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SALISBURY BANCORP INC
Form 10-K
March 30, 2009

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

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

For the transition period from _____ to _____

Commission file number 0-24751

SALISBURY BANCORP, INC.

(Exact name of Registrant as specified in its charter)

Connecticut

06-1514263

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

5 Bissell Street, Lakeville, CT

06039

(Address of Principal Executive Offices) (Zip Code)

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

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

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

Name of exchange on which registered: NYSE AMEX

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405

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of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Large accelerated filer [] Accelerated filer []
Non-accelerated filer [] Smaller reporting company [X]

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: June 30, 2008: \$47,326,639.

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

APPLICABLE ONLY TO CORPORATE REGISTRANTS

The Company had 1,685,861 shares outstanding as of March 20, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Incorporated by reference in Part III of this Form 10-K are portions of the Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2009.

TABLE OF CONTENTS

	Page

Part I	
Item 1 - Business	1
(a) General Development of the Business	1
(b) Financial Information about Industry Segments	1
(c) Narrative Description of Business	2
(d) Financial Information about Geographic Areas	7
Item 1 A - Risk Factors- Not Applicable	11
Item 1 B - Unresolved Staff Comments- Not Applicable	11
Item 2 -Properties	11
Item 3 - Legal Proceedings	12
Item 4 - Submission of Matters to a Vote of Security Holders	12
Part II	
Item 5 - Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	12

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Item 6 - Selected Financial Data- Not Applicable	14
Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operation	14
Item 7A - Quantitative and Qualitative Disclosures about Market Risk Not Applicable	23
Item 8 - Financial Statements and Supplementary Data	25
Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	26
Item 9A(T)- Controls and Procedures	26
Item 9B - Other Information	26
Part III	
Item 10 - Directors, Executive Officers and Corporate Governance	26
Item 11 - Executive Compensation	27
Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	27
Item 13 - Certain Relationships and Related Transactions, and Director Independence	27
Item 14 - Principal Accountant Fees and Services	27
Part IV	
Item 15 - Exhibits, Financial Statement Schedules	28
Signatures	29

i

PART I

ITEM 1. BUSINESS

(a) General Development of the Business

Salisbury Bancorp, Inc. (NYSE AMEX:SAL) (Company) is a Connecticut corporation that was formed in 1998. Its primary activity is to act as the holding company for its sole subsidiary, the Salisbury Bank and Trust Company (Bank), which accounts for most of the Company's net income. The Bank assumed its present name in 1925 following the acquisition by the Robbins Burrall Trust Company of the Salisbury Savings Society. The Robbins Burrall Trust Company was incorporated in 1909 as the successor to a private banking firm established in 1874. The Salisbury Savings Society was incorporated in 1848. The Bank is chartered as a state bank and trust company by the State of Connecticut, and its deposits are insured by the Federal Deposit Insurance Corporation in accordance with the Federal Deposit Insurance Act. The Bank's main office is at 5 Bissell Street, Lakeville, Connecticut 06039. Its telephone number is (860) 435-9801, and its website address is: www.salisburybank.com. The Company makes available free of charge on the Bank's website a link to its Annual Reports on Form 10-K, Quarterly Reports on Forms 10-Q and Current Reports on Form 8-K promptly after filing such reports with the Securities and Exchange Commission (SEC). Also

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available on the website are the respective Charters of the Board's Nominating and Governance Committee, Audit Committee and Human Resources and Compensation Committee.

The Bank currently operates seven (7) full service offices, which are located in North Canaan, Lakeville, Salisbury and Sharon, Connecticut, South Egremont and Sheffield, Massachusetts and Dover Plains, New York and a Trust and Wealth Advisory Services Division in Lakeville, Connecticut. In addition, the Bank has received regulatory approval to operate a branch office in Millerton, New York, which is expected to open in 2009.

(b) Financial Information about Industry Segments

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

Lending

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

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

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

Investments

The Company's investment portfolio is also an important component of the Balance Sheet. It provides a source of earnings in the form of interest and dividends and plays a role in the interest rate risk management of the Company.

The portfolio is comprised primarily of U.S. Government sponsored agencies, U.S. Treasury and mortgage-backed securities and securities of political subdivisions of the states. At December 31, 2008, the portfolio totaled \$155,916,000, which represents approximately 31.45% of total assets, and it produced interest and dividend income of \$7,985,000 for the year 2008 as compared to \$8,115,000 for 2007.

1

Deposits and Borrowings

The Bank's primary sources of funds are it's core deposits, Federal Home Loan Bank of Boston (FHLBB) advances and principal payments on loans. Although

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competition for funds from non-banking institutions remains aggressive, the Bank continues its efforts to build account relationships with its customers. Deposits totaled \$344,925,000 at December 31, 2008 as compared with \$317,741,000 at December 31, 2007.

Advances from the FHLBB totaled \$87,914,000 at December 31, 2008 as compared with \$95,011,000 at December 31, 2007.

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

Fiduciary Activities

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

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

Other Services

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

(c) Narrative Description of Business

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

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

Competition

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

The offices of the Bank are located in Litchfield County, Connecticut, Berkshire County, Massachusetts and Dutchess County, New York. The Bank maintains seven (7) banking offices within these three counties and also attracts customers from nearby Columbia County, New York. The Bank's market area within the four counties is served by approximately 43 commercial banks and savings banks. The Bank's 3.14% market share of deposits within these four counties suggests that

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there is potential to further grow and expand the market share of the Bank.

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

2

under "Legislation, Regulation and Supervision" and in certain respects may have a competitive advantage over banks in providing certain services.

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

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

Legislation, Regulation and Supervision

General

Virtually every aspect of the business of banking is subject to regulation, including such matters as the amount of reserves that must be established against various deposits, the establishment of branches, mergers, non-banking activities and other operations. Numerous laws and regulations also set forth special restrictions and procedural requirements with respect to the extension of credit, credit practices, the disclosure of credit terms and discrimination in credit transactions.

The descriptions of the statutory provisions and regulations applicable to banks set forth below do not purport to be a complete description of such statutes and regulations and their effects on the Bank. Proposals to change the laws and regulations governing the banking industry are frequently introduced in Congress, in the state legislatures and before the various bank regulatory

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agencies. The likelihood and timing of any changes and the impact such changes might have on the Bank's future business and earnings are difficult to determine.

Federal Reserve Board Regulation

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

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

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

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

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

Regulation Y requires bank holding companies to provide the Federal Reserve Board with written notice before purchasing or redeeming equity securities if the gross consideration for the purchase or redemption, when aggregated with the net

consideration paid by the Company for all such purchases or redemptions during the preceding twelve (12) months, is equal to ten percent (10%) or more of the Company's consolidated net worth. For purposes of Regulation Y, "net consideration" is the gross consideration paid by a company for all of its equity securities purchased or redeemed during the period, minus the gross consideration received for all of its equity securities sold during the period other than as part of a new issue. However, a bank holding company generally need not obtain Federal Reserve Board approval of any equity security redemption when: (i) the bank holding company's capital ratios exceed the threshold established for "well-capitalized" state member banks before and immediately

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after the redemption; (ii) the bank holding company is well-managed; and (iii) the bank holding company is not the subject of any unresolved supervisory issues. However, letters issued by the Federal Reserve Board to the industry dated February 24, 2009 and March 27, 2009 advise bank holding companies to inform the Federal Reserve Board of proposed stock repurchases resulting in a net reduction of common or preferred stock below the amount of such instrument outstanding at the beginning of the quarter in which the repurchase occurs. In addition, as a recipient of TARP CPP funds, the Company must communicate with the Treasury as well as the Federal Reserve Board in advance of any stock redemptions. Generally, during the first three years the Company participates in the TARP CPP, the approval of the Treasury will be required before the Company could repurchase any common stock. The Company may redeem the TARP CPP Preferred Stock at any time in consultation with the Treasury and its primary supervisory agencies.

Gramm-Leach-Bliley Act

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

Sarbanes-Oxley Act

The purpose of the Sarbanes-Oxley Act is to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes.

The Sarbanes-Oxley Act amends the Securities Exchange Act of 1934 (Exchange Act) to prohibit a registered public accounting firm from performing specified nonaudit services contemporaneously with a mandatory audit. The Sarbanes-Oxley Act also vests the audit committee of an issuer with responsibility for the appointment, compensation, and oversight of any registered public accounting firm employed to perform audit services. The Sarbanes-Oxley Act, among other things, also requires each committee member to be a member of the board of directors of the issuer, and to be otherwise independent. The Sarbanes-Oxley Act further requires the chief executive officer and chief financial officer of an issuer to make certain certifications as to each annual or quarterly report. Pursuant to the Sarbanes-Oxley Act the SEC has adopted rules to require:

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

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

The Patriot Act

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

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

Among its other provisions, IMLA requires each financial institution to: (i) establish an anti-money laundering program; (ii)

4

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

State Regulation

The Company is incorporated in the State of Connecticut and is subject to the Connecticut Business Corporation Act and the Connecticut Bank Holding Company

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

The Connecticut Banking Commissioner regulates the Bank's internal organization as well as its deposit, lending and investment activities. The approval of the Connecticut Banking Commissioner is required to, among other things, open branch offices and consummate merger transactions and other business combinations. The Connecticut Banking Commissioner conducts periodic examinations of the Bank. The Connecticut banking statutes also restrict the ability of a bank to declare cash dividends to its shareholders.

Subject to certain limited exceptions, loans made to any one obligor may not exceed fifteen percent (15%) of the Bank's capital, surplus, undivided profits and loan reserves. In addition, under Connecticut law, the beneficial ownership of more than ten percent (10%) of any class of voting securities of a bank may not be acquired by any person or groups of persons acting in concert without the approval of the Connecticut Banking Commissioner. In addition, the Bank is subject to some supervision and regulations by the Commonwealth of Massachusetts and the State of New York in connection with its branch offices in such states.

FDIC Regulation

The Bank's deposits are insured under the Federal Deposit Insurance Act up to maximum limits by the Deposit Insurance Fund (DIF) and are subject to deposit insurance assessments.

Congress has temporarily increased FDIC deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2009. Effective April 1, 2006, the federal deposit insurance limits on certain retirement accounts increased so that such retirement accounts are separately insured up to \$250,000. In addition, the Bank participates in the Temporary Liquidity Guarantee Program, whereby non-interest bearing checking accounts and NOW accounts with interest rates no higher than 0.50 % will be FDIC insured in full.

FDIC insurance of deposits may be terminated by the FDIC, after notice and a hearing, upon a finding by the FDIC that the insured institution has engaged in unsafe or unsound practices, or is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule or order of, or condition imposed by the FDIC. A bank's failure to meet the minimum capital and risk-based capital guidelines discussed below would be considered to be unsafe and unsound banking practices. The Bank, as a Connecticut-chartered FDIC-insured bank, is regulated by the FDIC in many of the areas also regulated by the Connecticut Banking Commissioner. The FDIC also conducts its own periodic examinations of the Bank, and the Bank is required to submit financial and other reports to the FDIC on a quarterly and annual basis, or as otherwise required by the FDIC. FDIC-insured banks, such as the Bank, pay premium assessments to the FDIC for the insurance of deposits.

The Bank must meet certain minimum capital requirements, including a leverage capital ratio and a risk-based capital ratio. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION".

A few years ago the FDIC adopted a risk-based insurance assessment system designed to tie what banks pay for deposit insurance more closely to the risks

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they pose. The FDIC also adopted a schedule of rates that the FDIC could adjust up or down, depending on the needs of the DIF.

Recently, the FDIC adopted a restoration plan that would increase the reserve ratio to the 1.15% threshold within seven years.

5

As part of that plan, in December, 2008, the FDIC voted to increase risk-based assessment rates due to deteriorating financial conditions in the banking industry. Changes to the risk-based assessment system include increasing premiums for institutions that rely on excessive amounts of brokered deposits, including CDARS, increasing premiums for excessive use of secured liabilities, including Federal Home Loan Bank advances, lowering premiums for smaller institutions with very high capital levels, and adding financial ratios and debt issuer ratings to the premium calculations for banks with over \$10 billion in assets, while providing a reduction for their unsecured debt. It is generally expected that rates will continue to increase in the near future due to the significant cost of bank failures beginning in the third quarter of 2008 and the increase in the number of troubled banks. The FDIC recently announced that, in view of the significant decrease in the deposit insurance funds' reserves, it will impose a special assessment in the second quarter of 2009. Banks must continue to pay base premium rates on top of any special assessment. Furthermore, banks may be subject to an "emergency" special assessment in 2009 in addition to other special assessments and regular premium rates. The amount of an emergency special assessment imposed on a bank will be determined by the FDIC if such amount is necessary to provide sufficient assessment income to repay amounts borrowed from the U.S. Department of Treasury (Treasury); to provide sufficient assessment income to repay obligations issued to and other amounts borrowed from insured depository institutions; or for any other purpose the FDIC may deem necessary.

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

Recent Legislative and Regulatory Initiatives to Address Difficult Market and ----- Economic Conditions -----

On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (EESA) which, among other measures, authorizes the Treasury to purchase from financial institutions and their holding companies up to \$700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies, under a Troubled Asset Relief Program Capital Purchase Program (TARP CPP). The purpose of TARP CPP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. Under the TARP CPP, the Treasury is purchasing equity securities from participating

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institutions. The Series A Preferred Stock and warrant offered by this prospectus were issued by the Company to the Treasury pursuant to the TARP CPP. The EESA also increased federal deposit insurance on most deposit accounts from \$100,000 to \$250,000. This increase is in place until the end of 2009 and is not covered by deposit insurance premiums paid by the banking industry.

The EESA followed, and has been followed by, numerous actions by the Board of Governors of the Federal Reserve System, the U.S. Congress, the Treasury, the FDIC, the SEC and others to address the current liquidity and credit crisis that has followed the sub-prime meltdown that commenced in 2007. These measures include homeowner relief that encourage loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law. ARRA, more commonly known as the economic stimulus bill or economic recovery package, is intended to stimulate the economy and provides for broad infrastructure, education and health spending.

On October 14, 2008, the FDIC announced the establishment of a temporary liquidity guarantee program to provide full deposit insurance for all non-interest bearing transaction accounts and guarantees of certain newly issued senior unsecured debt issued by FDIC-insured institutions and their holding companies. Insured institutions were automatically covered by this program from October 14, 2008 until December 5, 2008, unless they opted out prior to that date. Under the program, the FDIC will guarantee timely payment of newly issued senior unsecured debt issued on or before June 30, 2009. The debt includes all newly issued unsecured senior debt including promissory notes, commercial paper and inter-bank funding. The aggregate coverage for an institution may not exceed 125% of its debt outstanding on September 30, 2008 that was scheduled to mature before June 30, 2009, or, for certain insured institutions, 2% of liabilities as of September 30, 2008. The guarantee will extend to June 30, 2012 even if the maturity of the debt is after that date.

The purpose of these legislative and regulatory actions is to stabilize the U.S. banking system. The EESA, the ARRA and the other regulatory initiatives described above may not have their desired effects. If the volatility in the markets continues and economic conditions fail to improve or worsen, the Company's business, financial condition, results of operations and cash

6

flows could be materially and adversely affected.

The Securities Purchase Agreement Between the Company and the Treasury Permits the Treasury to Impose Certain Additional Restrictions on the Company So Long as the Company Participates in the TARP CPP.

The securities purchase agreement the Company entered into with the Treasury in connection with the Bank's participation in the TARP CPP permits the Treasury to unilaterally amend the terms of the securities purchase agreement to comply with any changes in federal statutes after the date of its execution. ARRA imposed additional executive compensation and expenditure limits on all current and future TARP recipients, including the Company, until the Company has repaid the Treasury. These additional restrictions may impede the Company's ability to

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attract and retain qualified executive officers. ARRA also permits TARP recipients to repay the Treasury without penalty or requirement that additional capital be raised, subject to the Treasury's consultation with the Company's primary federal regulator while the securities purchase agreement required that, for a period of three years, the Series A Preferred Stock could generally only be repaid if the Company raised additional capital to repay the securities and such capital qualified as Tier 1 capital. Additional unilateral changes in the securities purchase agreement could have a negative impact on the Company's financial condition and results of operations.

Capital Resources

On March 13, 2009, under the TARP CPP, the Company sold 8,816 shares of senior preferred stock to the Treasury, having a liquidation amount equal to \$1,000 per share, or \$8,816,000. Although the Company is currently well-capitalized under regulatory guidelines, the Board of Directors believed it was advisable to take advantage of the TARP CPP to raise additional capital to ensure that during these uncertain times, the Company is well-positioned to support the Company's existing operations as well as anticipated future growth. Additional information concerning the TARP CPP is included in Note 22 to the Consolidated Financial Statements.

Employees

The Company's current workforce at March 20, 2009 consists of 144 employees of whom 127 were full time and 17 were part time. The employees are not represented by a collective bargaining unit.

(d) Financial Information about Geographic Areas

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

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

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

Item of Guide 3	Page(s) of This Report
-----	-----
I. Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential	17
II. Investment Portfolio	8
III. Loan Portfolio	9
IV. Summary of Loan Loss Experience	10
V. Deposits	21
VI. Return on Equity and Assets	9
VII. Short-Term Borrowings	11

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7

Investment Portfolio

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

(dollars in thousands)	2008	2007	2006
	-----	-----	-----
Available-for-sale securities: (at fair value)			
Equity securities	\$ 0	\$ 160	\$ 1,160
Preferred stock	20	1,825	2,500
U.S. Treasury securities and other U.S. government corporations and agencies	41,271	46,859	54,100
Obligations of states and political subdivisions	55,696	56,979	45,200
Mortgage-backed securities	53,540	41,554	54,400
	-----	-----	-----
	\$150,527	\$147,377	\$156,400
	=====	=====	=====
Held-to-maturity securities (at amortized cost)			
Mortgage-backed securities	\$ 66	\$ 71	\$ 0
	=====	=====	=====
Federal Home Loan Bank stock	\$ 5,323	\$ 5,176	\$ 4,600
	=====	=====	=====

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

The scheduled maturities of held-to-maturity securities and available-for-sale securities (other than equity securities) were as follows as of December 31, 2008:

(dollars in thousands)	Maturing After 1 but within 5 Years Amount	Yield	Maturing After 5 but within 10 Years Amount	Yield
	-----		-----	
Held-to-maturity securities ----- (at amortized cost)				
Mortgage-backed securities	\$ 0		\$ 0	
	=====		=====	

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Available-for-sale securities

(at fair value)

U.S. Treasury securities and other U.S. government corporations and agencies	\$	0		\$	1,001	5.50%
Obligations of states and political subdivisions		0			0	
Mortgage-backed securities		1,435	2.30%		728	4.99%
	\$	1,435		\$	1,729	

8

Loan Portfolio Analysis by Category
(dollars in thousands)

	December 31				
	2008	2007	2006	2005	2004
Commercial, financial and agricultural	\$ 20,785	\$ 20,629	\$ 16,465	\$ 15,354	\$ 15,127
Real Estate-construction and land development	33,343	28,928	21,169	18,814	14,290
Real Estate - residential	177,048	158,600	145,395	135,619	130,414
Real Estate-commercial	62,796	53,823	50,859	40,889	35,487
Consumer	5,551	8,005	8,816	7,900	9,122
Term federal funds	0	0	12,000	0	0
Other	175	376	69	47	69
	299,698	270,361	254,773	218,623	204,509
Deferred costs, net	393	306	168	0	0
Allowance for loan losses	(2,724)	(2,475)	(2,474)	(2,626)	(2,512)
Unearned income	0	(1)	(3)	(8)	(19)
Net loans	\$ 297,367	\$ 268,191	\$ 252,464	\$ 215,989	\$ 201,978

While a majority of the Bank's loans are secured by real estate located in the Bank's market area, there are no specific industry concentrations in the Bank's loan portfolio.

The following table shows the maturity of commercial, financial and agricultural loans, real estate commercial loans and real estate-construction and land development loans outstanding as of December 31, 2008. Also provided are the amounts due after one (1) year classified according to the sensitivity to changes in interest rates.

(dollars in thousands)	Due in one year or less	Due after one year to five years	Due over five years
------------------------	-------------------------	----------------------------------	---------------------

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Commercial, financial, agricultural and real estate commercial	\$	1,218	\$	7,120	\$
Real estate-construction and land development		32,758		585	
	\$	33,976	\$	7,705	\$
Maturities after one year with:					
Fixed interest rates			\$	3,761	\$
Variable interest rates				3,944	
			\$	7,705	\$

Return on Equity and Assets

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

	At or for the		
	Year ended December 31,		
	2008	2007	2006
Return on average total assets (net income divided by average total assets)	.23%	.85%	1.02%
Return on average shareholders' equity (net income divided by average shareholders' equity)	2.52%	8.50%	9.83%
Dividend payout ratio (total declared dividends per share divided by net income per share)	169.70%	47.79%	41.11%
Equity to assets ratio (average shareholders' equity divided by average total assets)	9.19%	9.94%	10.37%

Nonaccrual, Past Due and Restructured Loans

At December 31, 2008, there were eleven (11) nonaccrual loans aggregating \$5 million in the Bank's portfolio, ten of which were secured by real estate, compared with eleven (11) nonaccrual loans aggregating \$1 million at December 31, 2007. While the increase in dollar amount of nonaccrual loans is a matter to which management is devoting significant attention, it is important to note that ten of the eleven nonaccrual loans are secured by real estate and are not considered likely to ultimately result in losses based upon the current value of real estate collateral.

However, the growth of nonaccrual loans is a concern, and will be closely

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monitored. In the month following the month in which a mortgage loan becomes 90 days past due, the Bank generally stops accruing interest unless there are unusual circumstances which warrant an exception. Generally the only loan types that the Bank reclassifies to nonaccrual are those secured by real estate or large commercial loans on which substantial collateral exists. Other types of loans are generally charged off when they become 120 days or more delinquent.

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

	December 31				
	2008	2007	2006	2005	2004
Nonaccrual	\$5,075	\$ 1,008	\$ 886	\$ 694	\$ 1,739
90 days or more past due	100	816	78	79	528
Total nonperforming loans	\$5,175	\$ 1,824	\$ 964	\$ 773	\$ 2,267
<hr/>					
Total nonperforming loans as percentage of the loan portfolio	1.72%	0.67%	0.38%	0.35%	1.11%
Allowance for loan losses as a percentage of nonperforming loans	52.64%	135.69%	256.64%	339.72%	110.81%

Information with respect to nonaccrual and restructured loans at
December 31, 2008, 2007 and 2006 is as follows:

(dollars in thousands)	Year Ended December 31		
	2008	2007	2006
Interest income that would have been recorded under original terms	\$ 382	\$ 77	\$ 66
Less gross interest recorded	36	48	37
Foregone interest	\$ 346	\$ 29	\$ 29

Summary of Loan Loss Experience (dollars in thousands)

	Year Ended December 31				
	2008	2007	2006	2005	2004
Balance of the allowance for loan losses at beginning of year	\$ 2,475	\$ 2,474	\$ 2,626	\$ 2,512	\$ 1,664
Charge-offs:					
Commercial, financial and agricultural	924	20	25	7	0
Consumer	151	83	107	128	70
Total charge-offs	1,075	103	132	135	70

Recoveries:

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Commercial, financial and agricultural	18	55	6	0	0
Consumer	27	49	61	39	28
Total recoveries	45	104	67	39	28
Net charge-offs (recoveries)	1,030	(1)	65	96	42
Provision (benefit) charged to operations	1,279	0	(87)	210	250
Balance acquired from CNB	0	0	0	0	640
Balance at end of year	\$ 2,724	\$ 2,475	\$ 2,474	\$ 2,626	\$ 2,512
Ratio of net charge-offs to average loans outstanding	.36%	.00%	.02%	.05%	.03%
Ratio of allowance for loan losses to year end loans	.91%	.92%	.97%	1.20%	1.23%

10

Allocation of the Allowance for Loan Losses; Percentage of loans by type to total loans*

(dollars in thousands)

	2008		2007		December 31 2006		Amount
	Amount	Percent*	Amount	Percent*	Amount	Percent*	
Commercial, financial and agricultural	\$ 272	6.94%	\$ 505	7.63%	\$ 342	6.46%	\$ 49
Real estate construction and land development	386	11.13%	118	10.70%	85	8.31%	9
Real estate mortgage	1,901	80.03%	1,615	78.57%	1,832	77.03%	1,76
Consumer	97	1.85%	201	2.96%	173	3.46%	24
Term Federal Funds	0	0%	0	0%	0	4.71%	
Other loans	68	.05%	36	.14%	42	.03%	2
	\$ 2,724	100.00%	\$ 2,475	100.00%	\$ 2,474	100.00%	\$ 2,62

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

Short-Term Borrowings
(dollars in thousands)

	December 31		
	2008	2007	2006
Federal Home Loan Bank Advances			
Average interest rate			
At year end	3.35%	4.74%	4.97%
For the year	4.16%	4.30%	5.00%
Average amount outstanding during the year	\$ 94,698	\$ 87,649	\$ 71,471

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Maximum amount outstanding at any month	\$ 107,878	\$ 95,143	\$ 90,403
Amount outstanding at year end	\$ 87,914	\$ 95,011	\$ 83,093

ITEM 1A. RISK FACTORS - Not Applicable

ITEM 1B. UNRESOLVED STAFF COMMENTS - Not Applicable

ITEM 2. PROPERTIES

The Bank serves its customers from its seven (7) offices which are located in North Canaan, Lakeville, Salisbury and Sharon, Connecticut, Sheffield and South Egremont, Massachusetts and Dover Plains, New York. The Bank's trust and wealth advisory services division is located in a separate building adjacent to the main office of the Bank in Lakeville, Connecticut. In addition, the Bank has received approval to open a full-service branch office in Millerton, New York. The Bank has purchased the property for the branch and expects to open the branch in the third quarter of 2009.

The Bank leases the following properties: a branch office at 51 Main Street, South Egremont, Massachusetts; a branch office at 73 Main Street, Sheffield, Massachusetts; and a branch office at 5 Dover Village Plaza, Dover Plains, New York.

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

OFFICES	LOCATION
Main Office	5 Bissell Street Lakeville, Connecticut
Trust and Wealth Advisory Services Division	19 Bissell Street Lakeville, Connecticut
Salisbury Office	18 Main Street Salisbury, Connecticut
Sharon Office	29 Low Road Sharon, Connecticut
11	
Canaan Operations	94 Main Street North Canaan, Connecticut
Canaan Office	100 Main Street North Canaan, Connecticut
Millerton Branch Site (site of proposed branch office, which is expected to open in 2009)	87 Main Street Millerton, New York

ITEM 3. LEGAL PROCEEDINGS

The Bank individually and in its capacity as a former Co-trustee of a Revocable Trust (Trust), has been named as a defendant in litigation currently pending in Connecticut Complex Litigation Docket in Stamford, CT (Action).

The Action involves a dispute over title to certain real property located in

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Westport, Connecticut that was conveyed by the grantor to the Trust on or about August 8, 2007. Subsequent to this conveyance, the Bank granted a loan of \$3,386,609 to the Trust, which was secured by an open-end commercial mortgage in favor of the Bank on the Westport property. The underlying loan is outstanding as of December 31, 2008.

The gravamen of the plaintiff's claim in the Action is that he had an interest in the Westport real property transferred to the Trust of which he was wrongfully divested on account of the actions of the defendants. In the Action, the plaintiff seeks to quiet title to the property and to recover money damages from the defendants for the alleged wrongful divestiture of his claimed interest in the property.

In addition to the mortgage on the property, the Bank, at the time of the financing referenced above, acquired a lender's title insurance policy from the Chicago Title and Insurance Company, which is providing a defense to the Bank under a reservation of rights. The Bank denies any wrongdoing and is actively defending the case. The Bank has filed a motion to dismiss and/or stay the lawsuit pending resolution of a parallel action pending in New York Surrogate's Court to which the Bank is not a party. No discovery has been taken to date. At this time, the Company is unable to reasonably evaluate the likely outcome of the Action, or to reasonably estimate the amount of any potential loss, if any.

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

No matters were submitted to a vote of security holders during the fourth quarter of the Company's 2008 fiscal year.

PART II

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

Market Information

The Company's common stock is traded on The NYSE AMEX under the symbol "SAL". The following table presents the high and low sales prices of the Company's common stock.

	2008 Quarters				2007 Quarters		
	4th	3rd	2nd	1st	4th	3rd	2nd
Range of Stock prices:							
High	\$ 29.25	\$ 31.10	\$ 34.45	\$ 34.10	\$ 34.95	\$ 34.10	\$ 36.90
Low	\$ 21.50	\$ 26.80	\$ 28.65	\$ 19.90	\$ 30.75	\$ 31.00	\$ 32.30

Holdings

There were approximately 750 holders of record of the common stock of the Company as of March 20, 2009. This number includes brokerage firms and other financial institutions which hold stock in their name, but which is actually owned by third parties.

Dividends

Dividends are currently considered four times a year, and the Company expects to follow such practice in the future. During the year 2008, the Company declared a

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cash dividend each quarter of \$.28 per share. Dividends declared for the year 2008

12

totalled \$1.12 per share which compared to total dividends of \$1.08 that were declared in the year 2007. At their March 27, 2009 meeting, the Directors of the Company declared a cash dividend of \$.28 per share for the first quarter of 2009. The dividend will be paid on April 30, 2009 to shareholders of record as of April 16, 2009. Payments of all dividends are dependent upon the condition and earnings of the Company. The Company's ability to pay dividends is limited by the prudent banking principles applicable to all bank holding companies and by the provisions of Connecticut Corporate law, which provide that no distribution may be made by a company if, after giving it effect: (1) the company would not be able to pay its debts as they become due in the usual course of business or (2) the company's total assets would be less than the sum of its total liabilities plus amounts needed to satisfy any preferred stock rights. In addition, provided the Preferred Stock issued to the Treasury, described in Note 22 to the Consolidated Financial Statements, is held by the Treasury, the Common Stock dividend may not be increased without the consent of the Treasury for three (3) years from the date of the investment by the Treasury. On February 24, 2009, and March 27, 2009 the Federal Reserve Board issued supervisory guidance to all bank holding companies regarding the payment of dividends as well as stock redemptions and repurchases by bank holding companies. Such guidance expressed the view that the Board of Directors should ensure that dividends are prudent relative to the financial position of the institution and that a bank holding company should inform the Federal Reserve Board in advance of declaring a dividend that exceeds earnings for the period or that could result in a material adverse change to an organization's capital structure. The supervisory guidance further stated that dividends should be eliminated, deferred, or limited if net income from the past four quarters is not sufficient to fund the dividend or if prospective earnings retention is not consistent with capital needs or the condition and future prospects of the institution or if the bank holding company is in danger of not meeting minimum regulatory capital returns.

The following table presents cash dividends declared per share for the last two years:

	2008 Quarters				2007 Quarters		
	4th	3rd	2nd	1st	4th	3rd	2nd
Cash dividends declared	\$ 0.28	\$ 0.28	\$ 0.28	\$ 0.28	\$ 0.27	\$ 0.27	\$ 0.27

The dividends paid to shareholders of the Company are funded primarily from dividends received by the Company from the Bank. Reference should be made to Note 15 of the Consolidated Financial Statements for a description of restrictions on the ability of the Bank to pay dividends to the Company.

Equity Compensation Plan Information

The information required by this item pursuant to Item 201(d) of Regulation S-K regarding securities authorized for issuance under equity compensation plans (as of December 31, 2008) is contained in, and incorporated by reference to, the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to

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be held on May 27, 2009 under the Section "Equity Compensation Plan Information".

Recent Sales of Unregistered Securities

The shareholders of the Company voted to approve the Directors Stock Retainer Plan (Plan) at the 2001 Annual Meeting of Shareholders. The Plan provides non-employee directors of the Company with shares of Common Stock as a component of their compensation for services as non-employee directors. The maximum number of shares of Common Stock that may be issued pursuant to the plan is 15,000. Each year a grant under the Plan consists of 120 shares of Common Stock for each non-employee director who served for twelve months and a prorated number of shares to reflect the number of months served for any new non-employee director. On May 16, 2008, 840 shares were issued pursuant to the Plan. The next grant date under the Plan will immediately precede the Annual Meeting of Shareholders which is to be held on May 27, 2009, and will be in the amount of 120 shares per director. All such issuances are exempt from registration under the Securities Act of 1933, as amended pursuant to Section 4(2), as they are transactions by a company not involving any public offering. In November, 2008, the Company applied for participation in the Treasury TARP CPP under the EESA and the rules and regulations promulgated thereunder (collectively, Act). On January 7, 2009, the Treasury preliminarily approved the Company's application in the amount of \$8,816,000. At the time of Treasury preliminary approval, the Company's Certificate of Incorporation did not permit the issuance of Preferred Stock. Accordingly, a Special Meeting of Shareholders of the Company was held on March 10, 2009, and Shareholders voted to approve an amendment to the Company's Certificate of Incorporation to authorize a class of 25,000 shares of preferred stock, par value \$0.01 per share.

The Company closed the TARP CPP transaction on March 13, 2009 in the amount of \$8,816,000. The Company issued to the Treasury 8,816 shares of Preferred Stock together with a warrant to purchase 57,671 shares of Company common stock at \$22.93 per share, which warrant, if exercised in full, would dilute the percentage ownership of the holders of Company common stock by approximately 3.3%. If the Company redeems all of the shares of Preferred Stock, it has first refusal rights to buy back the warrant or the shares received upon exercise of the warrant at their fair market value if they are then held by the Treasury. As a condition of the closing, the Company amended the change in control agreements described in Note 9 to Consolidated Financial Statements. The amendment prohibits any payments relating to the change in control agreements to the specified officers during the period in which any obligation arising under the TARP CPP remains outstanding.

13

The Preferred Stock qualifies as Tier 1 capital for regulatory purposes and ranks senior to the Company's common stock in the payment of dividends or upon liquidation. The Preferred Stock purchased by the Treasury pays a cumulative dividend rate of 5% per annum for the first five years it is outstanding and thereafter at a rate of 9% per annum. The Preferred Stock is non-voting, other than voting rights on matters that could adversely affect the Preferred Stock and in the event the Company is in arrears on six quarterly dividend payments on the Preferred Stock, in which case, the holder of the Preferred Stock may elect two directors to the Company's Board of Directors until all dividends have been paid in full for four consecutive quarterly dividends. The Preferred Stock may be redeemed by the Company at 100% of its issue price plus any accrued and unpaid dividends. The Treasury's consent will be required for any increase in Company common stock dividends per share or any repurchase of Company common stock until the earlier of the third anniversary of the date of the investment or the transfer by the Treasury of all of the shares of Preferred Stock. See

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also the Form 8-K filed by the Company on March 19, 2009 with respect to the sale of Series A Preferred Stock and Warrant to purchase Common Stock and Note 22 to Consolidated Financial Statements.

ITEM 6. SELECTED FINANCIAL DATA - Not Applicable

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

Salisbury Bancorp, Inc.
and Subsidiary

Salisbury Bancorp, Inc. (Company), a Connecticut corporation, formed in 1998, is the holding company for Salisbury Bank and Trust Company, (Bank). The Company's sole subsidiary is the Bank, formed in 1848 which has seven (7) full service offices located in the towns of North Canaan, Lakeville, Salisbury and Sharon, Connecticut, South Egremont and Sheffield, Massachusetts, and Dover Plains, New York. A full Trust and Wealth/Advisory Services Division is also located in Lakeville, Connecticut. The Management's Discussion and Analysis of Results of Operations and Financial Condition that follows presents Management's comments on the consolidated operating results of the Company. In order to provide a foundation for building shareholder value and servicing customers, the Company remains committed to investing in the technological and human resources necessary for developing and delivering new personalized financial products and services in order to better serve both current and future customers in the tri-state area. The following discussion should be read in conjunction with the Company's consolidated financial statements and the notes to the consolidated financial statements that are presented as part of this Annual Report on Form 10-K.

Forward Looking Statements

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

- (a) assumptions concerning future economic and business conditions and their effect on the economy in general and on the markets in which the Company and the Bank do business, and
- (b) expectations for increased revenues and earnings for the Company and Bank through growth resulting from acquisitions, attraction of new deposit and loan customers and the introduction of new products and services.

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

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

- (a) the risk of adverse changes in business conditions in the banking industry generally and in the specific markets in which the Bank operates;
- (b) changes in the legislative and regulatory environment that negatively impact the Company and Bank through increased operating expenses;

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- (c) increased competition from other financial and non-financial institutions;
- (d) the impact of technological advances; and
- (e) other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission.

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

14

Critical Accounting Estimates

In preparing the Company's financial statements, management selects and applies numerous accounting policies. In applying these policies, management must make estimates and assumptions. The accounting policy that is most susceptible to critical estimates and assumptions is the allowance for loan losses. The determination of an appropriate provision is based on a determination of the probable amount of credit losses in the loan portfolio. Many factors influence the amount of future loan losses, relating to both the specific characteristics of the loan portfolio and general economic conditions nationally and locally. While management carefully considers these factors in determining the amount of the allowance for loan losses, future adjustments may be necessary due to changed conditions, which could have an adverse impact on reported earnings in the future. (See "Provisions and Allowance for Loan Losses".)

RESULTS OF OPERATION

Comparison of the Years Ended December 31, 2008 and 2007

Overview

The Company's assets at December 31, 2008 totaled \$495,754,000 compared to total assets of \$461,960,000 at December 31, 2007. Net loans outstanding, including loans held-for-sale totaled \$299,682,000 at December 31, 2008. This compares to net loans outstanding of \$268,311,000 at December 31, 2007, and represents an increase of \$31,371,000 or 11.69%. New business development efforts were primarily attributable to the growth. This growth was primarily funded by an increase in deposits. Deposits at December 31, 2008 totaled \$344,925,000 and compared to total deposits of \$317,741,000 at December 31, 2007. This is an increase of \$27,184,000 or 8.56%.

The Company's earnings totaled \$1,106,000 or \$0.66 per average share outstanding in 2008. This compares to earnings of \$3,800,000 or \$2.26 per average share outstanding in 2007. Earnings were impacted as a result of the U.S. Government placing FHLMC (Freddie Mac) into conservatorship during the quarter ended September 30, 2008. This necessitated the Company to take a write-down of Freddie Mac preferred stock during that quarter which totaled \$2,856,000 and an additional write-down of \$99,365 in the quarter ended December 31, 2008 for an overall total of \$2,955,365. However, the total tax benefit in the amount of \$1,004,824 was recognized as a result of these charges in the quarter ended December 31, 2008, because applicable law at the time forced financial institutions to treat the loss as a capital loss. On October 3, 2008, the EESA was enacted, which includes a provision permitting banks to recognize losses relating to the Freddie Mac preferred stock as an ordinary loss, thereby

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allowing a tax benefit for both tax and financial reporting purposes. The overall tax effected impact for the year ended December 31, 2008 resulted in a charge to earnings of \$1,950,541.

The nation's economy is in a recession and the Bank's market area is beginning to feel the effects of economic conditions. The Bank's 2008 loan loss provision expense totaled \$1,279,000 compared to \$0 in 2007. Non-performing loans at December 31, 2008 totaled \$5,175,000 or 1.71% of total loans outstanding which compares to \$1,824,000 or 0.67% for the corresponding period in 2007. Net loans charged-off during 2008 totaled \$1,030,000 compared to net recoveries of loans of \$1 thousand dollars in 2007. At December 31, 2008, the allowance for loan losses totaled \$2,724,000 which represented 0.9% of total loans outstanding. Other Real Estate Owned totaled \$204,534 at December 31, 2008. The property has since been sold.

During the fourth quarter of 2008, the Bank prepaid a \$19 million advance from the Federal Home Loan Bank of Boston at a cost of \$674,000 net of tax. The Bank took such action as part of a program to restructure a portion of the Bank's borrowings. The borrowings which were at a rate of 5.97% are being replaced with new Federal Home Loan Bank advances that have lower interest rates and a revised maturity schedule. While the prepayment resulted in a one time after tax expense in the fourth quarter of 2008, overall, the restructuring is expected to result in a decrease in future borrowing expense which is intended to increase earnings per share in 2009 and future years.

The Bank's risk-based capital ratios at December 31, 2008 were 10.53% for Tier 1 risk based capital and 11.34% for total risk based capital. The Bank's leverage ratio was 7.52% at December 31, 2008. This compares to a Tier 1 risk based capital ratio at December 31, 2007 of 13.74%, a total risk based capital ratio of 14.69% and a leverage ratio of 8.06%. Dividends declared on the Company's common stock amounted to \$1.12 per share in 2008 compared to \$1.08 per share in 2007.

Net Interest and Dividend Income

The Company earns income from two basic sources. The primary source is through the management of its financial assets and liabilities and involves functioning as a financial intermediary. The Company accepts funds from depositors and borrows funds and either lends the funds to borrowers or invests those funds in various types of securities. A second source is fee income, which is discussed in the noninterest income section of this analysis.

15

Net interest income is the difference between the interest and fees earned on loans, interest and dividends earned on securities (the Company's earning assets) and the interest expense paid on deposits and borrowed funds, primarily in the form of advances from the Federal Home Loan Bank. The amount by which interest income will exceed interest expense depends on two factors: (1) the volume or balance of earning assets compared to the volume or balance of interest-bearing deposits and borrowed funds and (2) the interest rate earned on those interest-earning assets compared with the interest rate paid on those interest-bearing deposits and borrowed funds. For this discussion, net interest income is presented on an FTE basis. FTE interest income restates reported interest income on tax exempt loans and securities as if such interest were taxed at the applicable State and Federal income tax rates for all periods presented.

(dollars in thousands)

December 31,

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	2008	2007
Interest and Dividend Income (financial statements)	\$ 26,557	\$ 26,152
Tax Equivalent Adjustment	1,260	1,202
 Total Interest and Dividend Income (on an FTE basis)	 27,817	 27,354
 Interest Expense	 (10,825)	 (12,432)
 Net Interest and Dividend Income-FTE	 \$ 16,992	 \$ 14,922

The Company's 2008 total interest and dividend income on an FTE basis for the period ended December 31, 2008 increased \$463,000 or 1.69% when compared to the same period in 2007. The increase is primarily attributable to an increase in earning assets.

Interest expense on deposits in 2008 decreased \$1,567,000 or 19.11% to \$6,633,000 compared to \$8,200,000 for the corresponding period in 2007. This decrease reflects an economic environment of generally lower interest rates. Interest expense for Federal Home Loan Bank advances decreased \$146,000 to \$4,086,000 in 2008 compared to \$4,232,000 in 2007. The decrease was the result of a decrease in advances during the year. In addition, the Bank recorded interest expense totaling \$106,000 for interest on securities sold under agreements to repurchase which was a new product that was introduced during 2008. Competition remains aggressive and interest margins continue to be pressured, however, net interest and dividend income on an FTE basis increased \$2,070,000 or 13.87% over 2007 and totaled \$16,992,000 for the year ended December 31, 2008 compared to net interest and dividend income on an FTE basis of \$14,922,000 for the year ended December 31, 2007.

Net interest margin is net interest and dividend income expressed as a percentage of average earning assets. It is used to measure the difference between the average rate of interest and dividends earned on assets and the average rate of interest that must be paid to support those assets. To maintain its net interest margin, the Company must manage the relationship between interest earned and paid. The Company's 2008 net interest margin on an FTE basis was 3.75%. This compares to a net interest margin of 3.54% for 2007. The following table reflects average balances, interest earned or paid and rates for the two years ended December 31, 2008 and 2007. The average loan balances include non-accrual loans and loans currently past due 90 days and still accruing. Interest earned on loans also includes fees on loans such as late charges that are not deemed to be material. Interest earned on tax exempt securities in the table is presented on an FTE basis. A federal tax rate of 34% was used in performing these calculations. Actual tax exempt income earned in 2008 was \$2,446,000 with a yield of 4.32%. Actual tax exempt income in 2007 totaled \$2,332,000 with a yield of 4.28%.

16

YIELD ANALYSIS

Average Balances, Interest Earned/Paid and Rates

(dollars in thousands)	Years Ended December 31	
	2008	2007
	INTEREST	INTEREST

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	AVERAGE BALANCE	EARNED/ PAID	YIELD RATE	AVERAGE BALANCE	EARNED/ PAID	YIELD RATE
ASSETS						
Interest-Earning Assets:						
Loans	\$ 287,924	\$ 18,449	6.41%	\$ 258,714	\$ 17,969	6.95%
Taxable Securities	104,070	5,538	5.32%	106,775	5,783	5.42%
Tax-Exempt Securities*	56,647	3,706	6.54%	54,541	3,533	6.48%
Federal Funds	3,758	99	2.63%	643	31	4.82%
Other Interest-Earning	1,332	25	1.88%	1,071	38	3.55%
	-----	-----		-----	-----	
Total Interest-Earning Assets	453,731	27,817	6.13%	421,744	27,354	6.49%
		-----			-----	
Allowance for Loan Losses	(2,711)			(2,467)		
Cash & Due From Banks	6,479			6,554		
Premises, Equipment	7,241			6,645		
Net unrealized loss on AFS Securities	(7,232)			(3,468)		
Other Assets	20,555			20,619		
	-----			-----		
Total Average Assets	\$ 478,063			\$ 449,627		
	=====			=====		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-Bearing Liabilities:						
NOW/Money Market Deposits	\$ 88,431	1,270	1.44%	\$ 80,180	1,854	2.31%
Savings Deposits	63,185	926	1.47%	47,063	814	1.73%
Time Deposits	116,959	4,437	3.79%	119,052	5,532	4.65%
Borrowed Funds	94,698	4,192	4.43%	87,649	4,232	4.83%
	-----	-----		-----	-----	
Total Interest-Bearing Liabilities	363,273	10,825	2.98%	333,944	12,432	3.72%
		-----			-----	
Demand Deposits	67,681			66,304		
Other Liabilities	3,193			4,673		
Shareholders' Equity	43,916			44,706		
	-----			-----		
Total Liabilities and Shareholders' Equity	\$ 478,063			\$ 449,627		
	=====			=====		
Net Interest Income		\$ 16,992			\$ 14,922	
		=====			=====	
Net Interest Spread			3.15%			2.77%
Net Interest Margin			3.75%			3.54%

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

17

Volume and Rate Variance Analysis of Net Interest and Dividend Income

(Taxable equivalent basis)
(dollars in thousands)

	2008 over 2007			2007 over 2006		
	Volume	Rate	Total	Volume	Rate	Total
	-----	-----	-----	-----	-----	-----

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Increase (decrease) in:

Interest income on:

Loans	\$ 2,030	\$ (1,550)	\$ 480	\$ 1,981	\$ 301	\$ 2,282
Taxable investment securities	(147)	(98)	(245)	(256)	156	(100)
Tax-exempt investment securities	136	37	173	489	(108)	381
Other interest income	136	(81)	55	(1)	(10)	(11)

Total interest income	\$ 2,155	\$ (1,692)	\$ 463	\$ 2,213	\$ 339	\$ 2,552
-----------------------	----------	------------	--------	----------	--------	----------

Interest expense on:

NOW/Money Market deposits	\$ 191	\$ (775)	\$ (584)	\$ 18	\$ 24	\$ 42
Savings deposits	279	(167)	112	(24)	198	174
Time deposits	(97)	(998)	(1,095)	528	570	1,098
Borrowed funds	340	(380)	(40)	808	(149)	659

Total interest expense	\$ 713	\$ (2,320)	\$ (1,607)	\$ 1,330	\$ 643	\$ 1,973
------------------------	--------	------------	------------	----------	--------	----------

Net interest margin	\$ 1,442	\$ 628	\$ 2,070	\$ 883	\$ (304)	\$ 579
---------------------	----------	--------	----------	--------	----------	--------

Noninterest Income

Noninterest income totaled \$2,241,000 for the year ended December 31, 2008 compared to \$4,465,000 for the year ended December 31, 2007. This is a decrease of \$2,224,000 or 49.81%. While gains on sales and calls of available-for-sale securities had a net increase of \$305,000 or 104%, US Government actions relating to Freddie Mac necessitated a write-down of Freddie Mac Preferred stock totaling \$2,955,000. Trust Wealth Advisory Services income increased \$214,000 to \$2,264,000, primarily as a result of the efforts of new business development, which has increased assets under management.

Service charges on deposit accounts totaled \$830,000 for 2008. This is an increase of \$86,000 or 11.57% when compared to total service charges of \$744,000 in 2007. The increase can be attributed to an increase in the number of deposit accounts. Mortgage refinancing activity during 2008 generated revenues from gains on sales of loans that totaled \$292,000, which compares to revenues totaling \$317,000 for the corresponding period in 2007. Competition in the secondary mortgage market continues to be very aggressive. Other income during fiscal 2008 totaled \$1,209,000. This compares to other income of \$1,037,000 for 2007, representing an increase of \$172,000 or 16.59%. This category of income primarily consists of fees associated with the origination and servicing of mortgage loans as well as gains reflecting the sale of mortgage loans.

Noninterest Expense

Overall, noninterest expense increased 18.46% for the year ended December 31, 2008 as compared to 2007. The increases in salaries and employee benefits along with the increases in occupancy and equipment expense are primarily a reflection of additional staffing and operational costs associated with the operation of our Dover Plains, New York branch which opened in August of 2007. The increase in data processing and insurance costs are primarily attributable to increases associated with growth in volumes of business of the Company, especially with the addition of the new branch. Professional fees increased \$338,000 or 36.25%. This increase is primarily attributable to an increase in audit expense resulting from additional services required due to compliance requirements such as the Sarbanes-Oxley Act and other regulatory compliance. In addition, Legal and Consultant fees also increased which is the result of various research and

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marketing initiatives during the year. During the fourth quarter of 2008, the Bank prepaid a \$19 million advance from the FHLB of Boston at a cost of \$864,000. The Bank took such action as part of a program to restructure a portion of the Bank's borrowings. The borrowings which were at a rate of 5.97% will be replaced with new FHLB advances that have much lower interest rates and a revised maturity schedule. While the prepayment resulted in a one time after tax expense of \$674,000 the restructuring is expected to result in a decrease in future borrowing expense which is intended to positively impact earnings per share in 2009 and future years. The increase in other expense is primarily attributable to normal operational expenses associated with growth.

18

The components of noninterest expense and the changes in the period were as follows (amounts in thousands):

	2008	2007	\$ Change	% Change
Salaries and employee benefits	\$ 8,330	\$ 7,724	\$ 606	7.85%
Occupancy expense	961	802	159	19.82
Equipment expense	898	819	79	9.64
Data processing	1,339	1,194	145	12.14
Insurance	278	163	115	70.55
Printing and stationery	277	280	(3)	(1.07)
Professional fees	1,269	931	338	36.30
Prepayment fee FHLB advance	864	0	864	100.00
Amortization of core deposit intangible	164	164	0	.00
Other expense	1,629	1,437	192	13.36
	-----	-----	-----	
Total noninterest expense	\$ 16,009	\$ 13,514	\$2,495	18.46
	=====	=====	=====	

Income Taxes

In 2008, the Company's income tax benefit totaled \$421,000 and an effective tax rate of (61.5)%. This compares to an income tax provision of \$870,000 and an effective tax rate of 18.63% for the same period in 2007. This decrease is primarily attributable to a decrease in taxable income.

Net Income

Overall, net income totaled \$1,106,000 for the year ended December 31, 2008 and represents earnings per average share outstanding of \$0.66. This compares to net income of \$3,800,000 for the year ended December 31, 2007, which reflects earnings per average share outstanding of \$2.26.

FINANCIAL CONDITION

Comparison of December 31, 2008 and 2007

Total assets at December 31, 2008 were \$495,754,000 compared to \$461,960,000 at December 31, 2007. This represented an increase of 7.32% or \$33,794,000. Total loans outstanding including loans held-for-sale increased \$31,620,000 or 11.68%

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to \$302,406,000 at year-end 2008 as loan demand remained very active during 2008. Deposits increased 8.6% to \$344,925,000 over the prior year, mainly due to new business development initiatives implemented during the year which focused on growing customer relationship deposits.

Securities Portfolio

The Company manages the securities portfolio in accordance with the investment policy adopted by the Board of Directors. The primary objectives are to earn interest and dividend income, provide liquidity to meet cash flow needs and to manage interest rate risk and asset-quality diversifications of the Company's assets. The securities portfolio also acts as collateral for deposits of public agencies. As of December 31, 2008, the securities portfolio, including Federal Home Loan Bank of Boston stock, totaled \$155,916,000. This represents a decrease of \$3,292,000 or 2.16% over year-end 2007.

Securities are classified in the portfolio as either securities-available-for-sale or securities-held-to-maturity. Securities for which the Company has the ability and positive intent to hold until maturity are reported as held-to-maturity. These securities are carried at cost adjusted for amortization of premiums and accretion of discounts. Securities that are held for indefinite periods of time and which management intends to use as part of its asset/liability management strategy, or that may be sold in response to changes in interest rates, changes in prepayment risk, increases in capital requirements or other similar factors, are classified as available-for-sale. These securities are stated at fair value in the financial statements of the Company. Temporary differences between available-for-sale securities' amortized cost and fair market value are not included in earnings, but are reported as a net amount (less expected tax) in a separate component of capital (accumulated other comprehensive income or loss, net of tax) until realized. The cost basis of individual securities is written down to estimated fair value through a charge to earnings when decreases in value below amortized cost are considered to be other than temporary. At December 31, 2008, the unrealized holding losses on available-for-sale securities, net of taxes was \$6,968,000. This compares to an unrealized loss net of taxes of \$2,273,000 at December 31, 2007. The Company monitors the market value fluctuations of its securities portfolio on a monthly basis as well as associated credit ratings to determine potential impairment of a security.

Federal Funds Sold

Federal funds sold at December 31, 2008 totaled \$200,000. Federal funds sold at December 31, 2007 totaled \$300,000. This variance represents a normal operating range of funds for daily cash needs.

19

Lending

Net loans, not including loans held-for-sale, represents approximately 60% of total assets at December 31, 2008. The Company makes substantially all of its loans to customers located within the Company's service area. New business development during the year coupled with an increase in loan demand resulted in an increase in net loans outstanding to \$297,367,000 at December 31, 2008, as compared to \$268,191,000 at December 31, 2007. This is an increase of \$29,176,000 or 10.88%. Although the largest dollar volumes of loan activity continue to be in the residential mortgage area, the Company offers a wide

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variety of loan types and terms along with competitive pricing to customers. The Company's credit function is designed to ensure adherence to prudent credit standards despite competition for loans in the Company's market area.

The following table represents the composition of the loan portfolio comparing December 31, 2008 to December 31, 2007:

	December 31, 2008	December 31, 2007
	-----	-----
	(amounts in thousands)	
Commercial, financial and agricultural	\$ 20,785	\$ 20,629
Real Estate-construction and land development	33,343	28,928
Real Estate-residential	177,048	158,600
Real Estate-commercial	62,796	53,823
Consumer	5,551	8,005
Other	175	376
	-----	-----
	299,698	270,361
Deferred costs, net	393	306
Unearned income	0	(1)
Allowance for loan losses	(2,724)	(2,475)
	-----	-----
Net loans	\$ 297,367	\$ 268,191
	=====	=====

Provisions and Allowance for Loan Losses

Total loans outstanding as of December 31, 2008 were \$299,698,000 and compares to total loans outstanding of \$270,361,000 at December 31, 2007. This growth can be attributed primarily to an increase in both residential and commercial real estate loan demand as well as the Bank's new business development program. Approximately 91% of the Company's loan portfolio continues to be real estate secured.

Credit risk is inherent in the business of extending loans. The Company continually monitors the loan portfolio to ensure that loan quality will not be sacrificed for growth or otherwise compromise the Company's objectives. Because of the risk associated with extending loans, the Company maintains an allowance or reserve for loan and lease losses through charges to earnings. The Company evaluates the adequacy of the allowance on a monthly basis. Such evaluations are based on assessments of credit quality and trends within the portfolio and "risk rating" of loans by senior management, which is reviewed by the Company's Loan Committee on a regular basis. Loans are initially risk rated when originated. If there is deterioration in the credit quality, the risk rating is adjusted accordingly.

The Allowance for Loan and Lease Losses (ALLL) at December 31, 2008 totaled \$2,724,000 representing 52.64% of nonperforming loans of \$5,175,000 and 0.91% of total loans outstanding of \$299,698,000. This compares to an ALLL of \$2,475,000 which was 135.69% of nonperforming loans of \$1,824,000 and \$0.92% of total loans outstanding of \$270,361,000 at December 31, 2007. A separate component that is evaluated is the Allowance for Off Balance Sheet Commitments, which totaled \$34,000 at December 31, 2008 and 2007, respectively. A total of \$1,075,000 in loans were charged-off during 2008 compared to \$103,000 during 2007. Recoveries of previously charged-off loans totaled \$45,000 during 2008 compared to \$104,000 in recoveries for 2007. The ALLL also includes a component resulting from the application of the measurement criteria of Statements of Financial Accounting

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Standards No. 114, Accounting by Creditors for Impairment of a Loan (SFAS 114). Impaired loans receive individual evaluation of the allowance necessary on a monthly basis. Loans to be considered for impairment are defined in the Company's Loan Policy as commercial loans with balances outstanding of \$100,000 or more and residential real estate mortgages with balances of \$300,000 or more. Such loans are considered impaired when it is probable that the Company will not be able to collect all principal and interest due according to the terms of the note.

Any such commercial loan and/or residential mortgage will be considered for impairment under any of the following circumstances:

1. Non-accrual status;
2. Loans over 90 days delinquent;
3. Troubled debt restructures consummated after December 31, 1994;
4. Loans classified as "doubtful", meaning that they have weaknesses, which make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

20

The individual allowance for any impaired loan is based upon the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. Specifically identifiable and quantifiable losses are immediately charged off against the allowance.

In addition, a risk of loss factor is applied in evaluating categories of loans as part of the periodic analysis of the Allowance for Loan and Lease Losses. This analysis reviews the allocations of the different categories of loans within the portfolio and considers historical loan losses and delinquency balances as well as recent delinquent percentage trends.

Concentrations of credit and local economic factors are also evaluated on a periodic basis. Historical averages of net losses by loan types are examined as well as trends by type. The Bank's loan mix over the same period of time is also analyzed. A loan loss allocation is made for each type of loan multiplied by the loan mix percentage for each loan type to produce a weighted average factor.

While management estimates loan losses using the best available information, no assurances can be given that future additions to the allowance will not be necessary based on changes in economic and real estate market conditions, identification of additional problem loans or other factors. Additionally, despite the excellent overall quality of the loan portfolio and expectations of the Company to continue to grow its existing portfolio, future additions to the allowance may be necessary to maintain adequate reserve coverage. Overall, management is of the opinion that the ALLL is adequate as of December 31, 2008.

Deposits

The Company offers a variety of deposit accounts with a range of interest rates and terms. Deposits at year end 2008 totaled \$344,925,000 compared to \$317,741,000 at year end 2007. The Company continues its efforts to competitively price products and develop and maintain relationship banking with its customers. The flow of deposits is influenced significantly by general

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economic conditions, changes in money market rates, prevailing interest rates and the aggressive competition from nonbanking entities.

During 2008, there was a change in the mix of deposits. Money Market and savings balances increased, as illustrated by the table below.

The average daily amount of deposits by category and the average rates paid on such deposits are summarized in the following table:

(dollars in thousands)	Year ended December 31			
	2008		2007	
	Average Balance	Rate	Average Balance	Rate
Demand	\$ 67,681		\$ 66,304	
NOW	24,517	.22%	24,822	.26%
Money Market	63,914	1.90%	55,358	3.23%
Savings	63,185	1.47%	47,063	1.73%
Time	116,959	3.79%	119,052	4.65%
	\$ 336,256	1.97%	\$ 312,599	2.62%
	=====		=====	

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

(dollars in thousands)	December 31	
	2008	2007
Three months or less	\$ 3,784	\$ 7,603
Over three months through six months	3,982	17,429
Over six months through one year	13,063	15,114
Over one year	18,505	10,975
	\$ 39,334	\$ 51,121
	=====	=====

Borrowings

As part of its operating strategy, the Company utilizes advances from the Federal Home Loan Bank to supplement deposit growth and fund its asset growth, a strategy that is designed to increase interest income. These advances are made pursuant to various credit programs, each of which has its own interest rate and range of maturities. At December 31, 2008, the Company had \$87,914,000 in outstanding advances from the Federal Home Loan Bank compared to \$95,011,000 at

21

December 31, 2007. Management expects that it will continue this strategy of supplementing deposit growth with advances from Federal Home Loan Bank of Boston. (See Note 8 of the Notes to Consolidated Financial Statements.)

Interest Rate Risk

Interest rate risk is the most significant market risk affecting the Company. Interest rate risk is defined as an exposure to a movement in interest rates

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that could have an adverse effect on net interest income. Net interest income is sensitive to interest rate risk to the degree that interest bearing liabilities mature or reprice on a different basis than earning assets.

The Bank's assets and liabilities are managed in accordance with policies established and reviewed by the Bank's Board of Directors. The Bank's Asset/Liability Management Committee monitors asset and deposit levels, developments and trends in interest rates, liquidity and capital. One of the primary financial objectives is to manage interest rate risk and control the sensitivity of earnings to changes in interest rates in order to prudently improve net interest income and manage the maturities and interest rate sensitivities of assets and liabilities.

The Bank uses asset/liability modeling software to develop scenario analyses, which measure the impact that changing interest rates have on net interest income. These model simulations are projected out over a two year time horizon, assuming proportional upward and downward interest rate movements of 100, 200 and 300 basis points. Simulations are projected out in two ways:

- (1) using the same balance sheet as the Bank had on the simulation date, and
- (2) using a growing balance sheet based on recent growth patterns and strategies.

As interest rates rise or fall, these simulations incorporate expected future lending rates, current and expected future funding sources and cost, the possible exercise of options, changes in prepayment rates, and other factors which may be important in determining the future growth of net interest income. The rates the Company earns on its assets and the rates it pays on its liabilities are generally fixed for a contractual period of time. Imbalance in these contractual maturities can create significant earnings volatility because market interest rates change over time. In a period of rising interest rates, the interest income earned on assets may not increase as rapidly as the interest paid on liabilities. In a period of declining interest rates the interest income earned on assets may decrease more rapidly than the interest paid on liabilities. This would primarily be attributed to accelerated prepayments on loans and securities that are significantly influenced by movements in market rates.

The net interest margin may be adversely affected by several possible interest rate environments. Foremost, a continued flat or inverted yield curve may result in shorter term market interest rates that equal or exceed those of longer term rates. This could further increase the Bank's cost of interest-bearing liabilities and outpace the yield on earning assets resulting in additional net interest rate spread compression.

Liquidity

Liquidity is the ability to raise funds on a timely basis at an acceptable cost in order to meet cash needs. Liquidity is essential to provide adequate funds to meet anticipated financial and contractual obligations, including withdrawals by depositors, debt service requirements as well as to fund customers' needs for credit. The Company's primary funding sources are customer deposits, readily marketable investment securities and loan payments. Wholesale funding is also used to manage liquidity in the form of brokered deposits or borrowings. The Company's subsidiary, the Bank, is a member of the Federal Home Loan Bank of Boston, which provides a source of available borrowings for liquidity.

At December 31, 2008, the Company had approximately \$47,859,000 in loan commitments outstanding. Management believes that the current level of liquidity

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is ample to meet the Company's needs for both the present and foreseeable future.

Capital

At December 31, 2008, the Company had \$38,939,000 in shareholders' equity compared to \$45,564,000 at December 31, 2007. This represents a net decrease of \$6,625,000 or 14.54%. This decrease is primarily the result of recent fluctuations in the securities market and reflects a change in net unrealized holding losses on available-for-sale securities, net of taxes of \$6,968,000 at December 31, 2008, compared to unrealized holding losses of \$2,273,000 at December 31, 2007. Other components also contribute to the change in capital since December 2007. Earnings for the year totaled \$1,106,000. The application of SFAS No.158, resulted in other comprehensive loss, net of tax of \$892,000 in 2008. The Company declared dividends in 2008 resulting in a decrease in capital of \$1,888,000. The Company issued 840 new shares of common stock under the terms of the Director Stock Retainer Plan during the second quarter of 2008, which resulted in an increase in capital of \$28,000.

Maintaining strong capital is essential to bank safety and soundness. However, the effective management of capital resources

22

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.

Subsequent Event

The Company is participating in the TARP CPP under the EESA. On March 13, 2009, the Company issued to the Treasury 8,816 shares of Preferred Stock and a Warrant to purchase 57,671 shares of Common Stock at \$22.93 per share for an aggregate consideration of \$8,816,000, which immediately became capital of the Company. Such Warrant, if exercised in full, would dilute the percentage of ownership of common shareholders by approximately 3.3%. If the Company redeems all of the shares of Preferred Stock, it has the right of first refusal to buy back the Warrant or the shares received upon exercise of the Warrant at fair market value if such shares are then held by the Treasury. The Preferred Stock qualifies as Tier 1 capital for regulatory purposes and ranks senior to the Company's common stock in the payment of dividends or upon liquidation. The Preferred Stock purchase by the Treasury pays a cumulative dividend rate of 5% per annum for the first five years it is outstanding and thereafter at a rate of 9% per annum. The Preferred Stock may be redeemed by the Company at 100% of its issue price plus any accrued and unpaid dividends. The Treasury's consent will be required for any increase in Company common stock dividends per share or any repurchase of Company common stock until the earlier of the third anniversary of the date of the investment or the transfer by the Treasury of all of the shares of Preferred Stock. Additional information regarding this event is set forth in Note 22 of the Notes to Consolidated Financial Statements included in Item 8 of this report.

Impact of Inflation and Changing Prices

The Company's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America which require the measurement of financial condition and operating results in terms of

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historical dollars without considering changes in the relative purchasing power of money, over time, due to inflation. Unlike most industrial companies, virtually all of the assets and liabilities of the Company are monetary and as a result, interest rates tend to have a greater impact on the Company's performance than do the effects of general levels of inflation. Although interest rates do not necessarily move in the same direction or with the same magnitude as the prices of goods and services, inflation could impact earnings in future periods.

Off-Balance Sheet Arrangements

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. In the opinion of management, these off-balance sheet arrangements are not likely to have a material effect on the Company's financial condition, results of operations, or liquidity. (See Note 13 of the Notes to Consolidated Financial Statements).

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - Not

Applicable.

Statement of Management's Responsibility

Management is responsible for the integrity and objectivity of the consolidated financial statements and other information appearing in this Form 10-K. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America applying estimates and management's best judgment as required. To fulfill their responsibilities, management establishes and maintains accounting systems and practices adequately supported by internal accounting controls. These controls include the selection and training of management and supervisory personnel; an organization structure providing for delegation of authority and establishment of responsibilities; communication of requirements for compliance with approved accounting, control and business practices throughout the organization; business planning and review; and a program of internal audit. Management believes the internal accounting controls in use provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and that financial records are reliable for the purpose of preparing financial statements. Shatswell, MacLeod and Company, P.C. has been engaged to provide an independent opinion on the fairness of the consolidated financial statements. Their report appears in this Annual Report on Form 10-K.

Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, utilizing the framework established in Internal Control -- Integrated Framework issued by the Committee

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of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2008 is effective.

Our internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions and dispositions of assets of the Company; (2) provide reasonable assurances that: (a) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and (b) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements.

This Annual Report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this Annual Report.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/John F. Perotti

/s/ Richard J. Cantele, Jr.

/s/ John F. Foley

John F. Perotti
Chairman & CEO

Richard J. Cantele, Jr.
President & COO

John F. Foley
CFO, Treasurer & Secretary

24

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

Report of Independent Registered Public

Accounting Firm, March 16, 2009 F-1

Consolidated Balance Sheets at December 31, 2008 and 2007 F-2

Consolidated Statements of Income for the Years Ended

December 31, 2008 and 2007 F-3

Consolidated Statements of Changes in Shareholders' Equity

for the Years Ended December 31, 2008 and 2007 F-4

Consolidated Statements of Cash Flows for the Years Ended

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December 31, 2008 and 2007	F-5
Notes to Consolidated Financial Statements for the Years Ended December 31, 2008 and 2007	F-7
Salisbury Bancorp, Inc. (parent company only) Balance Sheet at December 31, 2008 and 2007	F-26
Statements of Income for the Years Ended December 31, 2008 and 2007	F-26
Statements of Cash Flows for the Years Ended December 31, 2008 and 2007	F-27
Quarterly Results of Operations (unaudited)	F-27

25

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

To the Board of Directors
Salisbury Bancorp, Inc.
Lakeville, Connecticut

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheets of Salisbury Bancorp, Inc. and Subsidiary as of December 31, 2008 and 2007 and the related consolidated statements of income, changes in shareholders' equity and cash flows of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Salisbury Bancorp, Inc. and Subsidiary as of December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Shatswell, MacLeod & Company, P.C.

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SHATSWELL, MacLEOD & COMPANY, P.C.

West Peabody, Massachusetts
March 16, 2009

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o TELEPHONE (978) 535-0206 o FACSIMILE (978) 535-9908
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F-1

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007

	2008	2007
	-----	-----
ASSETS		

Cash and due from banks	\$ 7,082,317	\$ 12,810,6
Interest-bearing demand deposits with other banks	900,487	726,6
Money market mutual funds	1,476,999	1,340,8
Federal Funds sold	200,000	300,0
	-----	-----
Cash and cash equivalents	9,659,803	15,178,1
Investments in available-for-sale securities (at fair value)	150,526,964	147,377,1
Investments in held-to-maturity securities (fair values of \$66,502 and \$71,435 as of December 31, 2008 and 2007, respectively)	66,443	70,7
Federal Home Loan Bank stock, at cost	5,323,000	5,176,1
Loans held-for-sale	2,314,250	120,0
Loans, less allowance for loan losses of \$2,724,024 and \$2,474,893 as of December 31, 2008 and 2007, respectively	297,367,434	268,191,2
Investment in real estate	75,000	75,0
Other real estate owned	204,534	
Premises and equipment	7,123,671	6,803,1
Goodwill	9,828,712	9,828,7
Core deposit intangible	1,165,068	1,329,2
Accrued interest receivable	2,704,385	2,538,6
Cash surrender value of life insurance policies	3,824,653	3,688,0
Deferred taxes	4,196,819	381,1
Other assets	1,373,424	1,202,8
	-----	-----
Total assets	\$ 495,754,160	\$ 461,960,3
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		

Deposits:		
Noninterest bearing	\$ 65,479,271	\$ 69,214,6
Interest-bearing	279,445,961	248,526,5
	-----	-----
Total deposits	344,925,232	317,741,2

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Securities sold under agreements to repurchase	11,203,289	
Federal Home Loan Bank advances	87,913,667	95,011,1
Due to broker	7,631,919	
Other liabilities	5,140,721	3,644,3
	-----	-----
Total liabilities	456,814,828	416,396,8
	-----	-----
Shareholders' equity:		
Common stock, par value \$.10 per share; authorized 3,000,000 shares; issued and outstanding, 1,685,861 shares in 2008 and 1,685,021 shares in 2007	168,586	168,5
Paid-in capital	13,157,883	13,130,2
Retained earnings	34,518,331	35,583,4
Accumulated other comprehensive loss	(8,905,468)	(3,318,5
	-----	-----
Total shareholders' equity	38,939,332	45,563,5
	-----	-----
Total liabilities and shareholders' equity	\$ 495,754,160	\$ 461,960,3
	=====	=====

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

F-2

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2008 and 2007

	2008	2007
	-----	-----
Interest and dividend income:		
Interest and fees on loans	\$ 18,448,530	\$ 17,968,801
Interest on debt securities:		
Taxable	5,336,344	5,457,879
Tax-exempt	2,445,805	2,332,374
Dividends on equity securities	202,458	324,329
Other interest	124,129	68,762
	-----	-----
Total interest and dividend income	26,557,266	26,152,145
	-----	-----
Interest expense:		
Interest on deposits	6,633,358	8,200,214
Interest on securities sold under agreements to repurchase	105,993	0
Interest on Federal Home Loan Bank advances	4,085,756	4,232,221
	-----	-----
Total interest expense	10,825,107	12,432,435
	-----	-----
Net interest and dividend income	15,732,159	13,719,710
Provision for loan losses	1,279,099	0

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Net interest and dividend income after provision for loan losses	14,453,060	13,719,710
Noninterest income:		
Trust department income	2,263,735	2,050,000
Loan commissions	1,544	22,131
Service charges on deposit accounts	829,975	743,901
Gain on sales and calls of available-for-sale securities, net	600,331	294,984
Write-down of available-for-sale securities	(2,955,365)	0
Gain on sales of loans held-for-sale	291,854	316,736
Other income	1,208,899	1,036,911
Total noninterest income	2,240,973	4,464,663
Noninterest expense:		
Salaries and employee benefits	8,330,147	7,723,691
Occupancy expense	960,757	801,558
Equipment expense	897,597	819,474
Data processing	1,339,391	1,193,887
Insurance	277,910	163,024
Printing and stationery	277,310	280,172
Professional fees	1,269,013	931,352
Amortization of core deposit intangible	164,215	164,216
Prepayment fee on Federal Home Loan Bank advance	864,324	0
Other expense	1,628,773	1,436,945
Total noninterest expense	16,009,437	13,514,319
Income before income taxes	684,596	4,670,054
Income tax (benefit) expense	(421,285)	870,006
Net income	\$ 1,105,881	\$ 3,800,048
Earnings per common share	\$.66	\$ 2.26

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

F-3

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 2008 and 2007

Number of Shares Issued	Common Stock	Paid-in Capital	Retained Earnings
----------------------------------	-----------------	--------------------	----------------------

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	-----	-----	-----	-----
Balance, December 31, 2006	1,684,181	\$ 168,418	\$13,099,881	\$33,602,991
Comprehensive income:				
Net income				3,800,048
Other comprehensive loss, net of tax effect				
Comprehensive income				
Issuance of 840 shares for Directors' fees	840	84	30,366	
Dividends declared (\$1.08 per share)				(1,819,596)
Balance, December 31, 2007	1,685,021	168,502	13,130,247	35,583,443
Comprehensive loss:				
Net income				1,105,881
Other comprehensive loss, net of tax effect				
Comprehensive loss				
Cumulative effect of a change in accounting principles - initial application of EITF Issue No. 06-4				(283,065)
Issuance of 840 shares for Directors' fees	840	84	27,636	
Dividends declared (\$1.12 per share)				(1,887,928)
Balance, December 31, 2008	1,685,861	\$ 168,586	\$13,157,883	\$34,518,331

Reclassification disclosure for the years ended December 31:

	2008

Unrealized holding losses on available-for-sale securities	
Net unrealized holding losses on available-for-sale securities	\$ (9,468,788)
Reclassification adjustment for net realized losses (gains) in net income	2,355,034

Income tax benefit	(7,113,754)
	2,418,675

Unrealized holding losses on available-for-sale securities, net of tax	(4,695,079)

Comprehensive (loss) income - defined benefit pension plan	(1,351,205)
Income tax benefit (expense)	459,410

Comprehensive (loss) income - defined benefit pension plan, net of tax	(891,795)

Other comprehensive loss, net of tax	\$ (5,586,874)
	=====

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

	2008

Net unrealized holding losses on available-for-sale securities, net of taxes	\$ (6,967,705)

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Unrecognized pension plan expense - SFAS No. 158, net of taxes	(1,937,763)

Accumulated other comprehensive loss	\$ (8,905,468)
	=====

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

F-4

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2008 and 2007

	2008	2007
	-----	-----
Cash flows from operating activities:		
Net income	\$ 1,105,881	\$ 3,800,048
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	148,904	75,014
Gain on sales and calls of available-for-sale securities, net	(600,331)	(294,984)
Write-down of available-for-sale securities	2,955,365	0
Provision for loan losses	1,279,099	0
Change in loans held-for-sale	(2,194,250)	184,000
Change in deferred loan costs, net	(87,293)	(137,362)
Change in unearned income on loans	(554)	(2,528)
Net decrease in mortgage servicing rights	116,984	110,515
Depreciation and amortization	687,177	565,267
Amortization of core deposit intangible	164,215	164,216
Amortization of fair value adjustment on loans	47,618	71,357
Accretion of fair value adjustments on borrowings	(130,204)	(130,203)
Increase in interest receivable	(135,165)	(64,671)
Deferred tax (benefit) provision	(937,571)	34,785
Decrease (increase) in prepaid expenses	138,106	(4,594)
Increase in cash surrender value of insurance policies	(136,632)	(133,026)
(Increase) decrease in income tax receivable	(347,144)	89,869
(Increase) decrease in other assets	(182,974)	90,673
(Decrease) increase in accrued expenses	(98,143)	102,293
(Decrease) increase in interest payable	(239,662)	6,794
Increase in other liabilities	182,795	216,509
Issuance of shares for Directors' fees	27,720	30,450
	-----	-----
Net cash provided by operating activities	1,763,941	4,774,422
	-----	-----
Cash flows from investing activities:		
Purchases of Federal Home Loan Bank stock	(146,900)	(512,400)

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Purchases of available-for-sale securities	(111,560,110)	(69,642,478)
Proceeds from sales of available-for-sale securities	76,524,048	63,597,747
Proceeds from maturities of available-for-sale securities	29,869,894	12,170,270
Proceeds from maturities of held-to-maturity securities	4,327	4,102
Loan originations and principal collections, net	(27,367,179)	(11,448,576)
Purchases of loans	(3,297,434)	(4,313,300)
Recoveries of loans previously charged off	45,050	103,564
Capital expenditures	(903,154)	(1,396,923)
Cash and cash equivalents acquired from New York Community Bank, net of expenses paid of \$119,407	0	176,653
	-----	-----
Net cash used in investing activities	(36,831,458)	(11,261,341)
	-----	-----

F-5

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2008 and 2007

(continued)

	2008	2007
	-----	-----
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	17,712,746	8,467,718
Net increase (decrease) increase in time deposits	9,471,217	(4,805,216)
Federal Home Loan Bank advances	17,000,000	21,000,000
Principal payments on Federal Home Loan Bank advances	(36,208,284)	(16,589,044)
Net change in short-term Federal Home Loan Bank advances	12,241,000	3,637,000
Net change in securities sold under agreements to repurchase	11,203,289	0
Dividends paid	(1,870,843)	(1,802,527)
	-----	-----
Net cash provided by financing activities	29,549,125	9,907,931
	-----	-----
Net (decrease) increase in cash and cash equivalents	(5,518,392)	3,421,012
Cash and cash equivalents at beginning of year	15,178,195	11,757,183
	-----	-----
Cash and cash equivalents at end of year	\$ 9,659,803	\$ 15,178,195
	=====	=====
Supplemental disclosures:		
Interest paid	\$ 11,194,973	\$ 12,559,418
Income taxes paid	863,430	745,352
Loans transferred to other real estate owned	204,534	0
New York Community Bank Branch Acquisition:		
Cash and cash equivalents acquired		\$ 296,060

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	296,060

Deposits assumed	492,486
Accrued interest payable assumed	3,574

	496,060

Net liabilities assumed	200,000
Acquisition costs	119,407

Goodwill	\$ 319,407
	=====

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

F-6

SALISBURY BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2008 and 2007

NOTE 1 - NATURE OF OPERATIONS

Salisbury Bancorp, Inc. (Bancorp) is a Connecticut corporation that was organized on April 24, 1998 to become a holding company, under which Salisbury Bank and Trust Company (Bank) operates as its wholly-owned subsidiary. Bancorp and the Bank are referred to together as the Company.

The Bank is a state chartered bank which was incorporated in 1874 and is headquartered in Lakeville, Connecticut. The Bank operates its business from four banking offices located in Connecticut, two banking offices located in Massachusetts, and one banking office in Dover Plains, New York. The Bank is engaged principally in the business of attracting deposits from the general public and investing those deposits in residential and commercial real estate, consumer and small business loans. The Bank also offers a full complement of trust and investment services.

NOTE 2 - ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and predominant practices within the banking industry. The consolidated financial statements were prepared using the accrual basis of accounting. The significant accounting policies are summarized below to assist the reader in better understanding the consolidated financial statements and other data contained herein.

USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported

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amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

BASIS OF PRESENTATION:

The consolidated financial statements include the accounts of the Bancorp and its wholly-owned subsidiary, the Bank, and the Bank's wholly-owned subsidiaries, SBT Realty, Inc., and SBT Mortgage Service Corporation (PIC). SBT Realty, Inc. holds and manages bank owned real estate situated in New York state. The PIC operates as a passive investment company, which owns and services residential and commercial mortgages. All significant intercompany accounts and transactions have been eliminated in the consolidation.

CASH AND CASH EQUIVALENTS:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks, interest bearing demand deposits with other banks, money market mutual funds and federal funds sold.

Cash and due from banks as of December 31, 2008 and 2007 includes \$650,000, which is subject to withdrawals and usage restrictions to satisfy the reserve requirements of the Federal Reserve Bank.

SECURITIES:

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

The Company may classify debt and equity securities into one of three categories: held-to-maturity, available-for-sale, or trading. These security classifications may be modified after acquisition only under certain specified conditions. In general, securities may be classified as held-to-maturity only if the Company has the positive intent and ability to hold them to maturity. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available-for-sale.

- Held-to-maturity securities are carried at amortized cost in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings or in a separate component of capital. They are disclosed in the notes to the consolidated financial statements.

F-7

- Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings but are reported as a net amount (less expected tax) in a separate component of capital until realized.
- Trading securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses for trading securities are included in earnings. During the two years ended December 31, 2008 and 2007, the Company

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did not classify any securities as trading.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

On December 8, 2008, the Federal Home Loan Bank of Boston announced a moratorium on the repurchase of excess stock held by its members. Until the moratorium is lifted, the Bank is unable to redeem any excess shares of Federal Home Loan Bank of Boston stock. The moratorium will remain in effect indefinitely.

LOANS:

Loans receivable that management has the intent and ability to hold until maturity or payoff, are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses and any deferred fees or costs on originated loans or unamortized premiums or discounts on purchased loans.

Interest on loans is recognized on a simple interest basis.

Residential real estate loans are generally placed on nonaccrual status when reaching 90 days past due or in the process of foreclosure. Lines of credit secured by real estate 90 days past due or in the process of foreclosure are placed on nonaccrual status. Secured consumer loans are written down to realizable value and unsecured consumer loans are charged-off upon reaching 120 or 180 days past due depending on the type of loan. Commercial real estate loans and commercial business loans and leases which are 90 days or more past due are generally placed on nonaccrual status, unless secured by sufficient cash or other assets immediately convertible to cash. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. A loan can be returned to accrual status when collectibility of principal is reasonably assured and the loan has performed for a period of time, generally six months.

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

ALLOWANCE FOR LOAN LOSSES:

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

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

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borrowers' ability to repay, the estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable

F-8

market price, or the fair value of the collateral if the loan is collateral dependent. The Bank does not separately identify individual consumer and residential loans for impairment disclosures, but instead evaluates smaller groups of homogeneous loans collectively for impairment.

PREMISES AND EQUIPMENT:

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Cost and related allowances for depreciation and amortization of premises and equipment retired or otherwise disposed of are removed from the respective accounts with any gain or loss included in income or expense. Depreciation and amortization are calculated principally on the straight-line method over the estimated useful lives of the assets. Estimated lives are 3 to 99 years for buildings and 2 to 20 years for furniture and equipment.

OTHER REAL ESTATE OWNED AND IN-SUBSTANCE FORECLOSURES:

Other real estate owned includes properties acquired through foreclosure and properties classified as in-substance foreclosures in accordance with Statement of Financial Accounting Standards (SFAS) No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring." These properties are carried at the lower of cost or estimated fair value less estimated costs to sell. Any write-down from cost to estimated fair value required at the time of foreclosure or classification as in-substance foreclosure is charged to the allowance for loan losses. Expenses incurred in connection with maintaining these assets and subsequent write-downs are included in other expense.

In accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," the Bank classifies loans as in-substance, repossessed or foreclosed if the Bank or its subsidiaries receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place.

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ADVERTISING:

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

INCOME TAXES:

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities at tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled.

FAIR VALUES OF FINANCIAL INSTRUMENTS:

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," requires that the Company disclose estimated fair value for its financial instruments. Fair value methods and assumptions used by the Company in estimating its fair value disclosures are as follows:

Cash and cash equivalents: The carrying amounts reported in the balance sheets for cash and cash equivalents approximate those assets' fair values.

Securities (including mortgage-backed securities): Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans held-for-sale: Fair values of mortgage loans held-for-sale are based on commitments on hand from investors or prevailing market prices.

Loans receivable: For variable-rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Accrued interest receivable: The carrying amount of accrued interest receivable approximates its fair value.

Deposit liabilities: The fair values disclosed for interest and non-interest checking, passbook savings and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

F-9

Securities sold under agreements to repurchase: The carrying amounts reported on the consolidated balance sheets for securities sold under agreements to repurchase approximate their fair values.

Federal Home Loan Bank Advances: Fair values for Federal Home Loan Bank advances are estimated using a discounted cash flow technique that applies interest rates currently being offered on advances to a schedule of aggregated expected monthly maturities on Federal Home Loan Bank advances.

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Due to broker: The carrying amount of due to broker approximates its fair value.

Off-balance sheet instruments: The fair value of commitments to originate loans is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments and the unadvanced portion of loans, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligation with the counterparties at the reporting date.

STOCK BASED COMPENSATION:

Bancorp has a stock-based plan to compensate non-employee directors for their services. This plan is more fully described in Note 16. Compensation cost for these services is reflected in net income in an amount equal to the fair value on the date of issuance of the shares of Bancorp common stock issued to the directors.

EARNINGS PER SHARE (EPS):

Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Weighted average common shares outstanding were 1,685,549 in 2008 and 1,684,699 in 2007. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted EPS is not presented because there were no common stock equivalents in the years ended December 31, 2008 and 2007.

RECENT ACCOUNTING PRONOUNCEMENTS:

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109" (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2007. The Company's adoption of FIN 48 did not have a material impact on its financial statements.

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on Issue No. 06-4 "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," (EITF Issue 06-4). EITF 06-4 requires companies with an endorsement split-dollar life insurance arrangement to recognize a liability for future postretirement benefits. The effective date is for fiscal years beginning after December 15, 2007, with earlier application permitted. The Company should recognize the effects of applying this Issue through either (a) a change in accounting principle through a cumulative effect adjustment to retained earnings or (b) a change in accounting principle through retrospective application to all periods. The Company adopted this Issue in 2008, and the impact is described in Note 9 of the consolidated financial statements.

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In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP) and expands disclosures about fair value measurements. The FASB's FSP FAS 157-2, "Effective Date of FASB Statement No. 157", defers until January 1, 2009, the application of SFAS 157 to nonfinancial assets and nonfinancial liabilities not recognized or disclosed at least annually at fair value. This includes nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination or other new basis event, but not measured at fair value in subsequent periods. The Company adopted this statement on January 1, 2008. See Note 12 - Fair Value Measurements for additional information.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115" (SFAS 159). SFAS 159 permits entities, at specified election dates, to choose to measure certain financial instruments at fair value that are not currently required to be measured at fair value. The fair value option is applied on an instrument-by-instrument basis, is irrevocable and can only be applied to an entire instrument and not to specified risks, specific cash flows, or portions of that instrument. Unrealized gains and losses on items for which the fair value option has been elected will be

F-10

reported in earnings at each subsequent reporting date and upfront fees and costs related to those items will be recognized in earnings as incurred and not deferred. SFAS No. 159 is effective in fiscal years beginning after November 15, 2007 and may not be applied retrospectively. The Company adopted SFAS 159 effective January 1, 2008. See Note 12.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements and Amendment of ARB No. 51 ("SFAS No. 160"). The new pronouncement requires all entities to report noncontrolling (minority) interests in subsidiaries as a component of shareholders' equity. SFAS No. 160 will be effective for fiscal years beginning after December 15, 2008. Early adoption is prohibited. Management anticipates that this statement will not have a material impact on the Company's financial condition and results of operations.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations" (SFAS 141(R)). SFAS 141(R) will significantly change the accounting for business combinations. Under SFAS 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. It also amends the accounting treatment for certain specific items including acquisition costs and noncontrolling minority interests and includes a substantial number of new disclosure requirements. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The Company does not expect the adoption of this statement to have a material impact on its financial condition and results of operations.

In February 2008, the FASB issued FSP FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions." This FSP provides guidance on how the transferor and transferee should separately account for a transfer of a financial asset and a related repurchase financing if certain criteria are met. This guidance will be effective January 1, 2009. The adoption of this new FSP is not expected to have a

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material effect on the Company's results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133" (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The guidance in SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company does not expect the adoption of this statement to have a material impact on its financial condition and results of operations.

In April 2008, the FASB issued FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets." This FSP provides guidance as to factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, "Goodwill and Other Intangible Assets." This guidance will be effective January 1, 2009. The adoption is not expected to have a material effect on the Company's results of operations or financial position.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." This standard formalizes minor changes in prioritizing accounting principles used in the preparation of financial statements that are presented in conformity with GAAP. This standard became effective November 15, 2008.

F-11

NOTE 3 - INVESTMENTS IN SECURITIES

Debt and equity securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost of securities and their approximate fair values are as follows as of December 31:

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses
	-----	-----	-----
Available-for-sale securities:			
December 31, 2008:			
Equity securities	\$ 422	\$ 0	\$ 0
Preferred stock	19,635	0	0
Debt securities issued by the U.S. Treasury and other U. S. government corporations and agencies	41,460,086	110,037	298
Debt securities issued by states of the United States and political subdivisions of the states	63,513,972	134,913	7,953
Money market mutual funds	1,476,999	0	0
Mortgage-backed securities	56,089,978	501,180	3,051

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	-----	-----	-----
	162,561,092	746,130	11,303
Money market mutual funds included in cash and cash equivalents	(1,476,999)		
	-----	-----	-----
	\$ 161,084,093	\$ 746,130	\$ 11,303
	=====	=====	=====
December 31, 2007:			
Equity securities	\$ 3,031	\$ 157,453	\$
Preferred stock	2,975,000	0	1,149
Debt securities issued by the U.S. Treasury and other U. S. government corporations and agencies	47,224,654	4,492	370
Debt securities issued by states of the United States and political subdivisions of the states	58,707,327	11,409	1,739
Money market mutual funds	1,340,891	0	
Mortgage-backed securities	41,910,517	99,631	456
	-----	-----	-----
	152,161,420	272,985	3,716
Money market mutual funds included in cash and cash equivalents	(1,340,891)		
	-----	-----	-----
	\$ 150,820,529	\$ 272,985	\$ 3,716
	=====	=====	=====
Held-to-maturity securities:			
December 31, 2008:			
Mortgage-backed securities	\$ 66,443	\$ 59	\$
	=====	=====	=====
December 31, 2007:			
Mortgage-backed securities	\$ 70,798	\$ 637	\$
	=====	=====	=====

The scheduled maturities of debt securities were as follows as of December 31, 2008:

	Available-For-Sale	Held-To-Maturity	
	Fair Value	Amortized Cost Basis	Fair Value
	-----	-----	-----
Due after five years through ten years	\$ 1,000,532	\$ 0	\$ 0
Due after ten years	95,966,342	0	0
Mortgage-backed securities	53,540,033	66,443	66,502
	-----	-----	-----
	\$ 150,506,907	\$ 66,443	\$ 66,502
	=====	=====	=====

F-12

During 2008, proceeds from sales of available-for-sale securities amounted to \$76,524,048. Gross realized gains and gross realized losses on those sales amounted to \$572,014 and \$75, respectively. During 2007, proceeds from sales of

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available-for-sale securities amounted to \$63,597,747. Gross realized gains and gross realized losses on those sales amounted to \$305,726 and \$10,742, respectively. The tax provision applicable to these net realized gains amounted to \$194,459 and \$100,295, respectively.

The aggregate amortized cost basis and fair value of securities of issuers which exceeded 10% of shareholders' equity were as follows as of December 31, 2008.

Issuer	Amortized Cost Basis	Fair Value
Wells Fargo Mortgage Backed Securities	\$ 9,670,772	\$ 9,005,530

Total carrying amounts of \$91,119,746 and \$55,203,368 of debt securities were pledged to secure Federal Home Loan Bank advances, public deposits, securities sold under agreements to repurchase, treasury tax and loan and for other purposes as required by law as of December 31, 2008 and 2007, respectively.

The aggregate fair value and unrealized losses of securities that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more, and are temporarily impaired, are as follows as of December 31:

	December 31, 2008			
	Less than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities issued by the U.S.				
Treasury and other U. S. government corporations and agencies	\$ 15,701,224	\$ 298,777	\$ 0	\$ 0
Debt securities issued by states of the United States and political subdivisions of the states	43,327,439	6,032,499	6,381,562	1,920,858
Mortgage-backed securities	24,195,458	2,513,223	5,570,852	537,902
Total temporarily impaired securities	\$ 83,224,121	\$ 8,844,499	\$ 11,952,414	\$ 2,458,760

	December 31, 2007			
	Less than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Preferred stock	\$ 0	\$ 0	\$ 1,825,270	\$ 1,149,730
Debt securities issued by the U.S.				
Treasury and other U. S. government corporations and agencies	8,963,668	20,009	33,518,205	350,321
Debt securities issued by states of the United States and political subdivisions of the states	46,754,407	1,684,443	1,314,923	55,230
Mortgage-backed securities	4,501,563	48,263	20,534,104	408,364
Total temporarily impaired securities	\$ 60,219,638	\$ 1,752,715	\$ 57,192,502	\$ 1,963,645

Securities exhibiting unrealized losses are analyzed to determine that the impairments are not other-than-temporary and the following information is considered. U.S. Government securities are backed by the full faith and credit of the United States and therefore bear no credit risk. U.S. Government agency securities, which have a significant impact in financial markets, have minimal credit risk. The unrealized losses at December 31, 2008 are mainly attributable to changes in market interest rates and current market inefficiencies. As Company management has the ability and intent to hold securities until anticipated recovery to cost basis occurs, no declines are deemed to be other than temporary.

F-13

NOTE 4 - LOANS

Loans consisted of the following as of December 31:

	2008	2007
Commercial, financial and agricultural	\$ 20,784,842	\$ 20,629,467
Real estate - construction and land development	33,342,610	28,927,954
Real estate - residential	177,048,233	158,599,546
Real estate - commercial	62,796,469	53,822,693
Consumer	5,551,172	8,004,931
Other	174,965	376,257
	-----	-----
	299,698,291	270,360,848
Deferred costs, net	393,228	305,935
Unearned income	(61)	(615)
Allowance for loan losses	(2,724,024)	(2,474,893)
	-----	-----
Net loans	\$ 297,367,434	\$ 268,191,275
	=====	=====

Certain directors and executive officers of the Company and companies in which they have significant ownership interest were loan customers of the Bank during 2008. Total loans to such persons and their companies amounted to \$1,146,982 as of December 31, 2008. During 2008, principal advances of \$696,784 were made and repayments totaled \$293,964 on such loans.

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

	2008	2007
Balance at beginning of period	\$ 2,474,893	\$ 2,474,118
Provision for loan losses	1,279,099	0
Recoveries of loans previously charged off	45,050	103,564
Loans charged off	(1,075,018)	(102,789)
	-----	-----
Balance at end of period	\$ 2,724,024	\$ 2,474,893
	=====	=====

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

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	2008	2007
	-----	-----
Total nonaccrual loans	\$ 5,074,619	\$ 1,007,890
	=====	=====
Accruing loans which are 90 days or more overdue	\$ 99,982	\$ 816,581
	=====	=====

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

	2008		2007	
	-----	-----	-----	-----
	Recorded Investment In Impaired Loans	Related Allowance For Credit Losses	Recorded Investment In Impaired Loans	Related Allowan For Cre Losses
	-----	-----	-----	-----
Loans for which there is a related allowance for credit losses	\$ 797,467	\$ 82,592	\$ 0	\$
Loans for which there is no related allowance for credit losses	3,709,479	0	0	
	-----	-----	-----	-----
Totals	\$ 4,506,946	\$ 82,592	\$ 0	\$
	=====	=====	=====	=====
Average recorded investment in impaired loans during the year ended December 31	\$ 3,674,242		\$ 0	
	=====		=====	
Related amount of interest income recognized during the time, in the year ended December 31, that the loans were impaired				
Total recognized	\$ 16,234		\$ 0	
	=====		=====	
Amount recognized using a cash-basis method of accounting	\$ 16,234		\$ 0	
	=====		=====	

F-14

In 2008 and 2007, the Bank capitalized mortgage-servicing rights totaling \$132,437 and \$59,882 respectively, and amortized \$131,806 and \$171,034, respectively. The balance of capitalized mortgage servicing rights included in other assets at December 31, 2008 and 2007 was \$108,685 and \$225,669, respectively.

Following is an analysis of the aggregate changes in the valuation allowance for mortgage servicing rights for the years ended December 31:

	2008	2007
	-----	-----
Balance, beginning of year	\$ 814	\$ 1,451

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Additions	127,648	2,451
Reductions	(10,033)	(3,088)
	-----	-----
Balance, end of year	\$ 118,429	\$ 814
	=====	=====

The fair value of the mortgage servicing rights was \$134,547 and \$562,911 as of December 31, 2008 and 2007, respectively.

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage and other loans serviced for others was \$54,072,990 and \$48,696,731 at December 31, 2008 and 2007, respectively.

NOTE 5 - PREMISES AND EQUIPMENT

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

	2008	2007
	-----	-----
Land	\$ 775,844	\$ 775,844
Buildings	6,619,537	6,281,851
Furniture and equipment	3,822,961	3,385,608
	-----	-----
	11,218,342	10,443,303
Accumulated depreciation and amortization	(4,094,671)	(3,640,105)
	-----	-----
	\$ 7,123,671	\$ 6,803,198
	=====	=====

NOTE 6 - DEPOSITS

The aggregate amount of time deposit accounts in denominations of \$100,000 or more as of December 31, 2008 and 2007 was \$39,334,415 and \$36,440,424, respectively.

There were no brokered time deposits outstanding as of December 31, 2008. The aggregate amount of brokered time deposits as of December 31, 2007 was \$14,681,000. Brokered time deposits are not included in time deposit accounts in denominations of \$100,000 or more above.

For time deposits as of December 31, 2008, the scheduled maturities for years ended December 31, are as follows:

2009	\$ 73,026,261
2010	33,851,618
2011	9,159,329
2012	1,882,833
2013	7,599,798

	\$ 125,519,839
	=====

Certain directors and executive officers of the Company and companies in which they have a significant ownership interest were deposit customers of the Bank during 2008. Total deposits of such persons and their companies amounted to \$1,973,772 and \$1,847,657 as of December 31, 2008 and 2007, respectively.

NOTE 7 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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The securities sold under agreements to repurchase as of December 31, 2008 are securities sold on a short term basis by the Bank that have been accounted for not as sales but as borrowings. The securities consisted of bonds and mortgage-backed securities issued by Government-sponsored enterprises. The securities are pledged to the purchasers of the securities. The purchasers have agreed to sell to the Bank substantially identical securities at the maturity of the agreements.

F-15

NOTE 8 - FEDERAL HOME LOAN BANK ADVANCES

Advances consist of funds borrowed from the Federal Home Loan Bank of Boston (FHLB).

Maturities of advances from the FHLB for the five fiscal years ending after December 31, 2008, and thereafter, are summarized as follows:

2009	\$ 23,495,766
2010	3,551,427
2011	12,196,777
2012	6,635,584
2013	11,569,201
Thereafter	30,410,661
Fair value adjustment	54,251

	\$ 87,913,667
	=====

As of December 31, 2008, the following advances from the FHLB were redeemable at par at the option of the FHLB:

MATURITY DATE	OPTIONAL REDEMPTION DATE	AMOUNT
-----	-----	-----
4/27/2009	1/26/2009	\$ 500,000
4/27/2009	1/26/2009	500,000
2/8/2010	2/6/2009 and quarterly thereafter	600,000
12/15/2010	3/16/2009 and quarterly thereafter	800,000
12/20/2010	3/20/2009 and quarterly thereafter	500,000
2/28/2011	2/26/2009 and quarterly thereafter	10,000,000
3/1/2011	3/2/2009 and quarterly thereafter	500,000
3/2/2012	3/2/2009 and quarterly thereafter	5,000,000
12/16/2013	3/16/2009 and quarterly thereafter	10,000,000
12/12/2016	3/12/2009 and quarterly thereafter	15,000,000
7/31/2017	2/2/2009 and quarterly thereafter	6,000,000
7/2/2018	6/30/2011	7,000,000

Amortizing advances are repaid in equal monthly payments and are amortized from the date of the advance to the maturity date on a direct reduction basis.

Borrowings from the FHLB are secured by a blanket lien on qualified collateral, consisting primarily of loans with first mortgages secured by one to four family properties, certain unencumbered investment securities and other qualified assets.

At December 31, 2008, the interest rates on FHLB advances ranged from .0625 percent to 6.30 percent. At December 31, 2008, the weighted average interest rate on FHLB advances was 3.35 percent.

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NOTE 9 - EMPLOYEE BENEFITS

The Bank has an insured noncontributory defined benefit retirement plan available to employees eligible as to age and length of service. Benefits are based on a covered employee's final average compensation, primary social security benefit and credited service. The Bank makes annual contributions which meet the Employee Retirement Income Security Act minimum funding requirements.

In 2006, the plan was amended, effective September 1, 2006, to provide that employees hired or rehired on or after September 1, 2006 are not eligible to participate in the plan.

F-16

The following tables set forth information about the plan as of December 31, and the years then ended, using a measurement date of December 31:

	2008	2007
	-----	-----
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 6,359,101	\$ 6,027,929
Actuarial gain	(266,905)	(229,821)
Service cost	403,808	437,740
Interest cost	366,950	342,022
Benefits paid	(187,408)	(218,769)
	-----	-----
Benefit obligation at end of year	6,675,546	6,359,101
	-----	-----
Change in plan assets:		
Plan assets at estimated fair value at beginning of year	5,800,945	5,016,664
Actual return on plan assets	(1,236,871)	503,050
Contributions by employer	500,000	500,000
Benefits paid	(187,408)	(218,769)
	-----	-----
Fair value of plan assets at end of year	4,876,666	5,800,945
	-----	-----
Funded status and recognized liability included in other liabilities on the balance sheet	\$ (1,798,880)	\$ (558,156)
	=====	=====

Amounts recognized in accumulated other comprehensive loss, before tax effect, consist of:

	December 31,	
	2008	2007
	-----	-----
Net loss	\$ 2,935,986	\$ 1,583,889
Prior service cost	18	910
	-----	-----
	\$ 2,936,004	\$ 1,584,799
	=====	=====

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The accumulated benefit obligation for the plan was \$4,958,716 and \$4,602,777 at December 31, 2008 and 2007, respectively.

The discount rate used in determining the actuarial present value of the projected benefit obligation was 6.0% for 2008 and 2007. The rate of increase in future compensation levels was based on the following graded table for 2008 and 2007:

AGE	RATE
---	-----
25	4.75%
35	4.25%
45	3.75%
55	3.25%
65	3.00%

Components of net periodic cost are as follows for the years ended December 31:

	2008	2007
	-----	-----
Service cost	\$ 403,808	\$ 437,740
Interest cost on benefit obligation	366,950	342,022
Expected return on plan assets	(426,992)	(368,942)
Amortization of prior service cost	892	893
Recognized net loss	44,861	68,236
	-----	-----
Net periodic benefit cost	389,519	479,949
	-----	-----
Other changes in plan assets and benefit obligations recognized in other comprehensive loss:		
Net actuarial loss (gain)	1,396,958	(363,929)
Amortization of net loss	(44,861)	(68,236)
Prior service cost	(892)	(893)
	-----	-----
Total recognized in other comprehensive loss	1,351,205	(433,058)
	-----	-----
Total recognized in net periodic cost and other comprehensive loss	\$ 1,740,724	\$ 46,891
	=====	=====

F-17

The estimated net loss and prior service cost that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the year ended December 31, 2009 are \$123,150 and \$18, respectively.

The discount rate used to determine the net periodic benefit cost was 6.00% for 2008 and 2007; and the expected return on plan assets was 7.50% for 2008 and 2007.

The graded table above was also used for the rate of compensation increase in determining the net periodic benefit cost in 2008 and 2007.

Pension expense is calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on pension plan assets of 7.50% for 2008. In developing the expected long-term rate of return assumption, asset class return expectations were evaluated as well as long-term inflation assumptions, and historical returns based on the current target asset

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allocations of 55% equity and 40% fixed income and 5% cash equivalents. The Bank regularly reviews the asset allocations and periodically rebalances investments when considered appropriate. While all future forecasting contains some level of estimation error, the Bank believes that 7.50% falls within a range of reasonable long-term rate of return expectations for pension plan assets. The Bank will continue to evaluate the actuarial assumptions, including expected rate of return, at least annually, and will adjust as necessary.

Plan Assets:

The pension plan investments are co-managed by the Trust and Investment Services division of the Bank and Bradley, Foster and Sargent, Inc. The investments in the plan are reviewed and approved by the Trust Committee. The asset allocation of the plan is a balanced allocation. Debt securities are timed to mature when employees are due to retire. Debt securities are laddered for coupon and maturity. Equities are put in the plan to achieve a balanced allocation and to provide growth of the principal portion of the plan and to provide diversification. The Trust Committee reviews the policies of the plan. The prudent investor rule and applicable ERISA regulations apply to the management of the funds and investment selections.

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

Asset Category	December 31, 2008		December 31, 2007	
	Fair Value	Percent	Fair Value	Percent
Equity securities	\$ 2,899,682	59.5%	\$ 3,407,281	58.7%
U.S. Government treasury and agency securities	517,327	10.6	1,252,945	21.6
Corporate bonds	560,643	11.5	122,687	2.1
Mutual funds	266,438	5.5	296,365	5.1
Money market mutual funds	566,812	11.6	617,567	10.7
Certificates of deposit	65,764	1.3	104,100	1.8
Total	\$ 4,876,666	100.0%	\$ 5,800,945	100.0%

There were no securities of the Bancorp and related parties included in plan assets as of December 31, 2008 and 2007.

Based on current data and assumptions, the following benefits are expected to be paid for each of the following five years and, in the aggregate, the five years thereafter:

2009	\$ 1,109,000
2010	212,000
2011	117,000
2012	304,000
2013	356,000
2014 - 2018	2,809,000

The Bank expects to make a contribution of \$485,000 in 2009.

The Bank offers a 401(k) Plan to eligible employees. Under the Plan, eligible participants may contribute a percentage of their pay subject to IRS limitations. The Bank may make discretionary contributions to the Plan.

Effective September 1, 2006, the 401(k) Plan was amended to provide that

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employees hired or rehired after September 1, 2006 are not eligible to participate in the plan. The Bank has established a second 401(k) Plan to provide a discretionary match to employees hired or rehired on or after September 1, 2006 who satisfy certain eligibility requirements.

The Bank's contribution expense for the 401(k) Plans in the years ended December 31, 2008 and 2007 amounted to \$105,000 and \$99,983, respectively. Discretionary contributions vest in full after five years.

F-18

The Bank entered into a Supplemental Retirement Plan Agreement with its Chief Executive Officer that provides for supplemental post retirement payments for a ten year period as described in the agreement. The related liability was \$163,281 and \$90,641 at December 31, 2008 and 2007, respectively. The related expense amounted to \$72,640 and \$12,643 for the years ended December 31, 2008 and 2007, respectively.

As of December 31, 2008, fifteen of the Bank's officers have a change in control agreement (agreement) with the Bank. The agreements provide that if, within twelve (12) months after a "change-in-control" has occurred, the officer's employment terminates or is reassigned under defined circumstances, then the Bank and/or its successor shall pay the officer a lump sum amount equal to the officer's most recent aggregate base salary paid in the twelve (12) month period immediately preceding his or her termination or reassignment, less amounts previously paid from the date of "change in control." See Note 22, Subsequent Events.

In 2008, the Company adopted EITF Issue 06-4 and recognized a liability for the Company's future postretirement benefit obligations under endorsement split-dollar life insurance arrangements. The Company recognized this change in accounting principle as a cumulative effect adjustment to retained earnings of \$283,065. The total liability for the arrangements included in other liabilities was \$325,470 at December 31, 2008. Expense under this arrangement was \$42,405 for 2008.

NOTE 10 - INCOME TAX (BENEFIT) EXPENSE

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

	2008	2007
	-----	-----
Current:		
Federal	\$ 398,088	\$ 774,753
State	118,198	60,468
	-----	-----
	516,286	835,221
	-----	-----
Deferred:		
Federal	(1,016,671)	24,785
State	0	0
Change in valuation allowance	79,100	10,000
	-----	-----
	(937,571)	34,785
	-----	-----
Total income tax (benefit) expense	\$ (421,285)	\$ 870,006
	=====	=====

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The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows for the years ended December 31:

	2008	2007
	% of Income	% of Income
Federal income tax at statutory rate	34.0%	34.0%
Increase (decrease) in tax resulting from:		
Tax-exempt income and dividends received deduction	(135.4)	(19.1)
Other items	16.9	2.6
State tax, net of federal tax benefit	11.4	0.9
Change in valuation allowance	11.6	0.2
	-----	-----
Effective tax rates	(61.5)%	18.6%
	=====	=====

F-19

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

	2008	2007
Deferred tax assets:		
Allowance for loan losses	\$ 703,472	\$ 618,527
Interest on non-performing loans	135,288	22,710
Accrued deferred compensation	55,284	30,584
Post-retirement benefits	21,420	22,440
Other real estate owned property write-down	22,100	22,100
Capital loss carry forward	349,266	398,191
Unrecognized pension expense - FASB No. 158	998,241	538,832
Write-down of securities	1,004,827	0
Net unrealized holding loss on available-for-sale securities	3,589,424	1,170,748
	-----	-----
Gross deferred tax assets	6,879,322	2,824,132
Valuation allowance	(349,266)	(270,166)
	-----	-----
	6,530,056	2,553,966
	=====	=====
Deferred tax liabilities:		
Deferred loan costs, net	(133,698)	(104,018)
Goodwill and core deposit intangible asset	(682,255)	(662,257)
Accelerated depreciation	(1,039,137)	(957,538)
Mark-to-market purchase accounting adjustments	(54,571)	(23,204)
Mortgage servicing rights	(36,953)	(76,728)
Prepaid pension	(386,623)	(349,059)
	-----	-----
Gross deferred tax liabilities	(2,333,237)	(2,172,804)
	=====	=====
Net deferred tax asset	\$ 4,196,819	\$ 381,162
	=====	=====

As of December 31, 2008, the Company had no operating loss and tax credit carryovers for tax purposes.

In assessing the ability to realize deferred tax assets, management considers

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whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the reversal of deferred tax liabilities and generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon such information, management believes it is more likely than not the Company will realize the benefits of the deferred tax assets, net of the valuation allowance provided, as of December 31, 2008.

The Company adopted FASB interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109" (FIN 48) as of December 31, 2008. It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. There was no effect on the Company's balance sheet or income statement from adoption of FIN 48.

NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

The Bank has entered into an agreement with a third party in which the third party is to provide the Bank with account processing services and other miscellaneous services. Under the agreement, the Bank is obligated to pay monthly processing fees through August 5, 2010. In the event the Bank chooses to cancel the agreement prior to the end of the contract term a lump sum termination fee will have to be paid. The fee shall be calculated as the average monthly billing, exclusive of pass through costs for the past twelve months, multiplied by the number of months and any portion of a month remaining in the contract term.

Contingent Liabilities

The Bank individually and in its capacity as a former Co-trustee of a Revocable Trust (Trust), has been named as a defendant in litigation currently pending in Connecticut Complex Litigation Docket in Stamford, CT (Action).

The Action involves a dispute over title to certain real property located in Westport, Connecticut that was conveyed by the grantor to the Trust on or about August 8, 2007. Subsequent to this conveyance, the Bank granted a loan of \$3,386,609 to the Trust, which was secured by an open-end commercial mortgage in favor of the Bank on the Westport property. The underlying loan is outstanding as of December 31, 2008.

The gravamen of the plaintiff's claim in the Action is that he had an interest in the Westport real property transferred to the

F-20

Trust of which he was wrongfully divested on account of the actions of the defendants. In the Action, the plaintiff seeks to quiet title to the property and to recover money damages from the defendants for the alleged wrongful divestiture of his claimed interest in the property.

In addition to the mortgage on the property, the Bank, at the time of the financing referenced above, acquired a lender's title insurance policy from the Chicago Title and Insurance Company, which is providing a defense to the Bank under a reservation of rights. The Bank denies any wrongdoing and is actively

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defending the case. The Bank has filed a motion to dismiss and/or stay the lawsuit pending resolution of a parallel action pending in New York Surrogate's Court to which the Bank is not a party. No discovery has been taken to date. At this time, the Company is unable to reasonably evaluate the likely outcome of the Action, or to reasonably estimate the amount of any potential loss, if any.

NOTE 12 - FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements, which provides a framework for measuring fair value under generally accepted accounting principles. The Company also adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115. SFAS No. 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Company did not elect fair value treatment for any financial assets or liabilities upon adoption.

In accordance with SFAS 157, the Company 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 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.

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 the Company's financial assets and financial liabilities carried at fair value for December 31, 2008.

The Company'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.

The Company'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, the Company 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,

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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.

F-21

The Company'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.

The following summarizes assets measured at fair value for the period ending December 31, 2008.

Assets measured at Fair Value on a recurring basis:

Fair Value Measurements at Reporting Date Using:				
	December 31, 2008	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Sig Unob I L
Securities available-for-sale	\$ 150,526,964	\$ 19,635	\$ 148,747,605	\$ 1
Impaired loans	714,875	0	714,875	
Totals	\$ 151,241,839	\$ 19,635	\$ 149,462,480	\$ 1

Fair Value Measurements Using Significant Unobservable Inputs Level 3		
	Available-for-Sale Securities	Total
Beginning balance January 1, 2008	\$ 1,700,281	\$ 1,700,281
Total gains or losses (realized/unrealized)		
Included in earnings		
Included in other comprehensive loss	(674,335)	(674,335)
Amortization of securities, net	(6,287)	(6,287)
Transfers in and/or out of Level 3	740,065	740,065
Ending balance, December 31, 2008	\$ 1,759,724	\$ 1,759,724

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	=====	=====
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	\$ 0	\$ 0
	=====	=====

The estimated fair values of the Bank's financial instruments, all of which are held or issued for purposes other than trading, are as follows as of December 31:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 9,659,803	\$ 9,659,803	\$ 15,178,195	\$ 15,178,195
Available-for-sale securities	150,526,964	150,526,964	147,377,154	147,377,154
Held-to-maturity securities	66,443	66,502	70,798	71,000
Federal Home Loan Bank stock	5,323,000	5,323,000	5,176,100	5,176,100
Loans held-for-sale	2,314,250	2,330,092	120,000	121,000
Loans, net	297,367,434	287,062,745	268,191,275	264,217,000
Accrued interest receivable	2,704,385	2,704,385	2,538,607	2,538,607
Financial liabilities:				
Deposits	\$ 344,925,232	\$ 346,035,072	\$ 317,741,269	\$ 318,498,000
Securities sold under agreements to repurchase	11,203,289	11,203,289	0	0
FHLB advances	87,913,667	90,205,661	95,011,155	95,183,000
Due to broker	7,631,919	7,631,919	0	0

The carrying amounts of financial instruments shown in the above table are included in the consolidated balance sheets under the indicated captions. Accounting policies related to financial instruments are described in Note 2.

NOTE 13 - FINANCIAL INSTRUMENTS

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing

F-22

needs of its customers. These financial instruments include commitments to originate loans, standby letters of credit and unadvanced funds on loans. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual amounts of those instruments. The Bank

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uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2008 and 2007, the maximum potential amount of the Bank's obligation was \$2,800 and \$12,800, respectively, for financial and standby letters of credit. The Bank's outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Bank may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Bank may take possession of the collateral, if any, securing the line of credit.

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

	2008	2007
	-----	-----
Commitments to originate loans	\$ 5,450,832	\$ 9,002,416
Standby letters of credit	2,800	12,800
Unadvanced portions of loans:		
Home equity	25,496,268	26,511,813
Commercial lines of credit	10,423,342	10,482,619
Construction	4,740,207	6,178,958
Consumer	1,745,694	7,129,237
	-----	-----
	\$ 47,859,143	\$ 59,317,843
	=====	=====

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

NOTE 14 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Bank's business activity is with customers located in northwestern Connecticut and nearby New York and Massachusetts towns. There are no concentrations of credit to borrowers that have similar economic characteristics. The majority of the Bank's loan portfolio is comprised of loans collateralized by real estate located in northwestern Connecticut and nearby New York and Massachusetts towns.

NOTE 15 - REGULATORY MATTERS

Bancorp and its subsidiary, the Bank, are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2008 and 2007, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2008, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. The

F-23

Company's and the Bank's actual capital amounts and ratios are also presented in the table.

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions
	Amount	Ratio	Amount	Ratio	Amount
(Dollar amounts in thousands)					
As of December 31, 2008:					
Total Capital (to Risk Weighted Assets)					
Consolidated	\$ 39,610	11.59%	\$ 27,336	>=8.0%	N/A
Salisbury Bank and Trust Company	38,593	11.34	27,233	>=8.0	\$34,042
Tier 1 Capital (to Risk Weighted Assets)					
Consolidated	36,851	10.78	13,668	>=4.0	N/A
Salisbury Bank and Trust Company	35,835	10.53	13,617	>=4.0	20,425
Tier 1 Capital (to Average Assets)					
Consolidated	36,851	7.74	19,049	>=4.0	N/A
Salisbury Bank and Trust Company	35,835	7.52	19,049	>=4.0	23,811
As of December 31, 2007:					
Total Capital (to Risk Weighted Assets)					
Consolidated	\$ 39,545	15.00%	\$ 21,087	>=8.0%	N/A
Salisbury Bank and Trust Company	38,683	14.69	21,069	>=8.0	\$26,336

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Tier 1 Capital (to Risk Weighted Assets)					
Consolidated	37,070	14.06	10,544	>=4.0	N/A
Salisbury Bank and Trust Company	36,174	13.74	10,534	>=4.0	15,801
Tier 1 Capital (to Average Assets)					
Consolidated	37,070	8.24	17,988	>=4.0	N/A
Salisbury Bank and Trust Company	36,174	8.06	17,945	>=4.0	22,431

The declaration of cash dividends is dependent on a number of factors, including regulatory limitations, and the Company's operating results and financial condition. The stockholders of Bancorp will be entitled to dividends only when, and if, declared by the Bancorp's Board of Directors out of funds legally available therefore. The declaration of future dividends will be subject to favorable operating results, financial conditions, tax considerations, and other factors.

Under Connecticut law, the Bank may pay dividends only out of net profits. The Connecticut Banking Commissioner's approval is required for dividend payments which exceed the current year's net profits and retained net profits from the preceding two years. As of December 31, 2008, the Bank may declare dividends to Bancorp in an amount not to exceed \$3,475,791.

NOTE 16 - DIRECTORS STOCK RETAINER PLAN

At the 2001 annual meeting the shareholders of Bancorp voted to approve the Directors Stock Retainer Plan of Salisbury Bancorp, Inc. (Plan). This Plan provides non-employee directors of the Company with shares of restricted stock of Bancorp as a component of their compensation for services as directors. The maximum number of shares of stock that may be issued pursuant to the Plan is 15,000. The first grant date under this Plan preceded the 2002 annual meeting of stockholders. Each director whose term of office begins with or continues after the date the Plan was approved by the stockholders is issued an annual stock retainer consisting of 120 shares of fully vested restricted common stock of Bancorp. In 2008 and 2007, 840 shares were issued under the Plan and the related compensation expense amounted to \$27,720 and \$30,450, respectively.

NOTE 17 - ACQUISITION

On August 1, 2007, the Bank opened a full service branch office in Dover Plains, New York. The opening of the branch reflects consummation on July 31, 2007 of the purchase of a branch office in Mt. Vernon, New York by the Bank pursuant to the Purchase and Assumption Agreement dated October 3, 2006 by and between the Bank and New York Community Bank. Such branch was relocated to Dover Plains, New York and opened for business August 1, 2007.

F-24

The assets acquired and liabilities assumed have been recorded by the Company at their fair values at the consummation date. Goodwill recorded totaled \$319,407 and will be analyzed for impairment on at least an annual basis. Financial statement amounts for the transaction are included in the Company's consolidated financial statements beginning on the acquisition date. A summary is included in the supplemental disclosure in the cash flow statement.

NOTE 18 - GOODWILL AND INTANGIBLE ASSETS

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The Company's assets as of December 31, 2008 and 2007 include goodwill of \$2,357,884 relating to the purchase of a branch of a bank in 2001 and \$7,151,421 of additional goodwill from the 2004 merger with Canaan National Bancorp, Inc. In 2007, the Company recorded \$319,407 of additional goodwill from the purchase of a branch of a bank in Mt. Vernon, NY. See Note 17.

The Company evaluated its goodwill and intangible assets as of December 31, 2008 and 2007 and found no impairment.

A summary of acquired amortizing intangible assets is as follows:

	As of December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible-People's Bank branch purchase	\$ 888,606	\$ 498,418	\$ 390,188
Core deposit intangible-Canaan National merger	1,191,279	416,399	774,880
	\$ 2,079,885	\$ 914,817	\$ 1,165,068
	=====	=====	=====

	As of December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible-People's Bank branch purchase	\$ 888,606	\$ 430,064	\$ 458,542
Core deposit intangible-Canaan National merger	1,191,279	320,538	870,741
	\$ 2,079,885	\$ 750,602	\$ 1,329,283
	=====	=====	=====

Amortization expense was \$164,215 and \$164,216, respectively, for the years ending December 31, 2008 and 2007. Amortization is being calculated on a straight-line basis.

Estimated amortization expense for each of the five years succeeding 2008 and thereafter is as follows:

2009	\$ 164,216
2010	164,216
2011	164,216
2012	164,216
2013	164,216
Thereafter	343,988
	\$ 1,165,068

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NOTE 19 - RECLASSIFICATION

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

F-25

NOTE 20 - PARENT COMPANY ONLY FINANCIAL STATEMENTS

The following condensed financial statements are for Salisbury Bancorp, Inc. (Parent Company Only) and should be read in conjunction with the Consolidated Financial Statements of Salisbury Bancorp, Inc. and Subsidiary.

SALISBURY BANCORP, INC.

(Parent Company Only)

BALANCE SHEETS

December 31, 2008 and 2007

	2008	2007
	-----	-----
ASSETS		

Money market mutual funds	\$ 1,476,999	\$ 1,340,891
Cash in Salisbury Bank and Trust Company	709	6,316
	-----	-----
Cash and cash equivalents	1,477,708	1,347,207
Investment in subsidiary	37,923,873	44,668,437
Other assets	9,792	2,910
	-----	-----
Total assets	\$ 39,411,373	\$ 46,018,554
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		

Dividends payable	\$ 472,041	\$ 454,956
	-----	-----
Total liabilities	472,041	454,956
Total shareholders' equity	38,939,332	45,563,598
	-----	-----
Total liabilities and shareholders' equity	\$ 39,411,373	\$ 46,018,554
	=====	=====

SALISBURY BANCORP, INC.

(Parent Company Only)

STATEMENTS OF INCOME

Years Ended December 31, 2008 and 2007

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	2008	2007
	-----	-----
Dividend income from subsidiary	\$ 2,000,000	\$ 1,920,000
Taxable interest on securities	16,452	48,487
	-----	-----
	2,016,452	1,968,487
	-----	-----
Professional fees	10,756	33,950
Supplies and printing	4,900	380
Other expense	30,082	22,716
	-----	-----
	45,738	57,046
	-----	-----
Income before income tax benefit and equity in net (loss) income of subsidiary	1,970,714	1,911,441
Income tax benefit	(9,792)	(2,909)
	-----	-----
Income before equity in net (loss) income of subsidiary	1,980,506	1,914,350
Equity in net (loss) income of subsidiary	(874,625)	1,885,698
	-----	-----
Net income	\$ 1,105,881	\$ 3,800,048
	=====	=====

F-26

SALISBURY BANCORP, INC.

(Parent Company Only)
STATEMENTS OF CASH FLOWS

Years Ended December 31, 2008 and 2007

	2008	2007
	-----	-----
Cash flows from operating activities:		
Net income	\$ 1,105,881	\$ 3,800,048
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in net loss (income) of subsidiary	874,625	(1,885,698)
(Increase) decrease in taxes receivable	(6,882)	2,559
Issuance of shares for Directors' fees	27,720	30,450
	-----	-----
Net cash provided by operating activities	2,001,344	1,947,359
	-----	-----
Cash flows from financing activities:		
Dividends paid	(1,870,843)	(1,802,527)
	-----	-----
Net cash used in financing activities	(1,870,843)	(1,802,527)

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	-----	-----
Net increase in cash and cash equivalents	130,501	144,832
Cash and cash equivalents at beginning of year	1,347,207	1,202,375
	-----	-----
Cash and cash equivalents at end of year	\$ 1,477,708	\$ 1,347,207
	=====	=====

NOTE 21 - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Summarized quarterly financial data for 2008 and 2007 follows:

	(In thousands, except earnings per share)			
	2008 Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
	-----	-----	-----	-----
Interest and dividend income	\$ 6,668	\$ 6,591	\$ 6,712	\$ 6,586
Interest expense	3,008	2,710	2,587	2,520
	-----	-----	-----	-----
Net interest and dividend income	3,660	3,881	4,125	4,066
Provision for loan losses	60	110	520	589
Other income (charge)	1,433	1,153	(1,345)	1,000
Other expense	3,651	3,696	3,835	4,827
	-----	-----	-----	-----
Income (loss) before income taxes	1,382	1,228	(1,575)	(350)
Income tax expense (benefit)	301	245	337	(1,304)
	-----	-----	-----	-----
Net income (loss)	\$ 1,081	\$ 983	\$ (1,912)	\$ 954
	=====	=====	=====	=====
Earnings (loss) per common share	\$.64	\$.58	\$ (1.13)	\$.57
	=====	=====	=====	=====

	(In thousands, except earnings per share)			
	2007 Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
	-----	-----	-----	-----
Interest and dividend income	\$ 6,437	\$ 6,360	\$ 6,602	\$ 6,753
Interest expense	3,071	2,997	3,167	3,197
	-----	-----	-----	-----
Net interest and dividend income	3,366	3,363	3,435	3,556
Provision for loan losses	0	0	0	0
Other income	1,124	1,115	1,060	1,165
Other expense	3,319	3,305	3,401	3,489
	-----	-----	-----	-----
Income before income taxes	1,171	1,173	1,094	1,232
Income tax expense	237	224	177	232
	-----	-----	-----	-----
Net income	\$ 934	\$ 949	\$ 917	\$ 1,000
	=====	=====	=====	=====

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Earnings per common share	\$.55	\$.56	\$.54	\$.59
	=====	=====	=====	=====

F-27

NOTE 22 - SUBSEQUENT EVENT

On November 13, 2008, the Company applied for participation in the Treasury TARP CPP under the EESA and the rules and regulations promulgated thereunder (collectively, the Act). On January 7, 2009, the Treasury preliminarily approved the Company's application in the amount of \$8,816,000. At the time of Treasury preliminary approval, the Company's Certificate of Incorporation did not permit the issuance of preferred stock. A Special Meeting of Shareholders of the Company was held on March 10, 2009, and Shareholders voted to approve an amendment to the Company's Certificate of Incorporation to authorize a class of 25,000 shares of preferred stock, par value \$0.01 per share.

The Company closed the TARP CPP transaction on March 13, 2009 in the amount of \$8,816,000. The Company issued to the Treasury 8,816 shares of Preferred Stock together with a warrant to purchase 57,671 shares of Company common stock at \$22.93 per share, which warrant, if exercised in full, would dilute the percentage ownership of the holders of Company common stock by approximately 3.3%. If the Company redeems all of the shares of Preferred Stock, it has first refusal rights to buy back the warrant or the shares received upon exercise of the warrant at their fair market value if they are then held by the Treasury. As a condition of the closing, the Company amended the change in control agreements described in Note 9. The amendment prohibits any payments relating to the change in control agreements to the specified officers during the period in which any obligation arising under the TARP CPP remains outstanding.

The Preferred Stock qualifies as Tier 1 capital for regulatory purposes and ranks senior to the Company's common stock in the payment of dividends or upon liquidation. The Preferred Stock purchased by the Treasury pays a cumulative dividend rate of 5% per annum for the first five years it is outstanding and thereafter at a rate of 9% per annum. The Preferred Stock is non-voting, other than voting rights on matters that could adversely affect the Preferred Stock and in the event the Company is in arrears on six quarterly dividend payments on the Preferred Stock, in which case, the holder of the Preferred Stock may elect two directors to the Company's Board of Directors until all dividends have been paid in full for four consecutive quarterly dividends. The Preferred Stock may be redeemed by the Company at 100% of its issue price plus any accrued and unpaid dividends. The Treasury's consent will be required for any increase in Company common stock dividends per share or any repurchase of Company common stock until the earlier of the third anniversary of the date of the investment or the transfer by the Treasury of all of the shares of Preferred Stock.

F-28

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the two (2) most recent fiscal years, the Company and the Bank have had no changes in or disagreements with independent accountants on accounting and financial disclosure matters.

ITEM 9A(T). CONTROLS AND PROCEDURES

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The Company's Chief Executive Officer and Chief Financial Officer concluded that, based upon an evaluation as of December 31, 2008, as required by Rule 13a-15(b) of the Exchange Act, the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. During the fourth quarter ended December 31, 2008, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

On October 1, 2007, the Bank, by mutual agreement, entered Change of Control Agreements (Agreements) with the following officers of the Bank: John F. Perotti, Richard J. Cantele, Jr., John F. Foley, Todd M. Clinton, Diane E.R. Johnstone, Joseph C. Law, Lana J. Morrison, Sharon A. Pilz, Geoffrey A. Talcott, Melanie K. Neely, Gerard J. Baldwin, Darrell S. Long, Elizabeth A. Summerville, Diane Farrell and Roberta Reed (Executives).

The Agreements provide that if following a "Change in Control" (as defined in the Agreements) of the Company or the Bank, an Executive is terminated or is reassigned under certain circumstances defined in the Agreements within a period of twelve (12) months following such Change in Control, such Executive will be entitled to a lump sum payment equal to his or her annual compensation based upon the most recent aggregate base salary paid to the Executive in the twelve (12) month period immediately preceding his or her termination or reassignment. In addition, for twelve (12) months following a Change in Control, certain specified insurance benefits shall continue in effect on terms and conditions at least as favorable to the Executive as maintained immediately prior to the Change in Control. In no event shall such payments be made in an amount that would cause them to be deemed non-deductible to the Bank by reason of the operation of Section 280G of the Internal Revenue Code. The purpose of the Agreements is to provide certain potential benefits to the Executives solely in the event of a Change in Control and do not provide a contract for employment. The Agreements will expire on September 30, 2010, provided that if a "Change in Control" occurs prior to September 30, 2010, the Agreements shall remain in effect for twelve (12) months after the date on which any such Change in Control is consummated.

As an institution participating in the TARP CPP, the Company and its executives modified the Company's change in control agreements to preclude the possibility that a golden parachute payment could be made by the Company that may violate the new limits on executive compensation, which were enacted as part of the ARRA, which amended the EESA. The Company is pleased that each officer of the Company, who is a party to a change in control agreement with the Company, voluntarily agreed to such changes in order to enable the Company to participate in the TARP CPP. A form of these Agreements was filed on March 28, 2009 on Form 8-K. See also Notes 9 and 22 of the Notes to Consolidated Financial Statements.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding Directors and Executive Officers of the Registrant required by this Item pursuant to Item 401 of Regulation S-K is omitted from

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this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2009 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Sections "Election of Directors" and "Executive Officers," and the information included therein is incorporated by reference.

Information required by this Item pursuant to Item 405 of Regulation S-K regarding compliance with Section 16(a) of the Exchange Act, as amended, is omitted from this report on Form 10-K and is contained in the Bank's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2009 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K under the Section "Section 16(a) Beneficial Ownership Reporting Compliance," and the information included therein is incorporated by reference.

Information required by this Item pursuant to Item 407(c)(3) of Regulation S-K regarding material changes, if any, to

26

procedures by which shareholders may recommend nominees to the Board, is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2009 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Section "Deadline for Receipt of Shareholder Proposals," and the information included therein is incorporated by reference.

Information required by this Item pursuant to Item 407(d)(4) and Item 407(d)(5) of Regulation S-K regarding the audit committee and audit committee financial expert(s), respectively, is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2009 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Section "Corporate Governance," and the information included therein is incorporated by reference.

Code of Ethics

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

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item pursuant to Item 402 of Regulation S-K regarding Directors and Executive Compensation, including the Compensation Discussion & Analysis, is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2009 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Sections "Board Compensation" and "Executive Compensation," and the information included therein is incorporated by reference.

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

Information required by this Item pursuant to Item 403 of Regulation S-K regarding Security Ownership of Certain Beneficial Owners and Management is omitted from this report on Form 10-K and is contained in the Company's

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Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2009 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Section "Security Ownership," and the information included therein is incorporated by reference.

Information required by this Item pursuant to Item 201(d) of Regulation S-K regarding securities authorized for issuance under equity compensation plans is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2009 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Section "Equity Compensation Plan Information," and the information included therein is incorporated by reference.

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

Information required by this Item pursuant to Item 404 of Regulation S-K regarding Certain Relationships and Related Transactions is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2009 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Section "Certain Relationships and Related Transactions," and the information included therein is incorporated by reference.

Information required by this Item pursuant to Item 407(a) of Regulation S-K regarding the independence of directors is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2009 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Section "Corporate Governance," and the information included therein is incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this Item regarding Principal Accounting Fees and Services is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2009 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Section "Independent Public Accountants," and the information included therein is incorporated by reference.

Information required by this Item regarding pre-approval policies for audit and non-audit services is omitted from this report on Form 10-K and is contained in the Company's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2009 to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, under the Section "Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors," and the information included

27

therein is incorporated by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements:

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

2. Financial Statement Schedules:

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

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

Exhibit No.	Description
-----	-----
3.1	Certificate of Incorporation of Salisbury Bancorp, Inc. (1)
3.1.1	Amendment to Certificate of Incorporation of Salisbury Bancorp, Inc.
3.1.2	Amendment to Certificate of Incorporation of Salisbury Bancorp, Inc.
3.2	Bylaws of Salisbury Bancorp, Inc., as amended and restated as of Mar
4.1	Warrant to purchase Common Stock dated March 13, 2009 (5)
10	Amended and Restated Supplemental Retirement Plan Agreement with Jo
	January 25, 2008 (6)
10.2	Form of Change in Control Agreement with Executive Officers dated Ma
10.3	Form of First Amendment to Change in Control Agreement with Execut
	March 13, 2009 (8)
10.3	Director Stock Retainer Plan (9)
11	Computation of Earnings per Share
21	Subsidiaries of the Company
31.1	Rule 13a-15(e) Certification
31.2	Rule 13a-15(e) Certification
32	Section 1350 Certifications

-
- (1) Exhibit was filed on April 23, 1998 as Exhibit 3.1 to Company's Registration Statement on Form S-4 (No. 333-50857) and is incorporated herein by reference.
 - (2) Exhibit was filed on March 11, 2009 as Exhibit 3.1 to Company's Current Report on Form 8-K and is incorporated herein by reference.
 - (3) Exhibit was filed on March 19, 2009 as Exhibit 3.1 to Company's Current Report Form 8-K and is incorporated herein by reference.
 - (4) Exhibit was filed on March 19, 2009 as Exhibit 3.2 to Company's Current Report on Form 8-K and is incorporated herein by reference.
 - (5) Exhibit was filed on March 19, 2009 as Exhibit 4.1 to Company's Current Report on Form 8-K and is incorporated herein by reference.
 - (6) Exhibit was filed on January 30, 2009 as Exhibit 10.1 to the Company's Current Report on Form 8-K and is incorporated herein by reference.
 - (7) Exhibit was filed on March 19, 2009 as Exhibit 10.1 to Company's Current Report on Form 8-K and is incorporated herein by reference.
 - (8) Exhibit was filed on March 19, 2009 as Exhibit 3.2 to Company's Current Report on Form 8-K and is incorporated herein by reference.
 - (9) Exhibit was filed on May 8, 2002 as Exhibit 10.3 to the Company's Annual

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Report on Form 10-KSB for the fiscal year ended December 31, 2002 and is incorporated herein by reference.

28

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in Lakeville, Connecticut on March 27, 2009.

SALISBURY BANCORP, INC.

By: /s/ John F. Perotti

John F. Perotti
Chairman and
Chief Executive Officer

By: /s/ John F. Foley

John F. Foley
Chief Financial Officer,
Treasurer and Secretary

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

Signature -----	Title -----	Date ----
/s/ John F. Perotti ----- (John F. Perotti)	Chairman, Chief Executive Officer and Director	March 27, 2009
/s/ Louis E. Allyn, II ----- (Louis E. Allyn, II)	Director	March 27, 2009
/s/ John R. H. Blum ----- (John R. H. Blum)	Director	March 27, 2009
/s/ Louise F. Brown ----- (Louise F. Brown)	Director	March 27, 2009
/s/ Richard J. Cantele, Jr. ----- (Richard J. Cantele, Jr.)	Director	March 27, 2009
/s/ Robert S. Drucker ----- (Robert S. Drucker)	Director	March 27, 2009
/s/ Nancy F. Humphreys ----- (Nancy F. Humphreys)	Director	March 27, 2009

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/s/ Holly J. Nelson ----- (Holly J. Nelson)	Director	March 27, 2009
/s/ Michael A. Varet ----- (Michael A. Varet)	Director	March 27, 2009