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SALISBURY BANCORP INC
Form 10QSB
May 14, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2002

OR

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

For the transition period from _____ to _____

Commission file number 1-14854

Salisbury Bancorp, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Connecticut

06-1514263

(State or Other Jurisdiction of
Incorporation or Organization)

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

5 Bissell Street Lakeville Connecticut

06039

(Address of principal executive offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code (860) 435-9801

(Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report)

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

Transitional Small Business Disclosure Format: Yes No

Documents Incorporated by Reference: None

APPLICABLE ONLY TO CORPORATE ISSUERS:

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SALISBURY BANCORP, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (amounts in thousands, except per share data)

| | MARCH 31, 2002 ---- | DECEMBER 31, 2001 ---- |
|---|---------------------------|------------------------------|
| | (unaudited) | |
| ASSETS | | |
| Cash & due from banks: | | |
| Non-Interest Bearing | \$ 6,587 | \$ 7,184 |
| Interest Bearing | 712 | 258 |
| Federal funds sold | 3,000 | 18,150 |
| Money market mutual funds | 489 | 618 |
| Cash and cash equivalents | 10,788 | 26,210 |
| Investment Securities: | | |
| Held to maturity securities at amortized cost | 329 | 400 |
| Available-for-sale securities at market value | 114,688 | 102,248 |
| Federal Home Loan Bank stock, at cost | 2,945 | 2,945 |
| Loans: | | |
| Commercial, financial and agricultural | 9,982 | 10,797 |
| Real estate-construction and land development | 4,286 | 3,935 |
| Real estate-residential | 99,783 | 102,201 |
| Real estate-commercial | 17,444 | 17,423 |
| Consumer | 9,601 | 10,030 |
| Other | 131 | 125 |
| Allowance for loan losses | (1,455) | (1,445) |
| Net loans | 139,772 | 143,066 |
| Bank premises & equipment | 2,665 | 2,683 |
| Investment in real estate | 75 | 75 |
| Accrued interest receivable | 1,901 | 1,681 |
| Intangible assets on branch acquisition | 3,185 | 3,227 |
| Other assets | 1,152 | 1,067 |
| | ----- | ----- |
| Total Assets | \$ 277,500 | \$ 283,602 |
| | ----- | ----- |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits: | | |
| Demand | \$ 33,048 | \$ 37,702 |
| Savings & NOW | 50,630 | 48,435 |
| Money Market | 47,110 | 48,897 |
| Time | 67,801 | 66,317 |
| Total Deposits | 198,589 | 201,351 |
| Federal Home Loan Bank advances | 52,672 | 53,004 |
| Due to broker | 954 | 4,204 |
| Other liabilities | 1,649 | 1,680 |
| | ----- | ----- |
| Total Liabilities | 253,864 | 260,239 |
| | ----- | ----- |
| Shareholders' equity: | | |
| Common stock, par value \$.10 per share; | | |
| Authorized 3,000,000 shares | | |

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| | | |
|--|------------|------------|
| Issued and outstanding shares: 1,422,358 at March 31, 2002 and 1,422,358 at December 31, 2001 | 142 | 142 |
| Additional paid-in capital | 2,281 | 2,281 |
| Retained earnings | 21,628 | 21,219 |
| Accumulated other comprehensive loss | (415) | (279) |
| | ----- | ----- |
| Total Shareholders' Equity | 23,636 | 23,363 |
| | ----- | ----- |
| Total Liabilities and Shareholders' Equity | \$ 277,500 | \$ 283,602 |
| | ===== | ===== |

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

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SALISBURY BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(amounts in thousands, except per share data)
March 31, 2002 and 2001
(unaudited)

| | Three Months Ended | |
|---|--------------------|---------|
| | March 31 | |
| | 2002 | 2001 |
| | ---- | ---- |
| Interest and dividend income: | | |
| Interest and fees on loans | \$2,569 | \$2,886 |
| Interest and dividends on securities: | | |
| Taxable | 981 | 1,103 |
| Tax-exempt | 434 | 181 |
| Dividends on equity securities | 35 | 60 |
| Other interest | 42 | 69 |
| | ----- | ----- |
| Total interest and dividend income | 4,061 | 4,299 |
| | ----- | ----- |
| Interest expense: | | |
| Interest on deposits | 1,088 | 1,450 |
| Interest on Federal Home Loan Bank advances | 710 | 754 |
| | ----- | ----- |
| Total interest expense | 1,798 | 2,204 |
| | ----- | ----- |
| Net interest and dividend income | 2,263 | 2,095 |
| Provision for loan losses | 37 | 37 |
| | ----- | ----- |
| Net interest and dividend income after provision for loan losses | 2,226 | 2,058 |
| | ----- | ----- |
| Other income: | | |
| Trust department income | 253 | 246 |

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| | | |
|---|--------|--------|
| Service charges on deposit accounts | 114 | 105 |
| Gain on sale of available-for-sale securities | 15 | 21 |
| Other income | 182 | 153 |
| | ----- | ----- |
| Total other income | 564 | 525 |
| | ----- | ----- |
| Other expense: | | |
| Salaries and employee benefits | 1,052 | 929 |
| Occupancy expense | 73 | 63 |
| Equipment expense | 123 | 124 |
| Data processing | 134 | 135 |
| Other expense | 433 | 361 |
| | ----- | ----- |
| Total other expense | 1,815 | 1,612 |
| | ----- | ----- |
| Income before income taxes | 975 | 971 |
| Income taxes | 253 | 329 |
| | ----- | ----- |
| Net income | \$ 722 | \$ 642 |
| | ===== | ===== |
| Earnings per common share outstanding | \$.51 | \$.44 |
| | ===== | ===== |
| Earnings per common share outstanding, assuming dilution | \$.51 | \$.44 |
| | ===== | ===== |
| Dividends per share | \$.22 | \$.21 |
| | ===== | ===== |

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

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SALISBURY BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)
Three months ended March 31, 2002 and 2001
(unaudited)

| | 2002 | 2001 |
|--|--------|--------|
| | ---- | ---- |
| Cash flows from operating activities: | | |
| Net income | \$ 722 | \$ 642 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Accretion of securities, net | 121 | 121 |
| Gain on sales of available-for-sale securities, net | (14) | (14) |

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| | | |
|---|----------|------|
| Provision for loan losses | 37 | |
| Depreciation and amortization | 80 | |
| Amortization of intangible assets from branch acquisition | 42 | |
| Accretion of fair value adjustment on deposits | (43) | |
| (Increase) decrease in interest receivable | (220) | |
| Deferred tax benefit | 170 | |
| Increase in prepaid expenses | (18) | |
| Increase in other assets | (134) | |
| Increase in taxes payable | 34 | |
| Decrease in accrued expenses | (164) | |
| Increase (decrease) in interest payable | (1) | |
| Increase (decrease) in other liabilities | 100 | |
| Net cash provided by operating activities | 712 | 1 |
| Cash flows from investing activities: | | |
| Purchase of Federal Home Loan Bank stock | (0) | |
| Purchases of available-for-sale securities | (29,760) | (41) |
| Proceeds from sales of available-for-sale securities | 8,634 | 31 |
| Proceeds from maturities of available-for-sale securities | 5,076 | |
| Proceeds from maturities of held-to-maturity securities | 71 | |
| Net (increase) decrease in loans | 3,253 | (5) |
| Recoveries of loans previously charged-off | 4 | |
| Capital expenditures | (62) | |
| Net cash used in investing activities | (12,784) | (14) |

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

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SALISBURY BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

Three months ended March 31, 2002 and 2001
(unaudited)
(continued)

| | 2002 | 2001 |
|--|---------|---------|
| | ---- | ---- |
| Cash flows from financing activities: | | |
| Net decrease in demand deposits, NOW and savings accounts | (4,203) | (3,362) |
| Net increase (decrease) in time deposits | 1,484 | (500) |
| Advances from Federal Home Loan Bank | 0 | 10,800 |
| Principal payments on advances from Federal Home Loan Bank | (332) | (359) |
| Dividends paid | (299) | (554) |

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| | | |
|--|-----------|----------|
| Net repurchase of common stock | 0 | (330) |
| | ----- | ----- |
| Net cash provided by financing activities | (3,350) | 5,695 |
| Net decrease in cash and cash equivalents | (15,422) | (7,325) |
| Cash and cash equivalents at beginning of year | 26,210 | 13,759 |
| | ----- | ----- |
| Cash and cash equivalents at end of year | \$ 10,788 | \$ 6,434 |
| | ===== | ===== |
| Supplemental disclosures: | | |
| Interest paid | \$ 1,799 | \$ 2,154 |
| Income taxes paid | 49 | 102 |

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

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SALISBURY BANCORP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying condensed interim financial statements are unaudited and include the accounts of Salisbury Bancorp, Inc. (the "Company"), those of Salisbury Bank and Trust Company (the "Bank"), its wholly-owned subsidiary and the Bank's subsidiary, S.B.T. Realty, Inc. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to SEC Form 10-QSB. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. All significant intercompany accounts and transactions have been eliminated in the consolidation. These financial statements reflect, in the opinion of Management, all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the Company's financial position and the results of its operations and its cash flows for the periods presented. Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2001 Annual Report on Form 10-KSB.

The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

NOTE 2 -COMPREHENSIVE INCOME

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Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" establishes standards for disclosure of comprehensive income, which includes net income and any changes in equity from non-owner sources that are not recorded in the income statement (such as changes in the net unrealized gains (losses) on securities). The purpose of reporting comprehensive income is to report a measure of all changes in equity that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners. The Company's one source of other comprehensive income is the net unrealized gain (loss) on securities.

Comprehensive Income

| | Three months ended | |
|--|--------------------|---------|
| | March 31, | |
| | 2002 | 2001 |
| | ---- | ---- |
| Net income | \$ 722 | \$ 642 |
| Net unrealized (losses) gains on securities during period | (136) | 642 |
| | ----- | -- ---- |
| Comprehensive income | \$ 586 | \$1,286 |
| | ===== | ===== |

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NOTE 3 - COMPUTATION OF EARNINGS PER SHARE

The Company has computed and presented earnings per share ("EPS") in accordance with Statement of Financial Accounting Standards No. 128. Reconciliation of the numerators and the denominators of the basic and diluted per share computation for net income are as follows:

| (amounts in thousands, except per share) | | | |
|---|-------------|---------------|-----|
| (unaudited) | | | |
| | Income | Shares | Per |
| | (Numerator) | (Denominator) | A |
| Three months ended March 31, 2002 | | | |
| Basic EPS | | | |
| Net income and income available to common stockholders | \$ 722 | 1,422 | \$ |
| Effect of dilutive securities, options | | 0 | |
| | ----- | ----- | |
| Diluted EPS | | | |
| Income available to common stockholders and assumed conversions | \$ 722 | 1,422 | \$ |
| | ===== | ===== | |
| Three months ended March 31, 2001 | | | |
| Basic EPS | | | |
| Net income and income available to common stockholders | \$ 642 | 1,447 | \$ |
| Effect of dilutive securities, options | | 0 | |
| | ----- | ----- | |

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Diluted EPS

| | | |
|---|-----------------|----------------|
| Income available to common stockholders and assumed conversions | \$ 642 ===== | 1,447 ===== |
|---|-----------------|----------------|

NOTE 4 - IMPACT OF NEW ACCOUNTING STANDARDS

In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". Statement No. 133, as amended by SFAS No. 138, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. The Statement is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company adopted this statement as of January 1, 2001. In management's opinion, the adoption of SFAS No. 133 did not have a material effect on the Company's consolidated financial statements.

FASB has issued SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This Statement replaces SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and rescinds SFAS Statement No. 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125". SFAS No. 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. This statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. This statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001; however, the disclosure provisions are effective for fiscal years ending after December 15, 2000. In management's opinion, the adoption of SFAS No. 140 did not have a material effect on the Company's consolidated financial statements.

Statement of Financial Accounting Standards No. 141 improves the consistency of the accounting and reporting for business combinations by requiring that all business combinations be accounted for under a single method - the purchase method. Use of the pooling-of-interests method is no longer permitted. Statement No. 141 requires that the purchase method be used for business combinations initiated after June 30, 2001. The impact of adopting this Statement on the consolidated financial statements was not material.

Statement of Financial Accounting Standards No. 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. The amortization of goodwill ceases upon adoption of the Statement, which for most companies, was January 1, 2002. The impact of adopting this Statement on the consolidated financial statements was not material.

Part I - FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis

Overview:

Salisbury Bancorp, Inc. (the "Company"), a Connecticut corporation, is the holding company for Salisbury Bank and Trust Company, (the "Bank") which is headquartered in Lakeville, Connecticut. The Company's sole subsidiary is the Bank, which has a full service Trust Department and offers commercial banking products and services through four full service offices in the towns of Canaan, Lakeville, Salisbury and Sharon, Connecticut.

The following is Management's discussion of the financial condition and results of operations on a consolidated basis of Salisbury Bancorp, Inc. which includes the accounts of Salisbury Bank and Trust Company. Management's discussion should be read in conjunction with Salisbury Bancorp, Inc.'s Annual Report on Form 10-KSB for the year ended December 31, 2001.

In order to provide a strong foundation for building shareholder value and serving its customers, the Company remains committed to investing in the technological and human resources necessary to implement new personalized financial products and to deliver them with the highest quality of service. During 2001, the Bank introduced a new Internet banking product called "SBTNET". It now has over 1000 customers signed up and using the product. Just recently, the Bank's home page of the website was remodeled to accommodate the expansion of its new "free" online services "SBT VCARD" and "SBT PAL". Future enhancements are planned as the Bank continues to develop additional Internet banking products for its customers.

Net Income for the three months ended March 31, 2002 increased \$80,000 or 12.46% to \$722,000 or \$.51 per diluted share as compared to net income of \$642,000 or \$.44 per diluted share for the three months ended March 31, 2001. The improvement in net income is primarily the result of improved net interest and dividend income, reductions in interest expense, as well as a reduction in income taxes which resulted from increased income from tax exempt securities.

During the first calendar quarter of 2002, the Company's total assets decreased by \$6,102,000 or 2.15% and totaled \$277,500,000, which compares to \$283,602,000 at December 31, 2001. This decrease is not considered to be indicative of any trend. During the first quarter of 2002, the asset mix has changed resulting in an increase in interest income. Federal funds sold totaled \$18,150,000 at December 31, 2001. This total is somewhat higher than the Bank's normal operating range of funds and was primarily the result of the cash received from the acquisition of the Canaan branch. During the first quarter of 2002 a significant amount of these funds were invested in the securities portfolio of the Bank which increased 12.05% to \$115,017,000 at March 31, 2002 compared to \$102,648,000 at December 31, 2001. Competition for loans remains aggressive in the Bank's market area. This is coupled with an economic environment of generally lower interest rates that promote refinancing to longer term fixed rate products and has resulted in a decrease in the loan portfolio to \$139,772,000 at March 31, 2002 as compared to \$143,066,000 at December 31, 2001. The Company continues to carefully monitor the quality of its assets. During this period, nonperforming loans increased from \$587,000 at December 31, 2001 to \$1,022,000 at March 31, 2002 which continues to represent approximately one percent of total loans. Presently, the Company does not have any assets classified as Other Real Estate Owned; therefore, total nonperforming loans

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represent total nonperforming assets as well. Deposits decreased to \$198,589,000 at March 31, 2002. This compares to total deposits of \$201,351,000 at December 31, 2001. This decrease represents the traditional seasonal cash flows of the Company's deposit customers.

As a result of the Company's first quarter financial performance, the Board of Directors declared a first quarter cash dividend of \$.22 per common share. This compares to a cash dividend of \$.21 per common share that was paid for the first quarter of 2001. The dividend was paid on April 26, 2002 to shareholders of record as of March 29, 2002. This represents a dividend payout ratio of 43.14%.

The Company's risk-based capital ratios at March 31, 2002, which included the risk weighted assets and capital of the Salisbury Bank and Trust Company were 15.34% for Tier 1 capital and 16.45% for total capital. The Company's leverage ratio was 7.58% at March 31, 2002.

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THREE MONTHS ENDED MARCH 31, 2002 AS COMPARED TO THREE MONTHS ENDED MARCH 31, 2001

Net Interest Income

The Company's earnings are primarily dependent upon net interest income and noninterest income from its community banking operations with net interest income being the largest component of the Company's revenue. Net interest and dividend income is the difference between interest and dividends earned on the loan and securities portfolios and interest paid on deposits and advances from the Federal Home Loan Bank. For the following discussion, net interest income is presented on a fully taxable-equivalent ("FTE") basis. FTE interest income restates reported interest income on tax exempt loans and securities as if such interest were taxed at the Company's federal income tax rate of 34% for all periods presented.

(amounts in thousands)

| Three months ended March 31 | 2002 | 2001 |
|---|---------|---------|
| ----- | ---- | ---- |
| Interest and Dividend Income | | |
| ----- | | |
| (financial statements) | \$4,061 | \$4,299 |
| Tax Equivalent Adjustment | 224 | 93 |
| | ----- | ----- |
| Total interest income (on an FTE basis) | 4,285 | 4,392 |
| Interest Expense | 1,798 | 2,204 |
| | ----- | ----- |
| Net Interest and Dividend Income-FTE | \$2,487 | \$2,188 |
| | ===== | ===== |

Interest and dividend income on an FTE basis for the three months ended March 31, 2002 totaled \$4,285,000 as compared to \$4,392,000 for the same time period in 2001. Although there is an increase in earning assets, this decrease of \$107,000 or 2.44% in interest and dividend income is primarily the result of an economic environment of generally lower interest rates. This is coupled with a change in the asset mix of earning assets, which now includes an increased portfolio of tax exempt securities, and results in a significant increase in the tax equivalent adjustment to \$224,000 in 2002 compared to \$93,000 a year ago.

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This is an increase of \$131,000 or 141%.

During the first quarter of 2002, interest expense on deposits amounted to \$1,088,000 as compared with \$1,450,000 for the same period in 2001. Although deposits increased, primarily as the result of the Canaan Branch acquisition during the fourth quarter of 2001, generally lower interest rates resulted in the decrease in interest expense. Interest on Federal Home Loan Bank advances decreased to \$710,000 in 2002 from \$754,000 for the same period in 2001. This is the result of a decrease in funds borrowed to \$52,672,000 in 2002 from \$53,004,000 in 2001.

Overall, net interest and dividend income (on an FTE basis) amounted to \$2,487,000 for the three months ended March 31, 2002 as compared with \$2,188,000 for the same period in 2001. This increase of \$299,000 represents a 13.67% increase in net interest and dividend income.

Noninterest Income

Noninterest income totaled \$564,000 for the quarter ended March 31, 2002. This compares to \$525,000 for the comparable quarter in 2001. Trust Department income increased \$7,000 to \$253,000 from \$246,000 a year ago. Service charges on deposit accounts have increased \$9,000 to \$114,000 during the first quarter of 2002 compared to \$105,000 for the same period last year. This is primarily the result of an increase of deposit accounts transactions. Gains on sales of available-for-sale securities totaled \$15,000, a slight decrease from gains of \$21,000 in 2001. Other noninterest income increased \$29,000 or 18.95% to \$182,000 for the three months ended March 31, 2002 from \$153,000 for the corresponding period in 2001. This is primarily the result of an increase in fees earned from sales of mortgages in the secondary mortgage market.

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Noninterest Expense

Noninterest expense amounted to \$1,815,000 for the first quarter of 2002. This is an increase of \$203,000 or 12.59% over the \$1,612,000 reported for the same period of 2001. Salaries and employee benefits increased \$123,000 or 13.24%. This is primarily the result of the additional staff hired to service the increase in new business coupled with annual pay increases and increasing costs of employee benefits. Occupancy and equipment expenses remained consistent when comparing the two periods. Data processing costs also remained generally unchanged when comparing the first quarter of 2002 to the first quarter of 2001. Other operating expenses increased \$72,000 or 19.94% to \$447,000 for the three months period ended March 31, 2002. This increase is primarily the result of the amortization of intangible assets from the Canaan branch acquisition that occurred during the last quarter of 2001. First quarter amortization expense for 2002 amounted to \$41,000. The balance of the increase represents increases normally associated with the operations of the Company. Total other operating expenses amounted to \$361,000 for the same period on 2001.

Income Taxes

The income tax provision for the first three months of 2002 totaled \$253,000 in comparison to \$329,000 for the same period in 2001. The decrease is primarily

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the result of the impact of an increase in tax exempt interest income earned from the securities portfolio.

Net Income

Overall, net income totaled \$722,000 for the three months period ended March 31, 2002. This compares to net income of \$642,000 for the corresponding period in 2001. This is an increase of \$80,000 or 12.46% and represents earnings per share of \$.51 per diluted share. This compares to earnings per diluted share of \$.44 for the same period in 2001. The improvement in net income is primarily a reflection of an increase in interest earning assets, which has resulted in an increase in total net interest income.

Provisions and Allowances for Loan Losses

Total loans at March 31, 2002 were \$141,227,000 which compares to total loans of \$144,511,000 at December 31, 2001. This is a decrease of \$3,284,000 or 2.27%. At March 31, 2002 approximately 86% of the Bank's loan portfolio was related to real estate products and although the portfolio decreased during the first quarter of 2002, the concentration remained consistent as approximately 86% of the portfolio was related to real estate. There were no material changes in the composition of the loan portfolio during this period.

Credit risk is inherent in the business of extending loans. The Company maintains an allowance or reserve for credit losses through charges to earnings. The loan loss provision for the period ended March 31, 2002 was \$37,000 and was the same as the corresponding period of 2001.

The Bank formally determines the adequacy of the allowance on a monthly basis. No material changes have been made in the estimation methods or assumptions that the Bank uses in making this determination during the period ended March 31, 2002. This determination is based on assessment of credit quality or "risk rating" of loans by senior management, which is submitted to the Board of Directors for approval. Loans are initially risk rated when originated. If there is deterioration in the credit, the risk rating is adjusted accordingly.

The allowance also includes a component resulting from the application of the measurement criteria of Statements of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" ("SFAS114"). Impaired loans receive individual evaluation of the allowance necessary on a monthly basis. Impaired loans are defined in the Bank's Loan Policy as residential real estate mortgages with balances of \$300,000 or more and commercial loans of \$100,000 or more when it is probable that the Bank will not be able to collect all principal and interest due according to the terms of the note. Such commercial loans and residential mortgages will be considered impaired under any of the following circumstances:

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1. Non-accrual status;
2. Loans over 90 days delinquent;
3. Troubled debt restructures consummated after December 31, 1994; or
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

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and improbable.

The individual allowance for each 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 generally as part of the periodic analysis of the allowance for loan losses. This analysis reviews the allocations of the different categories of loans within the portfolio and it considers historical loan losses and delinquency figures as well as any recent delinquency trends.

The credit card delinquency and loss history is evaluated and given a special loan loss factor because management recognizes the higher risk involved in such loans. Concentrations of credit and local economic factors are also evaluated on a periodic basis. Historical average net losses by loan type 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. There have been no reallocations within the allowance during the period ended March 31, 2002.

At March 31, 2002, the allowance for loan losses totaled \$1,455,000 representing 142.37% of nonperforming loans which totaled \$1,022,000 and 1.03% of total loans of \$141,227,000. This compares to \$1,445,000 representing 246.17% of nonperforming loans which totaled \$587,000 and 1.00% of total loans of \$144,511,000 at December 31, 2001. Management does not believe that this increase of \$435,000 in nonperforming loans represents any trend towards increased delinquency of loans, which would be likely to have an effect on the level of the allowance for loan losses. A total of \$32,000 loans were charged off by the Company during the three month period ended March 31, 2002 as compared to \$19,000 charged off during the corresponding period in 2001. These charged off loans consisted primarily of loans to individuals. A total of \$4,000 of previously charged off loans was recovered during the three month period ended March 31, 2002. Recoveries for the corresponding period in 2001 totaled \$92,000. When comparing the two periods, and excluding the one large recovery in 2001 of \$82,000, net charge-offs were \$28,000 for the period ended March 31, 2002 and \$10,000 for the same period in 2001, neither of which significantly impacted the level of the allowance for loan losses. Management believes that the allowance for loan losses is adequate. 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, further information obtained regarding problem loans, identification of additional problem loans and other factors, both within and outside of management's control. Additionally, with expectations of the Company to grow its existing portfolio, future additions to the allowance may be necessary to maintain adequate coverage ratios.

Capital

At March 31, 2002, the Company had \$23,636,000 in shareholder equity compared to \$23,363,000 at December 31, 2001. This represents an increase of \$273,000 or 1.17%. Several components contributed to the change since December 2001. Earnings year to date totaled \$722,000. Market conditions have resulted in a negative adjustment to unrealized comprehensive income of \$136,000. The Company also declared a first quarter cash dividend in 2002 resulting in a decrease in capital of \$313,000. Under current regulatory definitions, the Bank is "well capitalized", the highest rating defined under the Federal Deposit Insurance Corporation Improvement Act. As a result, the Bank pays the lowest deposit

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premiums possible. One primary measure of capital adequacy for regulatory purposes is based on the ratio of risk-based capital to risk weighted assets. This method of measuring capital adequacy helps to establish capital requirements that are more sensitive to the differences in risk associated with various assets. It takes in account off-

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balance sheet exposure in assessing capital adequacy and it minimizes disincentives to holding liquid, low risk assets. At March 31, 2002, the Company had a total risk-based capital ratio of 16.45% compared to 16.21% at December 31, 2001. The leverage ratio at March 31, 2002 was 7.58% which compares to 7.87% at December 31, 2001. These capital ratios substantially exceed all applicable requirements for "well capitalized" institutions as established by Federal Bank supervisory standards.

Maintaining strong capital is essential to bank safety and soundness which influence customer confidence, potential investors, regulators and shareholders. However, the effective management of capital resources requires generating attractive returns on equity to build value for shareholders while maintaining appropriate levels of capital to fund growth, meeting regulatory requirements and being consistent with prudent industry practices. Management believes that the capital ratios of the Company and Bank are adequate to continue to meet the foreseeable capital needs of the institution.

Liquidity

The Bank's Asset/Liability Management Committee which operates in accordance with policies established and reviewed by the Bank's Board of Directors, implements and monitors compliance with these policies regarding the Bank's asset/liability management practices with regard to interest rate risk, liquidity and capital. Interest rate risk measures the sensitivity of the Company's income to short and long term changes in interest rates. One of the primary objectives of the Committee is to manage the Company's interest rate risk and control the sensitivity of earnings to changes in interest rates in order to improve net interest income and interest rate margins and to manage the maturities and interest rate sensitivities of assets and liabilities. At March 31, 2002, the Company's interest rate position was "asset sensitive". Therefore, an increase in interest rates would generally have the effect of increasing income as the Bank's assets reprice more quickly than its liabilities. Alternatively, a decrease in interest rates would likely have a somewhat detrimental effect on income as assets reprice to such rates more quickly than liabilities. However, the level of interest rate risk is within the limits approved by the Board of Directors. Management of liquidity is designed to provide for the Bank's cash needs at a reasonable cost. These needs include the withdrawal of deposits on demand or at maturity, the repayment of borrowings as they mature and lending opportunities. The Company's subsidiary, Salisbury Bank and Trust Company is a member of the Federal Home Loan Bank system which provides credit to its members. This enhances the liquidity position by providing a source of available borrowings. At March 31, 2002, the Company had approximately \$26,130,000 in loan commitments and unadvanced funds outstanding. Management believes that the Company has ample liquidity to meet its present and foreseeable needs.

Forward Looking Statements

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This Form 10-QSB 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. Forth 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:

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- (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;
- (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.

Part II - OTHER INFORMATION

Item 1. - Legal Proceedings-Not applicable

Item 2. - Changes in Securities and Use of Proceeds-Not applicable

Item 3. - Defaults Upon Senior Securities-Not applicable

Item 4. - Submission of Matters to a Vote of Security Holders-Not applicable

Item 5. - Other Information - Not applicable

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Item 6. - Exhibits and Reports on Form 8-K

- a. Exhibits - None
- b. Reports on Form 8-K:

The Company filed a Form 8-K on February 28, 2002 to report that the Company's Board of Directors declared a quarterly cash dividend of \$.22 per share to be paid on April 26, 2002 to shareholders of record as of March 29, 2002.

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SALISBURY BANCORP, INC.

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

Salisbury Bancorp, Inc.

Date: May 13, 2002

by: /s/ John F. Perotti

John F. Perotti
President/Chief Executive Officer

Date: May 13, 2002

by: /s/ John F. Foley

John F. Foley
Chief Financial Officer