SALISBURY BANCORP INC
Form 10-Q
November 15, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2010

o 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	06-1514263
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5 Bissell Street, Lakeville, CT	06039
(Address of principal executive offices)	(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 x No o

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 (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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 o Accelerated filer o Non-accelerated filer o Smaller reporting company ý

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

Yes o No x

The number of shares of Common Stock outstanding as of November 15, 2010, is 1,687,661.

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Item 1.

PART I - FINANCIAL INFORMATION

Salisbury Bancorp, Inc. and Subsidiary
CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts) September 30, 2010 unaudited and December 31, 2009 audited	September 30, 2010	December 31, 2009
ASSETS		
Cash and due from banks	$6,119	$6,248
Interest bearing demand deposits with other banks	40,238	37,050
Total cash and cash equivalents	46,357	43,298
Interest bearing time deposits with other banks	5,000	5,000
Securities		
Available-for-sale at fair value	150,351	145,031
Held-to-maturity at amortized cost (fair value: $60 and $62)	58	62
Federal Home Loan Bank of Boston stock at cost	6,032	6,032
Loans held-for-sale	2,183	665
Loans receivable, net (allowance for loan losses: $3,847 and $3,473)	340,387	327,257
Investment in real estate	75	75
Other real estate owned	-	275
Bank premises and equipment, net	11,896	10,434
Goodwill	9,829	9,829
Intangible assets (net of accumulated amortization: $1,246 and $1,079)	1,298	1,464
Accrued interest receivable	1,989	2,177
Cash surrender value of life insurance policies	3,812	3,685
Deferred taxes	1,067	3,285
Other assets	3,419	3,778
Total Assets	$583,753	$562,347
LIABILITIES and SHAREHOLDERS' EQUITY		
Deposits		
Demand (non-interest bearing)	$73,318	$70,026
Demand (interest bearing)	64,082	43,845
Money market	72,557	64,477
Savings and other	91,586	86,316
Certificates of deposit	129,978	153,539
Total deposits	431,521	418,203
Repurchase agreements	16,333	11,415
Federal Home Loan Bank of Boston advances	74,532	76,364
Accrued interest and other liabilities	3,937	4,010
Total Liabilities	526,323	509,992
Commitments and contingencies	-	-
Shareholders' Equity		
Preferred stock - $.01 per share par value		
Authorized: 25,000; Shares issued: 8,816;		
Liquidation preference: $1,000 per share	8,733	8,717

Common stock - $.10 per share par value		
Authorized: 3,000,000		
Issued: 1,687,661 and 1,686,701	168	168
Common stock warrants outstanding	112	112
Paid-in capital	13,200	13,177
Retained earnings	35,915	35,259
Accumulated other comprehensive loss, net	(698)	(5,078)
Total Shareholders' Equity	57,430	52,355
Total Liabilities and Shareholders' Equity	$583,753	$562,347

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Salisbury Bancorp, Inc. and Subsidiary
CONSOLIDATED STATEMENTS OF INCOME

Periods ended September 30, (in thousands except per share amounts) unaudited	Three months ended 2010	Three months ended 2009	Nine months ended 2010	Nine months ended 2009
Interest income				
Interest and fees on loans	$4,693	$4,643	$13,780	$13,606
Interest on debt securities				
Taxable	913	1,369	2,872	3,965
Tax exempt	558	635	1,678	1,912
Other interest	42	56	126	67
Total interest income	6,206	6,703	18,456	19,550
Interest expense				
Deposits	1,061	1,433	3,385	4,428
Repurchase agreements	25	33	71	100
Federal Home Loan Bank of Boston advances	765	791	2,283	2,322
Total interest expense	1,851	2,257	5,739	6,850
Net interest income	4,355	4,446	12,717	12,700
Provision for loan losses	180	180	620	925
Net interest income after provision for loan losses	4,175	4,266	12,097	11,775
Non-interest income				
Trust and wealth advisory	471	463	1,507	1,433
Service charges and fees	581	492	1,576	1,343
Gains (losses) on securities, net	16	-	16	436
Gains on sales of mortgage loans, net	297	83	498	387
Mortgage servicing, net	(52)	3	(28)	76
Other	63	189	208	380
Total non-interest income, excluding other-than-temporary impairment losses	1,376	1,230	3,777	4,055
Other-than-temporary impairment losses on securities	-	-	-	(2,302)
Portion of loss recognized in other comprehensive income (before tax)	-	-	-	1,174
Net other-than-temporary impairment losses recognized in earnings	-	-	-	(1,128)
Total non-interest income	1,376	1,230	3,777	2,927
Non-interest expense				
Salaries	1,803	1,840	5,085	5,048
Employee benefits	522	908	1,737	2,040
Premises and equipment	560	510	1,570	1,467
Data processing	308	327	1,080	1,040
Professional fees	403	376	1,260	1,108
FDIC insurance	195	208	549	741
Marketing and community support	79	71	200	236
Amortization of intangibles	56	41	167	123
Other	442	493	1,319	1,364
Total non-interest expense	4,368	4,774	12,967	13,167
Income before income taxes	1,183	722	2,907	1,535
Income tax provision (benefit)	236	2	487	(83)

Net income attributable to Salisbury Bancorp, Inc.	947	720	2,420	1,618
Preferred stock dividends and accretion of preferred stock discount	115	115	347	250
Net income available to common shareholders	$832	$605	$2,073	$1,368
Basic and diluted earnings per share	$0.49	$0.36	$1.23	$0.81
Common dividends per share	0.28	0.28	0.84	0.84

See accompanying notes to consolidated financial statements.

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Salisbury Bancorp, Inc. and Subsidiary
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Stock							
(dollars in thousands)	Shares	Amount	Preferred Stock	Warrants	Paid-in capital	Retained earnings	Accumulated other comp-rehensive loss	Total share-holders' equity
Balances at December 31, 2009	1,686,701	$ 168	$ 8,717	$ 112	$ 13,177	$ 35,259	$ (5,078)	$ 52,355
Net income for year	-	-	-	-	-	2,420	-	2,420
Other comprehensive income, net of tax	-	-	-	-	-	-	4,380	4,380
Total comprehensive income								6,800
Issuance of preferred stock and warrants	-	-	-	-	-	-	-	-
Accretion of preferred stock discount	-	-	16	-	-	(16)	-	-
Common stock dividends declared	-	-	-	-	-	(1,417)	-	(1,417)
Preferred stock dividends paid	-	-	-	-	-	(331)	-	(331)
Issuance of common stock for directors fees	960	-	-	-	23	-	-	23
Balances at September 30, 2010	1,687,661	$ 168	$ 8,733	$ 112	$ 13,200	$ 35,915	$ (698)	$ 57,430
Balances at December 31, 2008	1,685,861	$ 168	$ -	$ -	$ 13,158	$ 34,518	$ (8,905)	$ 38,939
Net income for year	-	-	-	-	-	1,618	-	1,618
Other comprehensive income, net of tax	-	-	-	-	-	-	4,216	4,216
Total comprehensive income								5,834
Issuance of preferred stock and warrants	-	-	8,704	112	-	-	-	8,816
Accretion of preferred stock discount	-	-	8	-	-	(8)	-	-
Common stock dividends declared	-	-	-	-	-	(944)	-	(944)
Preferred stock dividends paid	-	-	-	-	-	(186)	-	(186)
Issuance of common stock for directors fees	840	-	-	-	19	-	-	19
	1,686,701	$ 168	$ 8,712	$ 112	$ 13,177	$ 34,998	$ (4,689)	$ 52,478

Balances at September 30, 2009

See accompanying notes to consolidated financial statements.

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

Nine months ended September 30, (in thousands) unaudited	2010	2009
Operating Activities		
Net income	$2,420	$1,618
Adjustments to reconcile net income to net cash provided by operating activities:		
(Accretion), amortization and depreciation		
Securities	408	392
Bank premises and equipment	632	535
Core deposit intangible	167	123
Mortgage servicing rights	118	127
Fair value adjustment on loans	33	36
Fair value adjustment on deposits and borrowings	-	(54)
(Gains) and losses		
Sales and calls of securities available-for-sale, net	(16)	(436)
Write down of available-for-sale securities	-	1,128
Provision for loan losses	620	925
(Increase) decrease in loans held-for-sale	(1,518)	1,141
Increase in deferred loan origination fees and costs, net	(157)	(112)
Mortgage servicing rights originated	(226)	(291)
Increase (decrease) in mortgage servicing rights impairment reserve	51	(90)
Increase in unearned income on loans	-	6
Decrease in interest receivable	188	207
Deferred tax (benefit) expense	(23)	(21)
Decrease (increase) in prepaid expenses	529	(345)
(Increase) decrease in cash surrender value of life insurance policies	(127)	189
Increase in income tax receivable	(291)	(477)
Decrease (increase) in other assets	103	(19)
Increase in accrued expenses	202	115
(Decrease) increase in interest payable	(73)	72
(Decrease) increase in other liabilities	(169)	11
Issuance of shares for directors' fee	23	19
Net cash provided by operating activities	2,894	4,799
Investing Activities		
Purchase of interest-bearing time deposits with other banks	-	(5,000)
Purchase of Federal Home Loan Bank stock	-	(570)
Purchases of securities available-for-sale	(42,987)	(98,738)
Proceeds from sales of securities available-for-sale	-	44,124
Proceeds from calls of securities available-for-sale	20,734	27,991
Proceeds from maturities of securities available-for-sale	23,115	-
Proceeds from maturities of securities held-to-maturity	4	4
Loan originations and principle collections, net	(13,373)	(15,105)
Purchases of loans	-	(76)
Recoveries of loans previously charged-off	21	25
Proceeds from sale of other real estate owned	-	205
Capital expenditures	(2,005)	(2,270)
Net cash utilized by investing activities	$(14,491)	$(49,410)

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Salisbury Bancorp, Inc. and Subsidiary
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Nine months ended September 30, (in thousands) unaudited	2010	2009
Financing Activities		
Increase in deposit transaction accounts, net	$36,879	$34,284
(Decrease) increase in time deposits, net	(23,561)	35,590
Decrease in securities sold under agreements to repurchase, net	4,918	4,259
Federal Home Loan Bank of Boston advances	-	12,000
Principle payments on Federal Home Loan Bank of Boston advances	(1,832)	(2,215)
Decrease in short term Federal Home Loan Bank of Boston advances, net	-	(20,878)
Proceeds from issuance of preferred and common stock	-	8,824
Common stock dividends paid	(1,417)	(1,416)
Preferred stock dividends paid	(331)	(194)
Net cash provided by financing activities	14,656	70,254
Net increase in cash and cash equivalents	3,059	25,643
Cash and cash equivalents, beginning of period	43,298	9,659
Cash and cash equivalents, end of period	$46,357	$35,302
Cash paid during period		
Interest	$5,815	$4,555
Income taxes	173	183

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 - BASIS OF PRESENTATION

The interim (unaudited) 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, 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 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 nine month period ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. The accompanying condensed financial statements should be read in conjunction with the financial statements and notes thereto included in Salisbury's 2009 Annual Report on Form 10-K for the period ended December 31, 2009.

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 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. These standards did not impact Salisbury's financial statements.

In March 2010, the FASB issued ASU 2010-11, “Scope Exception Related to Embedded Credit Derivatives.” The ASU clarifies that certain embedded derivatives, such as those contained in certain securitizations, CDOs and structured notes, should be considered embedded credit derivatives subject to potential bifurcation and separate fair value accounting. The ASU allows any beneficial interest issued by a securitization vehicle to be accounted for under the fair value option at transition. At transition, a company may elect to reclassify various debt securities (on an instrument-by-instrument basis) from held-to-maturity (HTM) or available-for-sale (AFS) to trading. The new rules are effective July 1, 2010. This standard did not impact Salisbury’s financial statements.

In January 2010, the FASB issued ASU 2010-06, “Improving Disclosures about Fair Value Measurements.” The ASU requires disclosing the amounts of significant transfers in and out of Level 1 and 2 of the fair value hierarchy and describing the reasons for the transfers. The disclosures are effective for reporting periods beginning after December 15, 2009. Salisbury adopted ASU 2010-06 as of January 1, 2010. The required disclosures are included in Note 10. Additionally, disclosures of the gross purchases, sales, issuances and settlements activity in the Level 3 of the fair value measurement hierarchy will be required for fiscal years beginning after December 15, 2010.

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In April 2010, the FASB issued ASU 2010-18, "Effect of a Loan Modification When the Loan is Part of a Pool that is Accounted for as a Single Asset." As a result of this ASU, modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amendments in this ASU are effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. The amendments are to be applied prospectively. Early application is permitted. Salisbury does not have any loans that are accounted for within a pool under Subtopic 310-30.

In July 2010, the FASB issued ASU 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This ASU is created to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. This ASU is intended to provide additional information to assist financial statement users in assessing the entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The amendments in this ASU are effective as of the end of a reporting period for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010.

Acquisition

Salisbury assumed approximately $11 million in deposits and acquired approximately $2.5 million in loans and the branch office located at 10 Granite Ave., Canaan, Connecticut from Webster Bank, National Association, as of the close of business on December 4, 2009. Salisbury recorded a core deposit intangible of $463,000 for deposits assumed.

NOTE 2 - SECURITIES

The composition of securities is as follows:

(in thousands)	Amortized cost (1)	Gross un-realized gains	Gross un-realized losses	Fair value
September 30, 2010				
Available-for-sale				
U.S. Treasury notes	$5,000	$393	$-	$5,393
U.S. Government Agency notes	40,604	662	-	41,266
Municipal bonds	51,302	599	(1,797)	50,104
Mortgage backed securities				
U.S. Government Agencies	20,751	597	(1)	21,347
Collateralized mortgage obligations				
U.S. Government Agencies	4,842	38	-	4,880
Non-agency	20,590	779	(629)	20,740
SBA bonds	5,375	74	-	5,449
Corporate bonds	1,087	49	-	1,136
Preferred Stock	20	16	-	36
Total securities available-for-sale	$149,571	$3,207	$(2,427)	$150,351
Held-to-maturity				
Mortgage backed security	$58	$2	$-	$60

Non-marketable securities					
Federal Home Loan Bank of Boston stock	$6,032	$-	$-		$6,032
December 31, 2009					
Available-for-sale					
U.S. Treasury bills	$1,999	$1	$-		$2,000
U.S. Government Agency notes	24,833	125	(126	)	24,832
Municipal bonds	51,775	113	(4,735	)	47,153
Mortgage backed securities					
U.S. Government Agencies	33,535	535	(143	)	33,927
Collateralized mortgage obligations					
U.S. Government Agencies	5,696	-	(58	)	5,638
Non-agency	25,317	433	(2,121	)	23,629
SBA bonds	6,581	59	-		6,640
Corporate bonds	1,079	49	-		1,128
Preferred Stock	20	64	-		84
Total securities available-for-sale	$150,835	$1,379	$(7,183	)	$145,031
Held-to-maturity					
Mortgage backed security	$62	$-	$-		$62
Non-marketable securities					
Federal Home Loan Bank of Boston stock	$6,032	$-	$-		$6,032

(1) Net of other-than-temporary impairment write-down recognized in earnings.

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Sales of securities available-for-sale and gains realized are as follows:

	Three months		Nine months	
Period ended September 30, (in thousands)	2010	2009	2010	2009
Proceeds	$-	$-	$-	$22,233
Gains realized	-	-	-	416
Losses realized	-	-	-	8
Net gains realized	-	-	-	408
Income tax provision	-	-	-	139

Included in non-agency Collateralized Mortgage Obligations ("CMOs") are seven securities issued by Wells Fargo with an aggregate amortized cost basis and fair value of $7,031,000 and $7,220,000, respectively, that exceeded 10% of shareholders' equity as of September 30, 2010.

The following table summarizes, for all securities in an unrealized loss position, including debt securities for which a portion of other-than-temporary impairment ("OTTI") has been recognized in other comprehensive income, the aggregate fair value and gross unrealized loss of securities that have been in a continuous unrealized loss position as of the date presented:

	Less than 12 Months		12 Months or Longer		Totals	
(in thousands)	Fair Value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
September 30, 2010						
Available-for-sale						
U.S. Government Agency notes	$-	$-	$-	$-	$-	$-
Municipal Bonds	-	-	16,798	1,797	16,798	1,797
Mortgage backed securities	470	1	-	-	470	1
Collateralized mortgage obligations						
U.S. Government Agencies	-	-	-	-	-	-
Non-agency	36	27	8,026	602	8,062	629
Total temporarily impaired securities	506	28	24,824	2,399	25,330	2,427
Other-than-temporarily impaired securities						
Collateralized mortgage obligations						
Non-agency	-	-	-	-	-	-
Total temporarily impaired and other-than-temporarily impaired securities	$506	$28	$24,824	$2,399	$25,330	$2,427

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.

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 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 performed a detailed cash flow analysis of its non-agency CMOs at September 30, 2010 to assess whether any of the

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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.

During 2009, Salisbury determined that five non-agency CMO securities reflected OTTI and recognized credit losses of $1,128,000. Salisbury judged all other CMO securities not to be OTTI as of September 30, 2010. 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 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.

Securities for which an OTTI has been recognized are as follows:

(in thousands)	September 30, 2010	December 31, 2009
Non-Agency CMOs		
Total OTTI losses (unrealized and realized)	$-	$2,302
Less: unrealized OTTI recognized in other comprehensive loss	-	1,174
Net impairment losses recognized in earnings	$-	$1,128

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:

Nine months ended September 30 (in thousands)	2010	2009
Balance, beginning of period	$1,128	$-
Amounts related to the credit component on debt securities in which OTTI was not previously recognized	-	1,128
Balance, end of period	$1,128	$1,128

NOTE 3 - LOANS

The composition of the loan portfolio is as follows:

(in thousands)	September 30, 2010	December 31, 2009
Loans receivable, net		
Real estate mortgages:		
Residential	$166,251	$163,863
Commercial	81,379	70,066
Construction, land & land development	30,519	31,011
Home equity credit	33,443	33,099
Total mortgage loans	311,592	298,039
Commercial and industrial	26,655	26,400
Consumer	5,024	5,436
Other	220	269

Total loans, gross	343,491	330,144
Deferred loan origination fees and costs, net	743	586
Allowance for loan losses	(3,847)	(3,473)
Total loans, net	$340,387	$327,257
Loans held-for-sale		
Residential mortgages	$2,183	$665

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Allowance for Loan Losses

Changes in the allowance for loan losses are as follows:

	Three months		Nine months	
Periods ended September 30, (in thousands)	2010	2009	2010	2009
Balance, beginning of period	$3,768	$3,309	$3,473	$2,724
Provision for losses	180	180	620	925
Charge-offs	(109)	(69)	(268)	(245)
Recoveries	8	9	22	25
Balance, end of period	$3,847	$3,429	$3,847	$3,429

Concentrations of Credit Risk

Salisbury's loans consist primarily of residential and commercial real estate loans located principally in northwestern Connecticut and nearby New York and Massachusetts towns, 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 of single family residential and consumer borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the market area and real estate values. The ability of commercial borrowers to honor their repayment commitments is dependent on the general economy as well as the health of the real estate economic sector in Salisbury’s market area.

Mortgage Servicing Rights

Loans serviced for others are not included in the Consolidated Balance Sheets. The balance of loans serviced for others and the fair value of mortgage servicing rights are as follows:

(in thousands)	September 30, 2010	December 31, 2009
Residential mortgage loans serviced for others	$78,119	$72,962
Fair value of mortgage servicing rights	517	473

Changes in mortgage servicing rights are as follows:

	Three months		Nine months	
Periods ended September 30, (in thousands)	2010	2009	2010	2009
Loan Servicing Rights				
Balance, beginning of period	$465	$375	$427	$227
Originated	115	56	226	291
Amortization (1)	(45)	(39)	(118)	(126)
Balance, end of period	535	392	535	392
Valuation Allowance				
Balance, beginning of period	(24)	(29)	(30)	(118)
Decrease (increase) in impairment reserve (1)	(57)	0	(51)	89
Balance, end of period	(81)	(29)	(81)	(29)
Loan servicing rights, net	$454	$363	$454	$363

(1) Amortization expense and changes in the impairment reserve are recorded in loan servicing fee income.

NOTE 4 - IMPAIRED LOANS

Impaired loans are loans for which it is probable that Salisbury will not be able to collect all amounts due according to the contractual terms of the loan agreements and loans restructured in a troubled debt restructuring. Impaired loans do not include large groups of smaller-balance homogenous loans that are collectively evaluated for impairment, which consist of most residential mortgage loans and consumer loans. The components of impaired loans are as follows:

(in thousands)	September 30, 2010	December 31, 2009
Non-accrual loans, excluding troubled debt restructured loans	$5,077	$5,098
Non-accrual troubled debt restructured loans	5,745	2,341
Accruing troubled debt restructured loans	4,448	4,566
Total impaired loans	$15,270	$12,005
Requiring valuation allowance	$4,613	$3,388
Not requiring valuation allowance	10,657	8,617
Total impaired loans	$15,270	$12,005
Valuation allowance	$515	$388
Commitments to lend additional amounts to impaired borrowers	-	-

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NOTE 5 - PLEDGED ASSETS

The following securities and loans were pledged to secure public and trust deposits, securities sold under agreements to repurchase, FHLBB advances and credit facilities available.

(in thousands)	September 30, 2010	December 31, 2009
Securities available-for-sale (at fair value)	$62,695	$63,097
Loans receivable	105,332	104,960
Total pledged assets	$168,027	$168,057

At September 30, 2010, securities were pledged as follows: $45.5 million to secure public deposits and Treasury Tax and Loan deposits, $13.7 million to secure repurchase agreements and $3.5 million to secure FHLBB advances. Loans receivable were pledged to secure FHLBB advances and credit facilities.

NOTE 6 – EARNINGS PER SHARE

The calculation of earnings per share is as follows:

	Three months		Nine months	
Periods ended September 30, (in thousands, except per share amounts)	2010	2009	2010	2009
Net income	$947	$720	$2,420	$1,618
Preferred stock net accretion	5	5	16	8
Preferred stock dividends paid and accrued	110	110	331	242
Net income available to common shareholders	$832	$605	$2,073	$1,368
Weighted average common stock outstanding - basic	1,686	1,686	1,686	1,686
Weighted average common and common equivalent stock outstanding- diluted	1,686	1,686	1,686	1,686
Earnings per common and common equivalent share				
Basic	$0.49	$0.36	$1.23	$0.81
Diluted	0.49	0.36	1.23	0.81

NOTE 7 – SHAREHOLDERS’ EQUITY

Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require Salisbury and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Tier 1 capital (as defined) to average assets (as defined) and total and Tier 1 capital (as defined) to risk-weighted assets (as defined). Management believes, as of September

30, 2010, that Salisbury and the Bank meet all of their capital adequacy requirements.

Salisbury and the Bank were classified, as of their most recent notification, as "well capitalized". Their actual regulatory capital position and minimum capital requirements as defined "To Be Well Capitalized Under Prompt Corrective Action Provisions" and "For Capital Adequacy Purposes" are as follows:

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(dollars in thousands)	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To be Well Capitalized Under Prompt Corrective Action Provisions Amount	To be Well Capitalized Under Prompt Corrective Action Provisions Ratio
September 30, 2010						
Total Capital (to risk-weighted assets)						
Salisbury	$50,887	13.87 %	$29,345	8.0 %	n/a	-
Bank	41,300	11.29	29,258	8.0	$36,572	10.0 %
Tier 1 Capital (to risk-weighted assets)						
Salisbury	47,001	12.81	14,672	4.0	n/a	-
Bank	37,415	10.23	14,629	4.0	21,943	6.0
Tier 1 Capital (to average assets)						
Salisbury	47,001	8.32	22,599	4.0	n/a	-
Bank	37,415	6.62	22,599	4.0	28,249	5.0
September 30, 2009						
Total Capital (to risk-weighted assets)						
Salisbury	49,840	13.22	30,150	8.0	n/a	-
Bank	40,165	10.68	30,092	8.0	37,615	10.0
Tier 1 Capital (to risk-weighted assets)						
Salisbury	46,319	12.29	15,075	4.0	n/a	-
Bank	36,645	9.74	15,046	4.0	22,569	6.0
Tier 1 Capital (to average assets)						
Salisbury	46,319	8.57	21,631	4.0	n/a	-
Bank	36,645	6.78	21,631	4.0	27,039	5.0

Restrictions on Cash Dividends to Common Shareholders

Salisbury's ability to pay cash dividends is substantially 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 Banking Commissioner, exceed the total of its net profits of that year combined with its retained net profits of the preceding two years.

Federal Reserve Board ("FRB") 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 FRB 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 FRB 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 issuance of Preferred Stock on March 13, 2009 in the United States Treasury's Troubled Asset Relief Program's Capital Purchase Program (the "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 CPP participant unless all CPP preferred shares are redeemed or transferred to third parties.

Preferred Stock

In March 2009, Salisbury issued to the U.S. Treasury Department ("Treasury") $8,816,000 of Preferred Stock under the CPP of the Emergency Economic Stabilization Act of 2008.

The Preferred Stock qualifies as Tier 1 capital for regulatory purposes and ranks senior to the Common Stock. The Preferred Stock pays a cumulative dividend of 5 percent per annum for the first five years it is outstanding and thereafter at a rate of 9 percent per annum. The Preferred Stock is non-voting, other than voting rights on matters that could adversely affect the Preferred Stock. The Preferred Stock is redeemable at one hundred percent of the issue price plus any accrued and unpaid dividends.

As part of the CPP, Salisbury issued to the Treasury a 10-year Warrant to purchase 57,671 shares of Common Stock at an exercise price of $22.93 per share. If the Warrant were fully exercised, Salisbury estimates that the ownership

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percentage of the current shareholders would be diluted by approximately 3.3% percent.

NOTE 8 – PENSION AND OTHER BENEFITS

The components of net periodic cost for Salisbury's insured noncontributory defined benefit retirement plan were as follows:

	Three months		Nine months	
Periods ended September 30, (in thousands)	2010	2009	2010	2009
Service cost	$87	$69	$261	$284
Interest cost on benefit obligation	90	79	271	280
Expected return on plan assets	(99)	(85)	(298)	(265)
Curtailments and settlements	-	437	-	437
Amortization of net loss	17	21	51	86
Net periodic benefit cost	$95	$521	$285	$822

Salisbury's 401(k) Plan contribution expense was $41,000 and $30,000, respectively, for the three month periods ended September 30, 2010 and 2009. Other post-retirement benefit obligation expense for endorsement split-dollar life insurance arrangements was $12,000 and $11,000, respectively, for the three month periods ended September 30, 2010 and 2009.

NOTE 9 - COMPREHENSIVE INCOME

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 net unrealized gains (losses) on securities). The purpose of reporting comprehensive income is to report a measure of all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners.

The components of comprehensive income are as follows:

	Three months		Nine months	
Periods ended September 30, (in thousands)	2010	2009	2010	2009
Net income	$947	$720	$2,420	$1,618
Other comprehensive income				
Net unrealized gains (losses) on securities available-for-sale	3,291	6,527	6,600	5,575
Reclassification of net realized (gains) losses in net income	(16)	-	(16)	692
Unrealized gains (losses) on securities available-for-sale	3,275	6,527	6,584	6,267
Income tax (expense) benefit	(587)	(2,195)	(2,238)	(2,108)
Unrealized gains (losses) on securities available-for-sale, net of tax	2,688	4,332	4,346	4,159
Pension plan income	17	31	52	90
Income tax expense	(6)	(17)	(18)	(33)
Pension plan income, net of tax	11	14	34	57
Other comprehensive income, net of tax	2,699	4,346	4,380	4,216
Comprehensive income	$3,646	$5,066	$6,800	$5,834

The components of accumulated other comprehensive loss is as follows:

(in thousands)

	September 30, 2010	December 31, 2009
Unrealized gains (losses) on securities available-for-sale, net of tax	$ 515	$ (3,831)
Unrecognized pension plan expense, net of tax	(1,213)	(1,247)
Accumulated other comprehensive loss, net	$ (698)	$ (5,078)

NOTE 10 – FAIR VALUE OF ASSETS AND LIABILITIES

Salisbury uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, Salisbury may be required to record at fair value other assets on a nonrecurring basis, such as loans held-for-sale, collateral dependent impaired loans, property acquired through foreclosure or repossession and mortgage servicing rights. These nonrecurring fair value adjustments typically involve the application of lower-of-cost-or-market accounting or write-downs of individual assets.

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Salisbury groups its financial assets and financial liabilities measured 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.

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. Government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other methodologies, including option pricing models, discounted cash flow models and similar techniques, are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of Salisbury's financial assets and financial liabilities carried at fair value effective January 1, 2008. Salisbury did not have any significant transfers of assets or liabilities to or from Levels 1 and 2 of the fair value hierarchy during the three and nine months ended September 30, 2010.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Salisbury's cash instruments are generally classified within level 1 or level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Salisbury's investments in debt securities and mortgage-backed securities available-for-sale are generally classified within level 2 of the fair value hierarchy. For these securities, Salisbury obtains fair value measurements from independent pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, trading levels, market consensus prepayment speeds, credit information and the instrument's terms and conditions.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions. Valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Subsequent to inception, management only changes level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalization and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows.

Salisbury's impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using level 2 inputs based upon appraisals of similar properties obtained from a third party. For level 3 inputs, fair values are based upon management's estimates.

(in thousands)	September 30, 2010	Fair Value Measurements at Reporting Date Using Quoted prices in Active markets for Identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Items Measured at Fair Value				
Recurring basis				
Securities available-for-sale	$150,351	$36	$150,315	$ -
Non-recurring basis				
Impaired loans	4,682	-	4,682	-

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Carrying values and estimated fair values of financial instruments are as follows:

	September 30, 2010		December 31, 2009	
(in thousands)	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial Assets				
Cash and due from banks	$46,357	$46,357	$43,298	$43,298
Interest bearing time deposits with other banks	5,000	5,000	5,000	5,000
Securities available-for-sale	150,351	150,351	145,031	145,031
Security held-to-maturity	58	59	62	62
Federal Home Loan Bank stock	6,032	6,032	6,032	6,032
Loans held-for-sale	2,183	2,199	665	670
Loans receivable net	340,387	332,445	327,257	321,882
Accrued interest receivable	1,989	1,989	2,177	2,177
Financial Liabilities				
Demand (non-interest-bearing)	$73,318	$73,318	$70,026	$70,026
Demand (interest-bearing)	64,082	64,082	43,845	43,845
Money market	72,557	72,557	64,477	64,477
Savings and other	91,586	91,586	86,316	86,316
Certificates of deposit	129,978	130,651	153,539	155,441
Total deposits	431,521	432,194	418,203	420,105
FHLBB advances	74,532	79,324	76,364	80,830
Repurchase agreements	16,333	16,333	11,415	11,415
Accrued interest payable	451	451	523	523

The carrying amounts of financial instruments shown in the above table are included in the consolidated balance sheets under the indicated captions.

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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 year ended December 31, 2009.

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 eight full-service offices in the towns of Canaan, Lakeville, Salisbury and Sharon, Connecticut, South Egremont and Sheffield, Massachusetts, Millerton and Dover Plains, New York, and its trust and wealth advisory services from offices in Lakeville, Connecticut.

Acquisition

Salisbury assumed approximately $11 million in deposits and acquired approximately $2.5 million in loans and the branch office located at 10 Granite Ave., Canaan, Connecticut from Webster Bank, National Association, as of the close of business on December 4, 2009. Salisbury recorded a core deposit intangible of $463,000 for deposits assumed.

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 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 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. 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, 2010 and 2009

Overview

Net income available to common shareholders was $832,000, or $0.49 per common share, for the third quarter ended September 30, 2010 (third quarter 2010) compared with $763,000, or $0.45 per common share, for the second quarter ended June 30, 2010 (second quarter 2010), and $605,000, or $0.36 per common share, for the third quarter ended September 30, 2009 (third quarter 2009).

Net income available to common shareholders for third quarter 2010 and third quarter 2009 is net of preferred stock dividends and accretion of preferred stock discount of $115,000 and $115,000, respectively.

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Selected third quarter 2010 highlights:

- Net interest income increased $29,000, or 0.7%, versus second quarter 2010, and decreased $91,000, or 2.0%, versus third quarter 2009.

- Non-interest income increased $120,000, or 9.6%, versus second quarter 2010 and $146,000, or 11.9%, versus third quarter 2009.

- Provision for loan losses decreased $80,000, or 30.8%, versus second quarter 2010 and was unchanged versus third quarter 2009.

- Non-interest expense increased $96,000, or 2.2%, versus second quarter 2010 and decreased $406,000, or 8.5%, versus third quarter 2009.

- Gross loans receivable decreased $1.7 million, or 0.5%, versus second quarter 2010 and increased $29.6 million, or 9.4%, versus third quarter 2009.

- Deposits increased $7.5 million, or 1.8%, versus second quarter 2010 and $16.7 million, or 4.0%, versus third quarter 2009.

- Non-performing assets decreased $0.6 million to $10.9 million, or 1.9% of total assets, versus second quarter 2010 and increased $3.2 million versus December 31, 2009. Loans receivable 30 days or more past due increased $0.3 million to $8.4 million, or 2.4% of gross loans, versus second quarter 2010 and was unchanged versus December 31, 2009.

Net Interest Income (tax equivalent)

Net interest income (tax equivalent) for third quarter 2010 decreased $126,000, or 2.7%, versus third quarter 2009. Average total deposits increased $13.0 million, or 3.1%, over the twelve month period, while average earning assets increased $6.6 million, or 1.2%. The net interest margin (tax equivalent net interest income) decreased 14 basis points to 3.39% versus 3.53% for third quarter 2009.

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

Three months ended September 30, (dollars in thousands)	Average Balance		Income / Expense		Average Yield / Rate	
	2010	2009	2010	2009	2010	2009
Loans (a)	$ 345,855	$ 309,757	$ 4,693	$ 4,643	5.42 %	5.98 %
Securities (c)(d)	152,865	175,989	1,730	2,298	4.35	5.06
FHLBB stock	6,032	5,810	-	-	-	-
Short term funds (b)	38,200	44,786	42	56	0.44	0.50
Total earning assets	542,952	536,342	6,465	6,997	4.75	5.21
Other assets	34,302	25,122				
Total assets	$ 577,254	$ 561,464				
Interest-bearing demand deposits	$ 61,090	$ 38,802	161	85	1.04	0.87
	74,934	66,262	102	102	0.54	0.61

Money market accounts						
Savings and other	92,277	84,801	136	158	0.58	0.74
Certificates of deposit	130,803	158,503	662	1,088	2.07	2.79
Total interest-bearing deposits	359,104	348,368	1,061	1,433	1.17	1.63
Repurchase agreements	13,202	14,242	25	33	0.75	0.91
FHLBB advances	74,673	76,909	765	791	4.01	4.03
Total interest-bearing liabilities	446,979	439,519	1,851	2,257	1.64	2.03
Demand deposits	70,501	68,238				
Other liabilities	4,057	4,499				
Shareholders' equity	55,717	49,208				
Total liabilities & shareholders' equity	$ 577,254	$ 561,464				
Net interest income			$ 4,614	$ 4,740		
Spread on interest-bearing funds					3.11	3.17
Net interest margin (e)					3.39	3.53

(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.

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(d) Includes tax exempt income benefit of $259,000 and $294,000, respectively for 2010 and 2009 on tax-exempt securities whose income and yields are calculated on a tax-equivalent basis.
(e) Net interest income divided by average interest-earning assets.

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

Periods ended September 30, (in thousands)	Three months 2010 versus 2009		
Change in interest due to	Volume	Rate	Net
Interest-earning assets			
Loans	$515	$(465)	$50
Securities	(282)	(286)	(568)
Short term funds	(8)	(6)	(14)
Total	225	(757)	(532)
Interest-bearing liabilities			
Deposits	(86)	(286)	(372)
Repurchase agreements	(2)	(6)	(8)
FHLBB advances	(23)	(3)	(26)
Total	(111)	(295)	(406)
Net change in net interest income	$336	$(462)	$(126)

Interest Income (tax equivalent)

Tax equivalent interest income decreased $532,000, or 7.6%, to $6.5 million for third quarter 2010 as compared with third quarter 2009. Loan income increased $50,000, or 1%, primarily due to an increase in average loans, which was partially offset by a lower average loan yield, down 56 basis points. The decline in the average loan yield was due to lower market interest rates on newly originated loans, including loans re-financed, and re-pricing of adjustable rate loans.

Tax equivalent income from securities decreased $568,000, or 24.7%, as a result of a lower average yield, down 71 basis points, and a $23.1 million, or 13.1%, decrease in average securities. The decline in the average securities yield was due to lower market interest rates on securities purchases, calls of agency bonds, higher prepayments of mortgage backed securities, the re-pricing of adjustable rate securities, and changes in mix. Income from government-guaranteed and government-sponsored mortgage backed securities owned at average prices above par were negatively impacted by higher prepayments that are believed to relate to the agencies repurchases of delinquent loans in 2010.

Income from short term funds decreased $14,000 as a result of a $6.6 million decrease in average balance and a lower average yield.

Interest Expense

Interest on deposit accounts and retail repurchase agreements decreased $380,000, or 25.9%, as a result of a lower average rate, down 45 basis points to 1.16%, offset in part by a $9.7 million, or 2.7%, increase in the average balance. The decline in the average rate was due to lower market interest rates on rates paid and changes in product mix. The higher average balance resulted from deposit growth and deposits assumed with the December 2010 Canaan branch of Webster Bank purchase.

Interest expense on FHLBB borrowings decreased $26,000 due to lower average borrowings, down $2.2 million, and a lower average borrowing rate, down 2 basis points, due to a change in mix.

Provision and Allowance for Loan Losses

The provision for loan losses was $180,000 for third quarter 2010, compared with $180,000 for third quarter 2009. Net loan charge-offs were $101,000 and $60,000, for the respective quarters. The following table sets forth changes in the allowance for loan losses and other selected statistics:

	Three months		Nine months	
Periods ended September 30, (dollars in thousands)	2010	2009	2010	2009
Balance, beginning of period	$3,768	$3,309	$3,473	$2,724
Provision (benefit) or loan losses	180	180	620	925
Charge-offs				
Real estate mortgages	(100)	(57)	(235)	(107)
Commercial & industrial	-	-	-	(75)
Consumer	(9)	(12)	(33)	(63)
Total charge-offs	(109)	(69)	(268)	(245)
Recoveries				
Real estate mortgages	-	-	-	-
Commercial & industrial	-	2	-	6
Consumer	8	7	22	19
Total recoveries	8	9	22	25
Net (charge-offs) recoveries	(101)	(60)	(246)	(220)
Balance, end of period	$3,847	$3,4329	$3,847	$3,429
Loans receivable, gross			$343,491	$314,175
Non-performing loans			10,917	6,750
Accruing loans past due 30-89 days			1,649	3,961
Ratio of allowance for loan losses:				
to loans receivable, gross			1.12 %	1.09 %
to non-performing loans			35.24	50.80
Ratio of non-performing loans to loans receivable, gross			3.18	2.15
Ratio of accruing loans past due 30-89 days to loans receivable, gross			0.48	1.26

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Reserve coverage at September 30, 2010, as measured by the ratio of the allowance for loan losses to gross loans, remained relatively unchanged at 1.12%, compared with 1.09% at June 30, 2010, 1.05% at December 31, 2009 and 1.09% a year ago at September 30, 2009. Non-performing loans (non-accrual loans and accruing loans past-due 90 days or more) decreased $0.6 million in third quarter 2010 versus second quarter 2010 and increased $4.2 million versus third quarter 2009 to $10.9 million, or 3.18% of gross loans receivable, while accruing loans past due 30-89 days increased $0.8 million in third quarter 2010 versus second quarter 2010 and decreased $2.3 million versus third quarter 2009 to $1.6 million, or 0.48% of gross loans receivable. See “Financial Condition – Loan Credit Quality” for further discussion and analysis.

Salisbury determines its allowance and provisions for loan losses based upon a detailed evaluation of the loan portfolio through a process which considers 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. 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 estimates using assumptions and information that are often subjective and changing rapidly. The review of the loan portfolio is a continuing event in light of a changing economy and the dynamics of the banking and regulatory environment. 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. In management's judgment, Salisbury remains adequately reserved against both total loans and non-performing loans at September 30, 2010.

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.

Management’s loan risk rating assignments, loss percentages and specific reserves are subjected annually to an independent credit review by an external firm. 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 examined by the State of Connecticut’s Department of Banking in April 2010 and by the FDIC in February 2009, and no additions to the allowance were requested as a result of these examinations.

Non-interest income

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

Three months ended September 30, (dollars in thousands)	2010	2009	2010 vs. 2009	
Gains on securities, net	$16	$-	$16	100.00 %
Trust and wealth advisory fees	471	463	8	1.73
Service charges and fees	581	492	89	18.09
Gains on sales of mortgage loans, net	297	83	214	257.83
Mortgage servicing, net	(52)	3	(55)	(1833.33)
Other	63	189	(126)	(66.66)
Total non-interest income, excluding other-than-temporary impairment losses	1,376	1,230	146	11.87

Net other-than-temporary impairment losses recognized in earnings	-	-	-	0.00
Total non-interest income	$1,376	$1,230	$146	11.87

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Non-interest income for third quarter 2010 increased $146,000 versus third quarter 2009. Income from sales and servicing of mortgage loans increased $159,000 due to increased loan sales activity of $16.7 million versus $5.2 million for third quarter 2009. Service charges and fees increased $89,000, or 18%, due to higher interchange, overdraft and other fees due to increased activity. Trust and Wealth Advisory revenues increased $8,000, or 1.7%. Other income decreased $126,000 due to the inclusion in third quarter 2009 of a $130,000 death benefit on bank owned life insurance.

Non-interest expense

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

Three months ended September 30, (dollars in thousands)	2010	2009	2010 vs. 2009	
Salaries	$1,803	$1,840	$(37)	(2.01)%
Employee benefits	522	908	(386)	(42.51)
Premises and equipment	560	510	50	9.80
Data processing	308	327	(19)	(5.81)
Professional fees	403	376	27	7.18
FDIC insurance	195	208	(13)	(6.25)
Marketing and community contributions	79	71	8	11.27
Amortization of intangible assets	56	41	15	36.59
Other	442	493	(51)	(10.34)
Non-interest expense	$4,368	$4,774	$(406)	(8.50)

Non-interest expense for third quarter 2010 decreased $406,000, or 8.5%. Compensation decreased $423,000 primarily due to the inclusion in third quarter 2009 of $378,000 in additional pension expense related to the retirement of John F. Perotti, CEO. Premises and equipment increased $50,000 due primarily to the opening of the Millerton branch in January 2010 and the relocation of the Sheffield branch, which opened on August 2, 2010, and other cost increases. Data processing decreased $19,000. Professional fees increased $27,000 primarily due to project related services. FDIC insurance decreased $13,000 due to the inclusion in third quarter 2009 of a special assessment, partially offset by higher premiums in 2010 from deposit growth. Amortization of core deposit intangibles increased $15,000 due to the December 2009 branch acquisition. Other operating expenses decreased $51,000 due to lower spending on printing, loan related services, telecommunications, consumable supplies and other operational items.

The effective income tax rates for third quarter 2010 and third quarter 2009 were 19.95% and 0.28%, respectively. Third quarter 2009 included a $384,000 tax benefit from the $1,128,000 securities impairment loss. 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.

Salisbury did not incur Connecticut income tax in 2010 or 2009, other than minimum state income tax, as a result of its utilization of Connecticut tax legislation that 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, SBT Mortgage Service Corporation. 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.

For the nine month periods ended September 30, 2010 and 2009

Overview

Net income available to common shareholders was $2,074,000, or $1.23 per common share, for the nine month period ended September 30, 2010 (year-to-date 2010) compared with $1,368,000, or $0.81 per common share, for the nine month period ended September 30, 2009 (year-to-date 2009).

Net income available to common shareholders for year-to-date 2010 and year-to-date 2009 is net of preferred stock dividends of $346,000 and $250,000 respectively.

Net Interest Income (tax equivalent)

Net interest income (tax equivalent) for year-to-date 2010 decreased $91,000, or 0.7%, compared with year-to-date 2009. Average total deposits increased $36 million or 9.3%, over the twelve month period, facilitating an increase in average earning assets of $30.2 million, or 6%. The net interest margin (tax equivalent net interest income) declined 22 basis points to 3.35% compared with 3.57% a year ago.

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

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Nine months ended September 30, (dollars in thousands)	Average Balance 2010	Average Balance 2009	Income / Expense 2010	Income / Expense 2009	Average Yield / Rate 2010	Average Yield / Rate 2009
Loans (a)	$ 339,172	$ 303,447	$ 13,780	$ 13,606	5.42 %	5.98 %
Securities (c)(d)	156,563	168,043	5,328	6,763	4.54	5.20
FHLBB stock	6,032	5,541	-	-	-	-
Short term funds (b)	35,419	29,877	126	67	0.48	0.30
Total earning assets	537,186	506,908	19,234	20,436	4.78	5.38
Other assets	33,149	24,278				
Total assets	$ 570,335	$ 531,186				
Interest-bearing demand deposits	$ 54,925	$ 30,978	461	149	1.12	0.64
Money market accounts	72,148	65,964	303	468	0.56	0.95
Savings and other	89,713	79,648	421	551	0.63	0.93
Certificates of deposit	139,952	146,491	2,200	3,260	1.57	2.22
Total interest-bearing deposits	356,738	323,081	3,385	4,428	1.27	1.83
Repurchase agreements	11,847	11,120	71	100	0.80	1.20
FHLBB advances	75,166	78,590	2,283	2,322	4.01	3.90
Total interest-bearing liabilities	443,751	412,791	5,739	6,850	1.73	2.21
Demand deposits	68,526	66,189				
Other liabilities	3,821	5,508				
Shareholders' equity	54,237	46,698				
Total liabilities & shareholders' equity	$ 570,335	$ 531,186				
Net interest income			$ 13,495	$ 13,586		
Spread on interest-bearing funds					3.05	3.17
Net interest margin (e)					3.35	3.57

(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 exempt income benefit of $778,000 and $886,000, respectively for 2010 and 2009 on tax-exempt securities whose income and yields are calculated on a tax-equivalent basis.
(e) Net interest income divided by average interest-earning assets.

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

Nine month periods ended September 30, (in thousands)	2010 versus 2009

Change in interest due to	Volume	Rate	Net
Interest-earning assets			
Loans	$1,527	$(1,353)	$174
Securities	(426)	(1,009)	(1,435)
Short term funds	16	43	59
Total	1,117	(2,319)	(1,202)
Interest-bearing liabilities			
Deposits	127	(1,170)	(1,043)
Repurchase agreements	5	(34)	(29)
FHLBB advances	(103)	64	(39)
Total	29	(1,140)	(1,111)
Net change in net interest income	$1,088	$(1,179)	$(91)

Interest Income (tax equivalent)

Tax equivalent interest income decreased $1,202,000, or 5.9%, to $19.2 million for year-to-date 2010 compared with year-to-date 2009. Loan income increased $174,000, or 1.3%, primarily due to a $35.7 million, or 11.8%, increase in average loans, offset by a lower average yield, down 56 basis points. The decline in the average loan yield was due to lower market interest rates on newly originated loans, including loans re-financed, and re-pricing of adjustable rate loans.

Tax equivalent income from securities decreased $1,435,000, or 21.2%, for year-to-date 2010 compared with year-to-date 2009, as a result of a lower average yield, down 66 basis points, and an $11.5 million, or 6.8%, decrease in average securities. The decline in the average securities yield was due to lower market interest rates on securities purchases, calls of agency bonds, higher prepayments of mortgage backed securities, the re-pricing of adjustable rate securities, and changes in mix. Income from government-guaranteed and government-sponsored mortgage backed securities owned at

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average prices above par were negatively impacted by higher prepayments that are believed to relate to the agencies repurchases of delinquent loans in 2010.

Income from short term funds increased $59,000 for year-to-date 2010 as compared with year-to-date 2009 as a result of a $5.5 million increase in average balance and a higher average yield.

Interest Expense

Interest expense decreased $1,111,000, or 16.2%, to $5.7 million for year-to-date 2010 as compared with year-to-date 2009.

Interest on deposit accounts and retail repurchase agreements decreased $1,072,000, or 23.7%, as a result of a lower average rate, down 55 basis points to 1.25%, offset in part by a $34.4 million, or 10.3%, increase in the average balance. The decline in the average rate was due to lower market interest rates on rates paid and changes in product mix. The higher average balance resulted from deposit growth and deposits assumed with the December 2010 Canaan branch of Webster Bank purchase.

Interest expense on FHLBB borrowings decreased $39,000 due to lower average borrowings, down $3.4 million, offset in part by a higher average borrowing rate, up 11 basis points, due to a change in mix.

Provision and Allowance for Loan Losses

The provision for loan losses was $620,000 for year-to-date 2010, compared with $925,000 for year-to-date 2009. Net loan charge-offs were $246,000 and $220,000, for the respective periods.

Non-interest income

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

Nine months ended September 30, (dollars in thousands)	2010	2009	2010 vs. 2009	
Gains on securities, net	$16	$436	$(420)	(96.33)%
Trust and wealth advisory fees	1,507	1,433	74	5.16
Service charges and fees	1,576	1,343	233	17.35
Gains on sales of mortgage loans, net	498	387	111	28.68
Mortgage servicing, net	(28)	76	(104)	(136.84)
Other	208	380	(172)	(45.26)
Total non-interest income, excluding other-than-temporary impairment losses	3,777	4,055	(278)	(6.86)
Net other-than-temporary impairment losses recognized in earnings	-	(1,128)	1,128	100.00
Total non-interest income	$3,777	$2,927	$850	29.04

Non-interest income for year-to-date 2010 increased $850,000 versus year-to-date 2009 due primarily to the inclusion in year-to-date 2009 of an impairment loss of $1,128,000 on non-agency CMOs. Excluding this impairment loss, non-interest income decreased $278,000 versus year-to-date 2009.

Income from sales and servicing of mortgage loans increased $7,000. Loan sales activity was $27 million and $32 million, respectively, for the 2010 and 2009 year-to-date periods. Service fees and charges increased $233,000, or 17%, due to higher interchange, overdraft and other fees due to increased activity. Trust and Wealth Advisory revenues increased $74,000, or 5%. Other income decreased $172,000, due to the inclusion in year-to-date 2009 of a $72,000 market adjustment gain from the re-financing of Bank Owned Life Insurance and a $130,000 one-time life insurance benefit. The 2009 increases were offset in part by the inclusion in year-to-date 2010 of a $29,000 gain from the sale of surplus real estate.

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Non-interest expense

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

Nine months ended September 30, (dollars in thousands)	2010	2009	2010 vs. 2009	
Salaries	$5,085	$5,048	$37	0.73 %
Employee benefits	1,737	2,040	(303)	(14.85)
Premises and equipment	1,570	1,467	103	7.02
Data processing	1,080	1,040	40	3.85
Professional fees	1,260	1,108	152	13.72
FDIC insurance	549	741	(192)	(25.91)
Marketing and community contributions	200	236	(36)	(15.25)
Amortization of intangible assets	167	123	44	35.77
Other	1,319	1,364	(45)	3.30
Non-interest expense	$12,967	$13,167	$(200)	(1.52)

Non-interest expense for year-to-date 2010 decreased $200,000, or 1.5%. Compensation increased $37,000 due to year-over-year merit increases and changes in staffing levels and mix. Employee benefit expenses decreased $303,000 due to the $378,000 in additional pension expense in 2009. Premises and equipment increased $103,000 due primarily to the opening of the Millerton branch in January 2010, and the acquisition of property for the new Sheffield branch, opening on August 2, 2010. Data processing increased $40,000, reflecting growth in customer accounts and transactional activity. Professional fees increased $152,000 primarily due to project related services. FDIC insurance decreased $192,000 due to the inclusion in year-to-date 2009 of a special assessment, partially offset by higher premiums in year-to-date 2010 from deposit growth. Marketing decreased $36,000 due to lower spending. Amortization of core deposit intangibles increased $44,000 due to the December 2009 Canaan branch acquisition of Webster Bank. Other operating expenses decreased $45, 000.

Income taxes

The effective income tax (benefit) rate for year-to-date 2010 was 16.76%, compared with (5.41)% for year-to-date 2009. Year-to-date 2009 included a $384,000 tax benefit from the $1,128,000 securities impairment loss. 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.

FINANCIAL CONDITION

Overview

Total assets were $584 million at September 30, 2010, up $22 million from December 31, 2009. Loans receivable, net, were $340 million at September 30, 2010, up $13 million, or 4%, from December 31, 2009. Non-performing assets were $10.9 million at September 30, 2010, up $3.2 million from $7.7 million at December 31, 2009. Reserve coverage, as measured by the ratio of the allowance for loan losses to gross loans, was 1.12%, 1.05% and 1.09%, at September 30, 2010, December 31, 2009 and September 30, 2009, respectively. Deposits were $431 million, up $13 million from $418 million at December 31, 2009.

At September 30, 2010, book value and tangible book value per common share were $28.81 and $22.21, respectively. Both Salisbury and the Bank's regulatory capital ratios remain in compliance with regulatory "well capitalized" requirements. Salisbury's Tier 1 leverage and total risk-based capital ratios were 8.32% and 13.87%.

Securities and Short Term Funds

Salisbury's debt securities include U.S. Treasury bills and notes, U.S. Government sponsored agency bonds, agency mortgage-backed securities (“MBS”) and agency collateralized mortgage obligations (“CMO”), bank qualified municipal bonds, non-agency CMO’s and Small Business Administration (“SBA”) pools.

Securities available-for-sale was $150.3 million at September 30, 2010, up $5.3 million from December 31, 2009. During the third quarter of 2010, Salisbury purchased $5.0 million of U.S. Government sponsored agency bonds. At September 30, 2010, the portfolio had a projected weighted average life of 5.02 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, 2010, substantially all securities were classified as available-for-sale.

In 2009, Salisbury determined that five non-agency CMO securities reflected OTTI and it recognized credit losses of $1,128,000 by writing down the carrying value of such securities. Salisbury does not intend to sell the securities that 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. No additional OTTI was determined for the quarter ended September 30, 2010 and all other non-agency CMO securities were judged not to be OTTI as of September 30, 2010. It is possible that future loss assumptions could change and cause future OTTI credit losses in

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these securities.

Salisbury believes that principal and interest on all other debt securities are deemed recoverable. Accumulated other comprehensive income at September 30, 2010 included net unrealized holding losses, net of tax, of $2.2 million that management deems as temporary impairment.

Loans

During third quarter 2010, gross loans receivable decreased $1.7 million, or 0.5%, to $343.5 million at September 30, 2010, due to soft loan demand and residential mortgage loan refinancing activity. In 2010 first and second quarters loan growth was $2.5 million, or 0.7%, and $12.6 million, or 3.8%, respectively.

The principal categories of loans receivable are as follows:

(in thousands)	September 30, 2010	June 30, 2010	December 31, 2009
Loans receivable			
Real Estate Mortgages			
Residential	$ 166,251	$ 169,088	$ 163,863
Commercial	81,379	80,347	70,066
Construction, land & land development	30,519	28,874	31,011
Home equity credit	33,443	33,193	33,099
Total mortgage loans	311,592	311,502	298,039
Commercial and Industrial	26,655	28,255	26,400
Consumer	5,024	5,078	5,436
Other	220	370	269
Total loans, gross	343,491	345,205	330,144
Deferred loan origination costs, net	743	693	586
Allowance for loan losses	(3,847)	(3,768)	(3,473)
Loans receivable, net	$ 340,387	$ 342,130	$ 327,257
Loans held-for-sale			
Residential mortgages	$ 2,183	$ 513	$ 665

Loan Credit Quality

Loan credit quality remained stable during third quarter 2010 versus second quarter 2010, and following deterioration in first quarter 2010 that reflected the weakness in the local and regional economies. During third quarter 2010 non-performing assets decreased $0.6 million to $10.9 million, or 1.87% of assets, at September 30, 2010, compared with $11.5 million, or 2.04% of assets at June 30, 2010, and $12.3 million, or 2.19% of assets, at March 31, 2010.

During third quarter 2010 loans past due 30 days or more increased $304,000 to $8.4 million, or 2.4% of loans, at September 30, 2010, compared with $8.1 million, or 2.3% of loans, at June 30, 2010, and $11.9 million, or 3.6% of loans, at March 31, 2010.

Non-Performing Assets

The principal categories of non-performing assets are as follows:

(in thousands)

	September 30, 2010	June 30, 2010	December 31, 2009
Real Estate Mortgages			
Residential	$2,064	$2,516	$765
Commercial	4,479	4,036	2,226
Construction, land & land development	3,314	3,756	3,535
Home equity credit	364	365	367
Total mortgage loans	10,221	10,673	6,893
Commercial and Industrial	601	521	546
Non-accruing loans	10,822	11,194	7,439
Accruing loans past due 90 days or more	95	326	6
Total non-performing loans	10,917	11,520	7,445
Real estate acquired in settlement of loans	-	-	275
Total non-performing assets	$10,917	$11,520	$7,720

During third quarter 2010, $0.4 million of loans were placed on non-accrual status and $100,000 was charged-off a loan,

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while no loans were returned to accrual status and no loans were foreclosed. Substantially all non-performing loans are collateralized with real estate and the repayment of such loans is largely dependent on the sale of the underlying real estate.

Salisbury pursues the resolution of non-performing assets through restructurings, credit enhancements or collections. When attempts to work with a customer to either restructure and bring the loan back to performing, or to simply bring the loan current are unsuccessful, Salisbury will initiate action to either foreclose the property, to acquire it by deed in lieu of foreclosure, or to liquidate business assets.

The past due status of non-performing loans is as follows:

(in thousands)	September 30, 2010	June 30, 2010	December 31, 2009
Current	$3,778	$3,546	$3,105
Past due 001-029 days	408	728	-
Past due 030-059 days	92	-	349
Past due 060-089 days	202	1,012	405
Past due 090-179 days	2,019	2,515	321
Past due 180 days and over	4,418	3,719	3,265
Total non-performing loans	$10,917	$11,520	$7,445

At September 30, 2010, 34.6% of non-accrual loans were current with respect to loan payments, compared with 30.8% at June 30, 2010 and 41.7% at December 31, 2009. Loans past due 180 days include a $3.0 million loan secured by residential building lots where Salisbury has initiated a foreclose action.

Troubled Debt Restructured Loans

Loans are considered restructured when Salisbury has granted concessions to a borrower due to the borrower's financial condition that it otherwise would not have considered. These concessions include modifications of the terms of the debt such as reduction of the stated interest rate other than normal market rate adjustments, extension of maturity dates, or reduction of principal balance or accrued interest. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit Salisbury by increasing the ultimate probability of collection.

Restructured loans are classified as accruing or non-accruing based on management's assessment of the collectability of the loan. Loans which are already on nonaccrual status at the time of the restructuring generally remain on nonaccrual status for approximately six months before management considers such loans for return to accruing status. Accruing restructured loans are generally placed into nonaccrual status if and when the borrower fails to comply with the restructured terms.

The principal categories of troubled debt restructured loans are as follows:

(in thousands)	September 30, 2010	June 30, 2010	December 31, 2009
Real Estate Mortgages			
Residential	$417	$673	$2,708
Commercial	1,071	1,881	1,857
Construction, land & land development	2,960	2,960	-
Accruing troubled debt restructured loans	4,448	5,514	4,565

Real Estate Mortgages			
Residential	787	1,347	176
Commercial	4,479	4,037	2,008
Construction, land & land development	26	26	-
Commercial and Industrial	453	458	158
Non-accrual troubled debt restructured loans	5,745	5,868	2,342
Total troubled debt restructured loans	$10,193	$11,382	$6,907

During third quarter 2010 two loans totaling $0.8 million were no longer classified as troubled debt restructurings due to sustained satisfactory performance, one loan totaling $0.3 million was paid off and $100,000 of a non-accrual loan was charged-off. All accruing loans classified as troubled debt restructured loans at June 30, 2010 continue to perform and none were placed on non-accrual status during third quarter 2010.

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The past due status of troubled debt restructured loans is as follows:

(in thousands)	September 30, 2010	June 30, 2010	December 31, 2009
Current	$3,753	$5,058	$4,565
Past due 001-029 days	376	456	-
Past due 030-059 days	319	-	-
Accruing troubled debt restructured loans	4,448	5,514	4,565
Current	3,230	3,244	1,992
Past due 001-029 days	402	402	-
Past due 030-059 days	-	-	-
Past due 060-089 days	-	729	350
Past due 090-179 days	1,073	1,108	-
Past due 180 days and over	1,040	385	-
Non-accrual troubled debt restructured loans	5,745	5,868	2,342
Total troubled debt restructured loans	$10,193	$11,382	$6,907

At September 30, 2010 69% of such loans were current with respect to loan payments, down from 73% at June 30, 2010 and 95% at December 31, 2009.

Past Due Loans

Loans past due 30 days or greater are as follows:

(in thousands)	September 30, 2010	June 30, 2010	December 31, 2009
Past due 030-059 days	$832	$686	$2,821
Past due 060-089 days	817	144	1,272
Past due 090-179 days	95	326	5
Accruing loans	1,744	1,156	4,098
Past due 030-059 days	92	-	349
Past due 060-089 days	202	1,012	405
Past due 090-179 days	1,923	2,189	315
Past due 180 days and over	4,419	3,719	3,265
Non-accrual loans	6,636	6,920	4,334
Total loans past due 30 days or greater	$8,380	$8,076	$8,432

During third quarter 2010 loans past due 30 days or more increased slightly by $0.3 million to $8.4 million, or 2.4% of gross loans receivable, compared with $8.1 million, or 2.3% of loans, at June 30, 2010 and $8.4 million, or 2.5% of loans, at December 31, 2009.

Potential Problem Loans

Salisbury classifies certain loans as “substandard,” “doubtful,” or “loss” based on criteria consistent with guidelines prescribed by banking regulators. Potential problem loans consist of classified accruing commercial loans that were less than 90 days past due at September 30, 2010, but where known information about possible credit problems of the related borrowers causes management to have doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as nonperforming at some time in the future. These loans are not included in the classification of non-accrual or troubled debt restructured loans above.

Management cannot predict the extent to which economic conditions may worsen or other factors, which may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, restructured, or require increased allowance coverage and provision for loan losses.

During third quarter 2010 potential problem loans decreased $1.5 million to $8.5 million, or 2.5% of gross loans receivable, from $10.0 million, or 2.9% of loans, at June 30, 2010. Potential problem loans were $13.7 million, or 4.4% of loans, at September 30, 2010.

Deposits and Borrowings

Deposits grew $13 million, or 3%, during year-to-date 2010 to $431 million, while retail repurchase agreements increased $5 million to $16 million.

During this period Salisbury’s Federal Home Loan Bank of Boston (FHLBB) advances decreased by $1.8 million from scheduled loan repayments.

LIQUIDITY

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

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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 year-to-date 2010 provided net cash of $2.9 million. Investing activities utilized net cash of $14.5 million, principally to fund $43 million of securities purchases, $13.0 million of net loan advances and $2 million in capital expenditures, related to the new Millerton and Sheffield branches, offset in part by $43.5 million from security repayments, calls and maturities. Financing activities utilized net cash of $14.7 million, principally for $1.8 million of scheduled FHLB advance repayments and $1.7 million of common and preferred stock cash dividends, offset in part by $18.2 million of net deposit and repurchase agreement inflows.

At September 30, 2010, 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 33.73% and exceeded Salisbury's minimum guideline of 30%.

At September 30, 2010, Salisbury had outstanding commitments to fund new loans not closed of $4.5 million and unused lines of credit on existing loans of $50.2 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

Shareholders' equity was $57.4 million at September 30, 2010, up $5.0 million from December 31, 2009. Book value and tangible book value per share were $28.81 and $22.21, respectively, compared with $25.81 and $19.12, respectively, at December 31, 2009. Contributing to the increase in shareholders' equity for year-to-date 2010 was net income of $2.4 million and other comprehensive income of $4.4 million, less common and preferred stock dividend payments, and accretion of preferred stock discount, of $1.7 million. Other comprehensive income includes unrealized gains on securities available-for-sale, net of tax, of $0.5 million.

Capital Requirements

Salisbury and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Under current regulatory 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 banks that are not "well capitalized." Salisbury and the Bank's regulatory capital ratios are as follows:

	Well	September 30, 2010		December 31, 2009	
	capitalized	Salisbury	Bank	Salisbury	Bank
Total Capital (to risk-weighted assets)	10.00%	13.87%	11.29%	12.86%	10.40%
Tier 1 Capital (to risk-weighted assets)	6.00	12.81	10.23	11.95	9.48
Tier 1 Capital (to average assets)	5.00	8.32	6.62	8.39	6.70

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 FRB, is one which maintains a Total Risk-Based ratio of 10% or above, a Tier 1 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's 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

During year-to-date 2010 Salisbury paid $331,000 in preferred stock dividends to the U.S. Treasury’s TARP CPP, and $1,417,000 in common stock dividends.

The Board of Directors of Salisbury declared a common stock dividend of $0.28 per common share payable on November 24, 2010 to shareholders of record on November 10, 2010. 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 substantially 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.

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Under Connecticut law the Bank can not 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.

FRB 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 FRB 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. 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 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 general and on the markets in which Salisbury and the Bank do business; and

(b) 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 DISCLOSURES ABOUT MARKET RISK

Salisbury manages its exposure to interest rate risk through its Asset/Liability Management Committee ("ALCO") using risk limits and policy guidelines to manage assets and funding liabilities to produce financial results that are consistent with Salisbury's liquidity, capital adequacy, growth, risk and profitability targets. Interest rate risk is the risk of loss to future earnings due to changes in interest rates.

The ALCO manages interest rate risk using income simulation to measure interest rate risk inherent in Salisbury's financial instruments at a given point in time by showing the effect of interest rate shifts on net interest income over a 24-month horizon. The simulations incorporate management's growth assumptions over the simulation horizons, with allowances made for loan, deposit and security product mix shifts in selected interest rate scenarios, such as movements between lower rate savings and money market deposit accounts and higher rate time deposits, and changes in the reinvestment of loan and securities cash flows. Additionally, the simulations take into account the specific re-pricing, maturity and prepayment characteristics of differing financial instruments that may vary under different interest rate scenarios.

The ALCO reviews the simulation results to determine whether Salisbury's exposure to change in net interest income remains within established tolerance levels over the simulation horizons and to develop appropriate strategies to manage this exposure. Salisbury's tolerance levels for changes in net interest income in its income simulations varies depending on the magnitude of interest rate changes and level of risk-based capital. All changes are measured in comparison to the projected net interest income that would result from an "unchanged" rate scenario where interest rates remain stable over the forecast horizon. The ALCO also evaluates the directional trends of net interest income, net interest margin and other financial measures over the forecast horizon for consistency with its liquidity, capital adequacy, growth, risk and profitability targets.

The ALCO uses four interest rate scenarios to evaluate interest risk exposure and may vary these interest rate scenarios to show the effect of steepening or flattening changes in yield curves as well as parallel changes in interest rates. At September 30, 2010 the ALCO used the following interest rate scenarios: (1) unchanged interest rates; (2) immediately rising interest rates – immediate non-parallel upward shift in market interest rates ranging from 300 basis points for short term rates to 225 basis points for the 10-year Treasury; (3) immediately falling interest rates – immediate non-parallel downward shift in market interest rates ranging from 0 basis points for short term rates to 70 basis points for the 10-year Treasury; and (4) gradually rising interest rates – gradual non-parallel upward shift in market interest rates ranging from 300 basis points for short term rates to 225 basis points for the 10-year Treasury. Deposit rates are assumed to shift by lesser amounts due to their relative historical insensitivity to market interest rate movements. Further, deposits are assumed to have certain minimum rate levels below which they will not fall. Because income simulations assume that Salisbury's balance sheet will remain static over the simulation horizon, the results do not reflect adjustments in strategy that the ALCO could implement in response to rate shifts.

As of September 30, 2010 net interest income simulations indicated that the Bank's exposure to changing interest rates over the simulation horizons remained within its tolerance levels. The following table sets forth the estimated change in net interest income from an unchanged interest rate scenario over the periods indicated for changes in market interest rates using the Bank's financial instruments as of September 30, 2010.

As of September 30, 2010

	Months 1-12	Months 13-24
Immediately rising interest rates	(7.91)%	(8.91)%
Immediately falling interest rates	0.24	(2.11)
Gradually rising interest rates	(11.13)	(12.71)

The negative exposure of net interest income to immediately and gradually rising rates as compared to the unchanged rate scenario results from a faster projected rise in the cost of funds versus income from earning assets, as relatively rate-sensitive money market and time deposits re-price faster than longer duration earning assets. The negative exposure of net interest income to immediately falling rates as compared to an unchanged rate scenario results from a greater decline in earning asset yields compared to rates paid on funding liabilities, as a result of faster prepayments on existing assets and lower reinvestment rates on future loans originated and securities purchased.

While the ALCO reviews simulation assumptions and back-tests simulation results to ensure that they are reasonable and current, income simulation may not always prove to be an accurate indicator of interest rate risk or future net interest margin. Over time, the re-pricing, maturity and prepayment characteristics of financial instruments and the composition

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of Salisbury's balance sheet may change to a different degree than estimated. Simulation modeling assumes a relatively static balance sheet that does not necessarily reflect Salisbury's expectation for future balance sheet growth, which is a function of the business environment and customer behavior. Another significant simulation assumption is the sensitivity of core savings deposits to fluctuations in interest rates. Income simulation results assume that changes in both core savings deposit rates and balances are related to changes in short-term interest rates. The assumed relationship between short-term interest rate changes and core deposit rate and balance changes used in income simulation may differ from the ALCO's estimates. Lastly, mortgage-backed securities and mortgage loans involve a level of risk that unforeseen changes in prepayment speeds may cause related cash flows to vary significantly in differing rate environments. Such changes could affect the level of reinvestment risk associated with cash flow from these instruments, as well as their market value. Changes in prepayment speeds could also increase or decrease the amortization of premium or accretion of discounts related to such instruments, thereby affecting interest income.

Salisbury also monitors the potential change in market value of its available-for-sale debt securities in changing interest rate environments. The purpose is to determine market value exposure that may not be captured by income simulation, but which might result in changes to Salisbury's capital and liquidity position. Results are calculated using analytical techniques and securities data. Available-for-sale equity securities are excluded from this analysis because the market value of such securities cannot be directly correlated with changes in interest rates. The following table summarizes the potential change in market value of available-for-sale debt securities resulting from immediate parallel rate shifts:

As of September 30, 2010 (in thousands)	Rates up 100bp	Rates up 200bp
U.S. Treasury notes	$(290)	$(563)
U.S. Government agency notes	(1,092)	(2,628)
Municipal bonds	(3,694)	(7,706)
Mortgage backed securities	(345)	(942)
Collateralized mortgage obligations	(752)	(1,554)
SBA pools	(17)	(33)
Total available-for-sale debt securities	$(6,190)	$(13,426)

Item 4. 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 and procedures as of September 30, 2010. 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 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, 2010 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 filed in the Connecticut Superior Court within the Judicial District of Stamford. 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.

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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 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. Until the litigation related to such property is resolved, the liquidity of the real estate collateral, which secures the loan, is diminished. To protect its interests, the Bank commenced an action to foreclose on the property on July 14, 2010 in the Connecticut Superior Court within the Judicial District of Stamford and simultaneously requested the stay on the Connecticut proceeding brought by John R. Christophersen be lifted. All actions taken in Connecticut have been communicated by the Bank to the NY Surrogates Court, who has oversight of the NY Litigation noted above.

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. RESERVED

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS

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

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

32 Section 1350 Certifications

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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 undersigned thereunto duly authorized.

	SALISBURY BANCORP, INC.
November 15, 2010	By: /s/ Richard J. Cantele, Jr. Richard J. Cantele, Jr., Chief Executive Officer
November 15, 2010	By: /s/ B. Ian McMahon, B. Ian McMahon, Chief Financial Officer