	41	(1)	2.4
FDIC insurance	204	17	187	1100.0
Printing and stationery	58	66	(8)	(12.1)
Postage and telecommunications	162	145	17	11.7
Professional services	308	218	90	41.3
Legal	68	116	(48)	(41.4)
Amortization of intangibles	41	41	--	0.0
Other	307	257	50	19.5
Total operating expenses	\$ 4,802	\$ 3,835	\$ 967	25.2%

Non-interest expense increased \$967,000 due primarily to a \$637,000 increase in compensation expense and a \$187,000 increase in FDIC insurance premiums. The increase in compensation expense included additional pension expense. The increase in FDIC insurance premiums was due to an increase in assessments and deposit growth.

### Income taxes

Net income for the quarter included an income tax provision of \$2,000 representing a 0.14% effective rate, due to tax-exempt income, as compared with a provision of \$337,000 a year ago against a pre-tax net loss of \$1,575,000.

The third quarter 2008 results are distorted by a timing difference arising from the inclusion in the third quarter of the \$2,856,000 FHLMC preferred stock OTTI loss while the corresponding tax benefit of \$971,000 was included in the fourth quarter following the enactment of the Emergency Economic Stabilization Act (EESA) in October 2008 that permitted Salisbury to record the tax benefit.

Salisbury's effective tax rate is generally less than the 34% federal statutory rate due to holdings of tax-exempt municipal bonds and bank owned life insurance.

## RESULTS OF OPERATIONS

For the nine month periods ended September 30, 2009 and 2008

### Overview

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For the nine-month period ended September 30, 2009 net income available to common shareholders was \$1,368,000, or \$.81 per common share, compared to \$152,000, or \$.09 per common share, for the nine month period ended September 30, 2008. Annualized return on average common shareholder's equity was 4.59% for the 2009 period compared with 0.55% for the 2008 period. Net interest and dividend income increased \$1,061,000 due primarily to a \$58.1 million increase in average earning assets, which more than offset a 14 basis point decrease in the net interest margin to 3.58%. Securities losses for 2009 result from a \$1,128,000 write-down for other than temporary impairment on five non-agency CMO securities in June 2009, offset in part by securities gains. Securities losses for 2008 result from the aforementioned \$2,856,000 write-down of FHLMC preferred stock. Excluding securities losses, all other non-interest income increased \$293,000 due to increases in gains on mortgage sales, mortgage servicing income, banking service fees and other income, including the aforementioned \$130,000 one-time life insurance death benefit, offset in part by a \$251,000 decrease in Trust/Wealth Advisory Services income due to the decline in the market value of assets under management, and a decrease in credit card fees, attributable to the sale of the credit card portfolio in 2008. Non-interest expense increased \$2,245,000 due primarily to a \$1,107,000 increase in compensation expense, \$701,000 in FDIC insurance premiums, \$181,000 in professional services and \$256,000 in all other operating expenses. The increase in compensation expense included \$530,000 in pension expense and \$477,000 in salaries. The increase in

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FDIC deposit insurance was due to the 2009 special assessment, deposit growth and an increase in premiums.

### Analysis of net interest and dividend income (FTE)

Net interest and dividend income decreased \$377,000 for the nine months ended September 30, 2009 as compared with the prior year period. The decrease in net interest income resulted primarily from a decrease in the net interest margin offset somewhat by the growth in average earning assets. The net interest margin decreased 14 basis points to 3.58% from 3.72% over the prior period. The change in the net interest margin was due to the changes in the mix of earning assets and funding liabilities, asset and liability growth, changes in market interest rates, the discontinuation of the FHLB dividend income in 2009, and the impact of asset and liability re-pricing. Average earning assets increased \$58.1 million, or 13.0%, over the prior year period. Average total interest bearing deposits increased \$57.1 million, or 21.5%, over the prior year period. The following table sets forth the components of Salisbury's net interest income and yields on average interest-earning assets and interest-bearing funds. Income and yields on tax-exempt securities are presented on a fully taxable equivalent basis.

Nine months ended September 30, (in thousands)	Average Balance	Income/ Expense	2009	2008	2009	2008	2009	2008
	2009	2008	2009	2008	2009	2008	2009	2008
Loans (a)	\$303,448	\$283,484	\$13,633	\$13,918	5.0%	5.0%		
Short term funds (b)	29,877	6,892	67	121	0.2%	1.8%		
MBS and CMO securities (c)	65,402	48,331	2,610	1,870	5.0%	3.9%		
Other securities (c) (d)	108,181	110,066	4,153	4,931	5.0%	4.5%		
Total earning assets	506,908	448,773	20,463	20,840	5.0%	4.6%		

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Other assets	24,278	24,595			
Total assets	\$531,186	\$473,368			
NOW accounts	\$ 30,977	\$ 24,675	149	40	0.
Money market accounts	65,964	65,990	469	999	0.
Savings & other	79,648	60,419	551	677	0.
Certificates of deposit	146,492	114,913	3,259	3,408	2.
Total interest-bearing deposits	323,081	265,997	4,428	5,124	1.
Repurchase agreements	11,120	2,657	100	46	1.
FHLB advances	78,590	89,537	2,322	3,135	3.
Total interest-bearing funds	412,791	358,191	6,850	8,305	2.
Demand deposits	66,189	67,916			
Other liabilities	5,508	3,142			
Shareholders' equity	46,698	44,119			
Total liabilities & shareholders' equity	\$531,186	\$473,368			
Net interest income			\$13,613	\$12,535	
Spread on interest-bearing funds					3.
Net interest margin (e)					3.

- (a) Includes non-accrual loans.
- (b) Includes interest-bearing deposits in other banks and federal funds sold.
- (c) Average balances of securities are based on historical cost.
- (d) Includes tax benefits of \$886,000 and \$869,000, respectively for periods 2009 and 2008 on tax-exempt securities whose income and yields are calculated on an FTE basis.
- (e) FTE net interest income divided by average interest-earning assets.

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The following table sets forth the changes in FTE interest due to volume and rate.

Nine months ended September 30, (in thousands)	2009 versus 2008 Change in interest due to		
	Volume (1)	Rate (1)	Net
Interest-earning assets:			
Loans	\$ 980	\$ (1,265)	\$ (285)
Short term funds	401	(455)	(54)
MBS and CMO securities	660	80	740
Other securities	(84)	(694)	(778)
Total	1,957	(2,334)	(377)
Interest-bearing liabilities:			
Deposits	1,160	(1,856)	(696)
FHLB advances & other	(236)	(523)	(759)
Total	924	(2,379)	(1,455)

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Net change to interest income	\$	1,033	\$	45	\$	1,078
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(1) Changes attributable to rate/volume are allocated proportionately to both rate and volume.

### Interest income (FTE)

Total interest and dividend income decreased \$377,000 to \$20.5 million for the nine months ended September 30, 2009, as compared with \$20.8 million for the same period a year ago. Loan income decreased \$285,000, or 2.0%, primarily as a result of lower yields offset in part by an increase in average loans of \$20.0 million, or 7.0%. The decrease in the average loan yield, down 55 basis points, was caused by lower interest rates in 2009 and their effect on loan re-pricing and loan re-financing activity.

Investment income increased \$1.7 million, or 30.1%, as a result of higher average volume and by higher yields due to portfolio re-pricing. Average securities increased \$71.4 million, or 29.3%.

### Interest expense

Interest expense for the nine months ended September 30, 2009 decreased \$1,455,000, or 17.5%, as compared with the prior year period as a result of decreases in interest rates paid and lower average FHLB borrowings, offset by higher average interest bearing deposits and repurchase agreements. Deposit expense decreased \$696,000, or 13.6%, as a result of lower deposit rates, offset in part by higher average deposit balances, up \$57.1 million, or 21.5%, and changes in deposit mix. The average cost of interest-bearing deposits decreased 74 basis points to 1.83%.

Repurchase agreements, whose average balance increased \$8.5 million, or 318.5%, over the period represent collateralized obligations to retail customers.

Interest expense on FHLB advances decreased \$813,000, or 25.9%, primarily due to lower average balances, down \$10.9 million, and lower average borrowing rates, down 70 basis points, over the period.

### Provision and Allowance for Loan Losses

The provision for loan losses for the nine months ended September 30, 2009 of \$925,000 compares with \$690,000 for the prior year period. The increase in the provision is attributable to the year-over-year increases in loan delinquencies, non-performing loans and net charge-offs. Net charge offs were \$220,000 and \$59,000, respectively, for the 2009 and 2008 periods.

For additional discussion on Salisbury's allowance for loan losses refer to "Results of Operations-For the Three months ended September 30, 2009 and 2008" above.

### Non-interest income

The following table details the principal categories of non-interest income.

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Nine months ended September 30,  
(in thousands)

	2009	2008	Change	
Losses on securities, net	\$ ( 692)	\$ (2,317)	\$1,625	70.1%
Trust and wealth advisory	1,433	1,684	(251)	(14.9)
Service charges	641	610	31	5.1
Gains on sales of mortgage loans	312	161	(249)	26.0
Mortgage servicing	391	110	7	12.1
Other	1,075	933	(39)	8.9
Total non-interest income	\$3,160	\$1,241	\$1,919	154.6%

Securities losses for 2009 result from a \$1,128,000 OTTI write-down on five non-agency CMO securities in June 2009, offset in part by securities gains. Securities losses for 2008 result from the aforementioned \$2,856,000 OTTI write-down of FHLMC preferred stock. Excluding securities losses, all other non-interest income increased \$293,000 due to increases in gains on mortgage sales, mortgage servicing income, banking service fees and other income, including the aforementioned \$130,000 one-time life insurance death benefit, offset in part by a \$251,000 decrease in Trust/Wealth Advisory Services income due to the decline in the market value of assets under management, and a decrease in credit card fees, attributable to the sale of the credit card portfolio in 2008.

## Non-interest expense

The following table details the principal categories of non-interest expense.

Nine months ended September 30,

(in thousands)	2009	2008	Change	
Salaries and employee benefits	\$ 7,332	\$ 6,225	\$ 1,107	17.8%
Occupancy	740	721	19	2.6
Equipment	705	650	55	8.5
Data processing	1,040	1,005	35	3.5
Insurance	96	112	(16)	(14.3)
FDIC insurance	737	36	701	1947.2
Printing and stationary	225	201	24	11.9
Postage and telecommunications	307	278	29	10.4
Professional services	832	651	181	27.8
Legal	276	282	(6)	(2.1)
Amortization of intangibles	123	123	--	0.0
Other	1,014	898	116	12.9
Total operating expenses	\$ 13,427	\$ 11,182	\$ 2,245	20.1%

Non-interest expense increased \$2,245,000 due primarily to a \$1,107,000 increase in compensation expense, \$701,000 in FDIC insurance premiums, \$181,000 in professional services and \$256,000 in all other operating expenses. The increase in compensation expense included \$530,000 in pension expense, \$477,000 in salaries and \$100,000 in benefits and payroll taxes. The increase in FDIC deposit insurance premiums was due to the 2009 special assessment, deposit growth and an increase in premiums. Other changes in expenses relate to normal fluctuations in operating expenses.

## Income taxes

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Net income for the nine month period ended September 30, 2009 included an income tax benefit of \$83,000, as compared with a provision of \$883,000 a year ago. The 2008 results are distorted by a timing difference arising from the inclusion in the third quarter of the FHLMC preferred stock OTTI loss while the corresponding tax benefit of \$971,000 was included in the fourth quarter following the enactment of the Emergency Economic Stabilization Act (EESA) in October 2008 that permitted Salisbury to record the tax benefit. Salisbury's effective tax rate is generally less than the 34% federal statutory rate due to holdings of

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tax-exempt municipal bonds and bank owned life insurance.

### FINANCIAL CONDITION

#### Overview

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Total assets increased to \$564 million, up \$69 million since December 31, 2008. Total net loans, including loans held for sale, were \$312 million at September 30, 2009 reflecting an increase of \$13 million, or 4.25%, since December 31, 2008. Non-performing assets increased \$0.5 million during the quarter to \$7.2 million at September 30, 2009 from \$6.7 million at June 30, 2009, and compare with \$5.1 million at December 31, 2008. A single loan relationship accounts for \$3.4 million of the 2009 increase. Reserve coverage, as measured by the ratio of the allowance for loan losses to gross loans, increased slightly to 1.10% at September 30, 2009 compared with 0.92% at December 31, 2008 and 1.05% at September 30, 2008.

Deposits increased \$70 million to \$415 million from \$345 million at December 31, 2008. This significant growth in deposits stems from customer preference for the safety of insured deposits versus market risk in the equity markets and a concerted effort by the Bank's staff to expand deposit relationships with customers.

At September 30, 2009, book value per common share was \$25.89. Tier 1 leverage and total risk-based capital ratios were 8.57% and 13.22%, respectively, and Salisbury was "well capitalized" as defined by the Federal Reserve Board.

#### Securities and Short Term Funds

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Salisbury's debt securities include U.S. Treasury bills, U.S. Government sponsored agency bonds and agency mortgage backed securities ("MBS"), bank qualified municipal bonds, non-agency collateralized mortgage obligations ("CMO") and Small Business Administration ("SBA") pools. During the nine-month period ended September 30, 2009 total debt securities increased \$24.2 million to \$174.8 million. During this period Salisbury purchased \$98.7 million of debt securities, primarily U.S. Treasury bills, U.S. Government sponsored agency bonds and agency mortgage backed securities, non-agency CMO and Small Business Administration ("SBA") pools. At September 30, 2009, the portfolio had a projected weighted average life of 8.9 years, based on median projected prepayment speeds for MBS and CMO, and likelihood of call for callable securities, at current interest rates. At September 30, 2009, substantially all securities were classified as available-for-sale.

For the quarter ended June 30, 2009 Salisbury determined that five non-agency CMO securities reflected OTTI and recognized credit losses of \$1,128,000 by writing down the carrying value of such securities. Salisbury does not intend to sell the securities which it has judged to be OTTI and it is not more likely than not that it will be required to sell these securities before its

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anticipated recovery of each security's remaining amortized cost basis. No additional OTTI was determined for the quarter ended September 30, 2009 and all other non-agency CMO securities were judged not to be OTTI as of September 30, 2009. It is possible that future loss assumptions could change and cause future OTTI credit losses in these securities.

Salisbury believes that principal and interest on all other debt securities, principally U.S Treasury securities, mortgage-backed securities and securities backed by U.S. government sponsored entities and the SBA and bank qualified insured municipal securities are deemed recoverable. Accumulated other comprehensive income at September 30, 2009 included net unrealized holding losses, net of tax, of \$2.9 million that management deems as temporary impairment.

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### Loans

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During the nine-month period ended September 30, 2009 net loans increased \$13.9 million, or 4.7%. The ratio of net loans to assets decreased to 55.2% at September 30, 2009, compared with 60.0% at December 31, 2008, as loan demand remains soft and competition for loans remains aggressive in Salisbury's market area. Major loan classifications, excluding loans held-for-sale, are as follows:

(in thousands)	September 30, 2009	December 31, 2008
-----		
Real estate mortgages:		
Residential	\$155,607	\$151,441
Commercial	67,220	62,796
Construction, land & land development	30,228	33,343
Home equity credit	30,995	25,608
-----		
Total mortgage loans	284,050	273,188
Commercial and industrial	24,514	20,784
Consumer and other	5,611	5,726
-----		
Total loans, gross	314,175	299,698
Deferred loan origination fees and costs, net	505	393
Allowance for loan losses	(3,429)	(2,724)
-----		
Total loans, net	\$311,251	\$297,367
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The Commercial Lending department specializes in lending to small and mid-size companies and businesses and provides short-term and long-term financing, construction loans, commercial mortgages, equipment, working capital and property improvement loans. The department also works with both the SBA and USDA Government Guaranteed Lending Programs. However total loans outstanding represent a very small percent of the Commercial Portfolio. The Residential Mortgage department, in addition to traditional portfolio lending, originates loans for sale to the secondary market enabling the Bank to offer a comprehensive mortgage product line. The Consumer Lending department also offers home equity loans and lines of credit and consumer installment loans.

### Non-performing assets

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The composition of non-performing assets is as follows:



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(in thousands)	September 30, 2009	December 31, 2008
Non-accruing loans	\$ 6,240	\$ 5,075
Accruing loans past due 90 days or more	160	100
Accruing restructured loans	350	--
Total non-performing loans	6,750	5,175
Real estate acquired in settlement of loans	418	205
Total non-performing assets	\$7,168	\$5,380
Percent of non-performing loans to gross loans	2.15%	1.70%
Percent of non-performing assets to total assets	1.27%	1.07%

During the nine-month period ended September 30, 2009 non-performing assets increased \$1.9 million to \$7.2 million. Non-performing assets, although at a historical high for Salisbury, are relatively low for the industry at 1.27% of total assets at September 30, 2009, and at 1.07% at December 31, 2008. The level of non-performing assets reflects Salisbury's prudent credit policy and rigorous ongoing credit management process. Non-performing loans include a \$3.0 million loan which is the subject of litigation. (See Legal Proceedings.)

In addition to non-performing assets, at September 30, 2009 Salisbury had \$13.7 million of performing classified loans that are considered potential problem loans. Although not impaired, performing classified loans, in the opinion of management, exhibit a higher than normal degree of risk and warrant monitoring due to various considerations, including (i) the degree of documentation supporting the borrower's current

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financial position, (ii) potential weaknesses in the borrowers' ability to service the loan, (iii) possible collateral value deficiency, and (iv) other risk factors such as geographic location, industry focus and negatively trending financial results. These deficiencies create some uncertainty, but not serious doubt, as to the borrowers' ability to comply with the loan repayment terms in the future. Management believes that reserves for these loans are adequate.

Salisbury pursues the resolution of all non-performing assets through restructurings, credit enhancements or collections. When collection procedures do not bring a loan into performing or restructured status, Salisbury generally initiates action to foreclose the property or to acquire it by deed in lieu of foreclosure. Salisbury actively markets all OREO property.

## Deposits and Borrowings

During the nine-month period ended September 30, 2009 deposits grew \$69.9 million, or 20.3%, to \$414.8 million, and retail repurchase agreements grew \$4.3 million to \$15.5 million. The significant deposit growth is attributed to customer preference for the safety of insured bank deposits over market risk during this period of considerable market volatility.

During this period Salisbury reduced its Federal Home Loan Bank (FHLB) advances by \$11.1 million. Remaining advances consist of term loans having an average remaining maturity of 4.7 years.

## LIQUIDITY

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Salisbury manages its liquidity position to ensure that there is sufficient funding availability at all times to meet both anticipated and unanticipated deposit withdrawals, loan originations and advances, securities purchases and other operating cash outflows. Salisbury's primary sources of liquidity are principal payments and maturities of securities and loans, short-term borrowings through repurchase agreements and Federal Home Loan Bank advances, net deposit growth and funds provided by operations. Liquidity can also be provided through sales of loans and available-for-sale securities.

Operating activities for the nine-month period ended September 30, 2009 provided net cash of \$4.8 million. Investing activities utilized net cash of \$49.4 million, principally for \$98.7 million of securities purchases and \$15.1 million of net loan advances, offset in part by \$72.1 million of security repayments and maturities. Financing activities provided net cash of \$70.3 million, principally from \$74.1 of net deposit inflows and repurchase agreements and \$8.8 million from the issuance of preferred stock pursuant to the U.S. Treasury's TARP CPP, offset in part by \$11.1 million of FHLB advance repayments and maturities and \$1.6 million of cash dividends paid.

At September 30, 2009, Salisbury's liquidity ratio, as represented by cash, short term available-for-sale securities and marketable assets to net deposits and short term unsecured liabilities, was 37.3% and exceeded Salisbury's minimum guideline of 30%.

At September 30, 2009, Salisbury had outstanding commitments to fund new loan originations of \$3.5 million, construction mortgage commitments of \$3.6 million and unused lines of credit of \$46.2 million. Salisbury believes that these commitments can be met in the normal course of business. Salisbury believes that its liquidity sources will continue to provide funding sufficient to support operating activities, loan originations and commitments, and deposit withdrawals.

### CAPITAL RESOURCES

During the nine-month period ended September 30, 2009 shareholders' equity increased \$13.5 million, or 34.8%, to \$52.5 million and book value per share increased \$2.79 to \$25.10. In March 2009 Salisbury issued \$8,816,000 of preferred stock to the U.S. Treasury pursuant to the Treasury's TARP CPP. Also contributing to the increase was net income of \$1.6 million, or \$0.81 per common share, and a decrease in accumulated other comprehensive loss, net of \$4.2 million, principally from a net decrease in unrealized holding losses on securities available-for-sale, net of taxes. Reducing shareholders' equity was \$1.6 million of dividends declared and paid.

### Capital requirements

Salisbury and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Under current regulatory

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definitions, Salisbury and the Bank are considered to be "well capitalized" for capital adequacy purposes. As a result, the Bank pays lower federal deposit insurance premiums than those banks that are not "well capitalized." Salisbury and the Bank's regulatory capital ratios at September 30, 2009 are as follows:

	Well capitalized	September 30, 2009 Salisbury	December 31, 2008 Salisbury	Bank	Bank
Leverage ratio	5.00%	8.57%	6.78%	7.74%	7.52%

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Tier I risk-based ratio	6.00	12.29	9.74	10.78	10.53
Total risk-based ratio	10.00	13.22	10.68	11.59	11.34

A well capitalized institution, which is the highest capital category for an institution as defined by the Prompt Corrective regulations issued by the FDIC and the Federal Reserve Board ("FRB"), is one which maintains a Total Risk-Based ratio of 10% or above, a Tier I Risk-Based ratio of 6% or above and a Leverage ratio of 5% or above, and is not subject to any written order, written agreement, capital directive, or prompt corrective action directive to meet and maintain a specific capital level. Maintaining strong capital is essential to Salisbury and the Bank safety and soundness. However, the effective management of capital resources requires generating attractive returns on equity to build value for shareholders while maintaining appropriate levels of capital to fund growth, meet regulatory requirements and be consistent with prudent industry practices.

### Dividends

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During the nine month period ended September 30, 2009 Salisbury has paid \$186,000 in preferred stock dividends to the U.S. Treasury's TARP CPP, and \$1,416,000 in common stock dividends.

The Board of Directors of Salisbury declared a common stock dividend of \$.28 per common share payable on November 6, 2009 to shareholders of record on October 23, 2009. Salisbury is changing the timing of future common stock dividend announcements to coincide with quarterly earnings announcements. Common stock dividends, when declared, will generally be paid the last business day of February, May, August and November, although Salisbury is not obligated to pay dividends on those dates or at any other time.

Salisbury's ability to pay cash dividends is dependent on the Bank's ability to pay cash dividends to Salisbury. There are certain restrictions on the payment of cash dividends and other payments by the Bank to Salisbury. Under Connecticut law the Bank cannot declare a cash dividend except from net profits, defined as the remainder of all earnings from current operations. The total of all cash dividends declared by the Bank in any calendar year shall not, unless specifically approved by the Commissioner of Banking, exceed the total of its net profits of that year combined with its retained net profits of the preceding two years.

Federal Reserve Board Supervisory Letter SR 09-4, February 24, 2009 revised March 27, 2009 notes that, as a general matter, the board of directors of a bank holding company ("BHC") should inform the Federal Reserve and should eliminate, defer, or significantly reduce dividends if (1) net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (2) the prospective rate of earnings retention is not consistent with capital needs and overall current and prospective financial condition; or (3) the BHC will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. Moreover, a BHC should inform the Federal Reserve reasonably in advance of declaring or paying a dividend that exceeds earnings for the period (e.g., quarter) for which the dividend is being paid or that could result in a material adverse change to the BHC capital structure.

Further restrictions on cash dividends are imposed on Salisbury because of Salisbury's participation in the TARP, CPP program. These preclude the payment of any common stock cash dividends if Salisbury is not paying the preferred stock dividend. Additionally, the common stock dividend may not be increased without prior approval from the Treasury for the first three years Salisbury is a TARP participant unless all TARP preferred shares are redeemed or transferred to third parties.

Salisbury believes that the payment of common stock cash dividends is appropriate, provided that such payment considers Salisbury's capital needs, asset quality, and overall financial condition and does not adversely affect the financial stability of Salisbury or the Bank. The continued payment of common stock cash dividends by Salisbury will be dependent on Salisbury's future core earnings, financial condition and capital needs, regulatory restrictions, and

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other factors deemed relevant by the Board of Directors of Salisbury.

#### IMPACT OF INFLATION AND CHANGING PRICES

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

#### FORWARD-LOOKING STATEMENTS

This Form 10-Q and future filings made by Salisbury with the Securities and Exchange Commission, as well as other filings, reports and press releases made or issued by Salisbury and the Bank, and oral statements made by executive officers of Salisbury and the Bank, may include forward-looking statements relating to such matters as:

- (a) assumptions concerning future economic and business conditions and their effect on the economy in
- (b) general and on the markets in which Salisbury and the Bank do business; and expectations for revenues and earnings for Salisbury and Bank.

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

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

- (a) the risk of adverse changes in business conditions in the banking industry generally and in the specific markets in which the Bank operates;
- (b) changes in the legislative and regulatory environment that negatively impacts Salisbury and Bank through increased operating expenses;
- (c) increased competition from other financial and non-financial institutions; (d) the impact of technological advances; and

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

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

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

Not applicable

### Item 4T. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

Salisbury's management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the disclosure controls as of September 30, 2009. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that the information required to be disclosed in reports

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filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports filed under the Exchange Act is accumulated and communicated to management, including the principle executive officer and principle financial officer, as appropriate to allow timely decisions regarding required disclosure.

In addition, based on an evaluation of its internal controls over financial reporting, no change in Salisbury's internal control over financial reporting occurred during the quarter ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, Salisbury's internal control over financial reporting.

### PART II. OTHER INFORMATION

#### Item 1. LEGAL PROCEEDINGS

The Bank is a party defendant, both in its capacity as Salisbury Bank and Trust Company and in its former capacity as the Trustee of the Erling C. Christophersen Revocable Trust, in litigation currently pending in the Connecticut Superior Court within the Judicial District of Bridgeport. The other parties to the litigation are the Plaintiff, John R. Christophersen of Norwalk, Connecticut and Defendants, Erling C. Christophersen, of Westport, Connecticut; Bonnie Christophersen of Westport, Connecticut; Elena Dreiske of Wanetka, Illinois; and People's United Bank with its principal place of business in Bridgeport, Connecticut.

The litigation involves the ownership of certain real property located within Westport, Connecticut, which was conveyed by the Defendant, Erling Christophersen, to the Erling Christophersen Trust, of which the Bank was a co-Trustee. Subsequent to this conveyance, the Bank loaned \$3,386,609 to the Erling Christophersen Trust which was secured by an open-end commercial mortgage

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in favor of the Bank on the Westport real estate referenced above, which was appraised at a value significantly greater than the loan amount.

The claim of the Plaintiff John R. Christophersen is that he had an interest in the real property of which he was wrongfully divested. He has brought this action seeking restoration of his allegedly divested interest as well as money damages.

In addition to his efforts to restore his alleged interest in the real property, the Plaintiff has made two additional claims directed at the Bank. He has alleged that by financing the property, and holding it as a co-Trustee, the Bank participated in "stealing" the value of the Plaintiff's interest in the property. He has also alleged an implied trust against the Bank alleging that it acquired title to the property adverse to the Plaintiff's interest and in contravention of the Plaintiffs entitlements, and therefore holds the property in trust for Plaintiff. The Bank, at the time of the financing referenced above, acquired a lender's title insurance policy from the Chicago Title & Insurance Company. The Bank has resigned as a trustee and is actively defending the case. The validity of the conveyance to Erling Christophersen is also the subject of a probate proceeding in New York State. This Connecticut proceeding has been stayed until the New York Court litigation is resolved. Prior to the resolution, the liquidity of the real estate collateral which secures the loan is diminished.

### Item 1A. RISK FACTORS

Not applicable.

### Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

### Item 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

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### Item 5. OTHER INFORMATION

None

### Item 6. EXHIBITS

11.1 Statement regarding Computation of Net Income Per Common Share.

31.1 Rule 13a-14(a)/15d-14(a) Certification.

31.2 Rule 13a-14(a)/15d-14(a) Certification.

32 Section 1350 Certifications

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the

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undersigned thereunto duly authorized.

SALISBURY BANCORP, INC.

November 16, 2009

by /s/ Richard J. Cantele, Jr.

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Richard J. Cantele, Jr.,  
Chief Executive Officer

November 16, 2009

by /s/ B. Ian McMahon

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B. Ian McMahon,  
Chief Financial Officer