SALISBURY BANCORP INC
Form 10-Q
May 16, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

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

Commission file number 0-24751
SALISBURY BANCORP, INC.
(Exact name of registrant as specified in its charter)

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

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

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

Yes x No o

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

Yes_________ No_________

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

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

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

Yes o No x

The number of shares of Common Stock outstanding as of May 16, 2011, is 1,687,661.

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PART I - FINANCIAL INFORMATION
Salisbury Bancorp, Inc. and Subsidiary
CONSOLIDATED BALANCE SHEETS

in thousands (except share data) unaudited	March 31, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$5,349	$6,694
Interest bearing demand deposits with other banks	37,742	20,214
Total cash and cash equivalents	43,091	26,908
Interest bearing time deposits with other banks	5,000	5,000
Securities		
Available-for-sale at fair value	125,223	147,422
Held-to-maturity at amortized cost (fair value: $56 and $58)	55	56
Federal Home Loan Bank of Boston stock at cost	6,032	6,032
Loans held-for-sale	187	1,184
Loans receivable, net (allowance for loan losses: $3,978 and $3,920)	361,238	352,449
Investment in real estate	75	75
Other real estate owned	866	610
Bank premises and equipment, net	12,303	12,190
Goodwill	9,829	9,829
Intangible assets (net of accumulated amortization: $1,357 and $1,301)	1,186	1,242
Accrued interest receivable	2,002	2,132
Cash surrender value of life insurance policies	3,893	3,854
Deferred taxes	2,260	2,540
Other assets	3,654	3,947
Total Assets	$576,894	$575,470
LIABILITIES and SHAREHOLDERS' EQUITY		
Deposits		
Demand (non-interest bearing)	$74,690	$71,565
Demand (interest bearing)	59,311	63,258
Money market	106,468	77,089
Savings and other	97,407	93,324
Certificates of deposit	114,503	125,053
Total deposits	452,379	430,289
Repurchase agreements	8,241	13,190
Federal Home Loan Bank of Boston advances	55,888	72,812
Accrued interest and other liabilities	4,438	4,163
Total Liabilities	520,946	520,454
Commitments and contingencies	-	-
Shareholders' Equity		
Preferred stock - $.01 per share par value		
Authorized: 25,000; Shares issued: 8,816;		
Liquidation preference: $1,000 per share	8,743	8,738
Common stock - $.10 per share par value		
Authorized: 3,000,000;		
Issued: 1,686,701 and 1,685,861	168	168
Common stock warrants outstanding	112	112

Paid-in capital	13,200	13,200
Retained earnings	36,923	36,567
Accumulated other comprehensive loss, net	(3,198)	(3,769)
Total Shareholders' Equity	55,948	55,016
Total Liabilities and Shareholders' Equity	$576,894	$575,470

See accompanying notes to consolidated financial statements.

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Salisbury Bancorp, Inc. and Subsidiary
CONSOLIDATED STATEMENTS OF INCOME

Three months ended March 31, (in thousands except per share amounts) unaudited	2011	2010
Interest and dividend income		
Interest and fees on loans	$4,664	$4,487
Interest on debt securities		
Taxable	783	926
Tax exempt	554	560
Other interest and dividends	38	46
Total interest and dividend income	6,039	6,019
Interest expense		
Deposits	871	1,198
Repurchase agreements	15	27
Federal Home Loan Bank of Boston advances	646	758
Total interest expense	1,532	1,983
Net interest income	4,507	4,036
Provision for loan losses	330	180
Net interest and dividend income after provision for loan losses	4,177	3,856
Non-interest income		
Trust and wealth advisory	667	545
Service charges and fees	499	453
Gains on securities	11	-
Gains on sales of mortgage loans, net	133	42
Mortgage servicing, net	32	33
Other	59	56
Total non-interest income	1,401	1,129
Non-interest expense		
Salaries	1,729	1,571
Employee benefits	634	630
Premises and equipment	583	515
Data processing	377	408
Professional fees	280	402
FDIC insurance	223	171
Marketing and community support	68	62
Amortization of intangibles	56	56
Other	474	497
Total non-interest expense	4,424	4,312
Income before income taxes	1,154	673
Income tax provision	211	79
Net income	$943	$594
Net income available to common shareholders	$828	$479
Basic and diluted earnings per share	$0.49	$0.28
Common dividends per share	0.28	0.28

See accompanying notes to consolidated financial statements.

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

(dollars in thousands) unaudited	Common Stock Shares	Common Stock Amount	Preferred Stock	Warrants	Paid-in capital	Retained earnings	Accumulated other comp-rehensive loss	Total share-holders' equity
Balances at December 31, 2009	1,686,701	$ 168	$ 8,717	$ 112	$ 13,177	$ 35,259	$ (5,078)	$ 52,355
Net income for period	-	-	-	-	-	594	-	594
Other comprehensive income, net of tax	-	-	-	-	-	-	656	656
Total comprehensive income								1,250
Amortization (accretion) of preferred stock	-	-	5	-	-	(5)	-	-
Common stock dividends paid	-	-	-	-	-	(472)	-	(472)
Preferred stock dividends paid	-	$ -	$ -	$ -	$ -	$ (110)	$ -	$ (110)
Balances at March 31, 2010	1,686,701	168	8,722	112	13,177	35,266	(4,422)	53,023
Balances at December 31, 2010	1,687,661	$ 168	$ 8,738	$ 112	$ 13,200	$ 36,567	$ (3,769)	$ 55,016
Net income for period	-	-	-	-	-	943	-	943
Other comprehensive income, net of tax	-	-	-	-	-	-	571	571
Total comprehensive income								1,514
Amortization (accretion) of preferred stock	-	-	5	-	-	(5)	-	-
Common stock dividends paid	-	-	-	-	-	(472)	-	(472)
Preferred stock dividends paid	-	-	-	-	-	(110)	-	(110)
Balances March 31, 2011	1,687,661	$ 168	$ 8,743	$ 112	$ 13,200	$ 36,923	$ (3,198)	$ 55,948

See accompanying notes to consolidated financial statements.

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

Three months ended March 31, (in thousands) unaudited	2011	2010
Operating Activities		
Net income	$943	$594
Adjustments to reconcile net income to net cash provided by operating activities:		
(Accretion), amortization and depreciation		
Securities	62	174
Bank premises and equipment	206	193
Core deposit intangible	56	56
Mortgage servicing rights	58	31
Fair value adjustment on loans	11	11
Sales and calls of securities available-for-sale	(11)	-
Write down of other real estate owned	57	-
Provision for loan losses	330	180
Decrease (increase) in loans held-for-sale	998	(513)
Increase in deferred loan origination fees and costs, net	(57)	(41)
Mortgage servicing rights originated	(77)	(28)
Decrease in mortgage servicing rights impairment reserve	(2)	(2)
Decrease in interest receivable	130	85
Deferred tax benefit	(14)	(8)
Decrease in prepaid expenses	73	68
Increase in cash surrender value of life insurance policies	(39)	(42)
Decrease in income tax receivable	224	69
Decrease (increase) in other assets	25	(25)
Increase in accrued expenses	537	431
Decrease in interest payable	(101)	(40)
Decrease in other liabilities	(143)	(111)
Net cash provided by operating activities	3,266	1,082
Investing Activities		
Purchases of securities available-for-sale	-	(33,985)
Proceeds from calls of securities available-for-sale	22,997	1,550
Proceeds from maturities of securities available-for-sale	-	12,089
Proceeds from maturities of securities held-to-maturity	1	1
Loan originations and principle collections, net	(9,394)	(2,499)
Recoveries of loans previously charged-off	7	6
Capital expenditures	(327)	(1,068)
Net cash provided (utilized) by investing activities	13,284	(23,906)
Three months ended March 31, (in thousands) unaudited	2011	2010
Financing Activities		
Increase in deposit transaction accounts, net	32,640	11,352
Decrease in time deposits, net	(10,550)	(7,065)
Decrease in securities sold under agreements to repurchase, net	(4,949)	(3,442)
Principal payments on Federal Home Loan Bank of Boston advances	(16,925)	(1,008)
Common stock dividends paid	(473)	(472)
Preferred stock dividends paid	(110)	(110)
Net cash utilized by financing activities	(367)	(745)
Net increase (decrease) in cash and cash equivalents	16,183	(23,569)

Cash and cash equivalents, beginning of period	26,908	43,298
Cash and cash equivalents, end of period	$43,091	$19,729
Cash paid during period		
Interest	$633	$2,023
Income taxes	449	139
Non-cash transfers		
Transfer from loans to other real estate owned	314	-

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 - BASIS OF PRESENTATION

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

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

Certain financial information, which is normally included in financial statements prepared in accordance with generally accepted accounting principles, but which is not required for interim reporting purposes, has been condensed or omitted. Operating results for the three month period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The accompanying condensed financial statements should be read in conjunction with the financial statements and notes thereto included in Salisbury's 2010 Annual Report on Form 10-K for the period ended December 31, 2010.

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

Impact of New Accounting Pronouncements Issued

In April 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-02, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." This ASU provides additional guidance or clarification to help creditors determine whether a restructuring constitutes a troubled debt restructuring. For public entities, the amendments in this ASU are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired, and should measure impairment on those receivables prospectively for the first interim or annual period beginning on or after June 15, 2011. Additional disclosures are also required under this ASU. Salisbury is currently evaluating the impact of this ASU. The ASU is expected to cause more loan modifications to be classified as TDRs and Salisbury is evaluating its modification programs and practices in light of the new ASU.

In April 2011, the FASB issued ASU 2011-03, “Reconsideration of Effective Control for Repurchase Agreements.” The objective of this ASU is to improve the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. This ASU prescribes when an entity may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements. The guidance in this ASU is effective for the first interim or annual period beginning on or after December 15, 2011. Early adoption is not permitted.

In December 2010, the FASB issued Accounting Standards Update (“ASU”) 2010-28, “Intangibles - Goodwill and Other.” This ASU addresses when to perform step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For public entities, the amendments in this ASU are effective for fiscal years and interim periods beginning after December 15, 2010.

In December 2010, the FASB issued ASU 2010-29, “Disclosure of Supplementary Pro Forma Information for Business Combinations.” This ASU addresses diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. This ASU is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010.

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

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

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

In March 2010, the FASB issued ASU 2010-11, "Scope Exception Related to Embedded Credit Derivatives." The ASU clarifies that certain embedded derivatives, such as those contained in certain securitizations, CDOs and structured notes, should be considered embedded credit derivatives subject to potential bifurcation and separate fair value accounting. The ASU allows any beneficial interest issued by a securitization vehicle to be accounted for under the fair value option at transition. The requirements are effective July 1, 2010. This standard did not have a significant impact on Salisbury's financial position or results of operations.

NOTE 2 - SECURITIES

The composition of securities is as follows:

(in thousands)	Amortized cost (1)	Gross un-realized gains	Gross un-realized losses	Fair value
March 31, 2011				
Available-for-sale				
U.S. Treasury notes	$5,000	$186	$-	$5,186
U.S. Government Agency notes	22,587	306	(79)	22,814
Municipal bonds	51,359	236	(4,903)	46,692
Mortgage backed securities				
U.S. Government Agencies	17,665	567	(26)	18,206
Collateralized mortgage obligations				
U.S. Government Agencies	8,602	9	(42)	8,569

Non-agency	17,609	708	(293)	18,024
SBA bonds	4,353	73	-	4,426
Corporate bonds	1,092	38	-	1,130
Preferred Stock	20	156	-	176
Total securities available-for-sale	$128,287	$2,279	$(5,343)	$125,223
Held-to-maturity				
Mortgage backed security	$55	$1	$-	$56
Non-marketable securities				
Federal Home Loan Bank of Boston stock	$6,032	$-	$-	$6,032

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

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(in thousands)	Amortized cost (1)	Gross un-realized gains	Gross un-realized losses	Fair value
December 31, 2010				
Available-for-sale				
U.S. Treasury notes	$4,999	$197	$-	$5,196
U.S. Government Agency notes	41,590	380	(92)	41,878
Municipal bonds	51,330	139	(5,371)	46,098
Mortgage backed securities				
U.S. Government Agencies	19,190	566	(20)	19,736
Collateralized mortgage obligations				
U.S. Government Agencies	9,283	29	(1)	9,311
Non-agency	19,002	714	(599)	19,117
SBA bonds	4,831	70	-	4,901
Corporate bonds	1,089	41	-	1,130
Preferred Stock	20	35	-	55
Total securities available-for-sale	$151,334	$2,171	$(6,083)	$147,422
Held-to-maturity				
Mortgage backed security	$56	$2	$-	$58
Non-marketable securities				
Federal Home Loan Bank of Boston stock	$6,032	$-	$-	$6,032

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

Salisbury did not sell any securities available-for-sale during the three month periods ended March 31, 2011 and 2010.

Included in non-agency Collateralized Mortgage Obligations ("CMOs") are seven securities issued by Wells Fargo with an aggregate amortized cost basis and fair value of $6,020,000 and $6,342,000, respectively, that exceeded 10% of shareholders' equity as of March 31, 2011.

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

	Less than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
March 31, 2011						
Available-for-sale						
U.S. Government Agency notes	$9,921	$79	$-	$-	$9,921	$79
Municipal Bonds	26,099	1,535	14,351	3,368	40,450	4,903
Mortgage backed securities	1,171	26	-	-	1,171	26
Collateralized mortgage obligations						
U.S. Government Agencies	4,180	42	-	-	4,180	42
Non-agency	-	-	2,171	185	2,171	185
Total temporarily impaired securities	41,371	1,682	16,522	3,553	57,893	5,235

Other-than-temporarily impaired securities						
Collateralized mortgage obligations						
Non-agency	1,030	80	784	28	1,814	108
Total temporarily impaired and other-than-temporarily impaired securities	$42,401	$1,762	$17,306	$3,581	$59,707	$5,343

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

The following summarizes, by security type, the basis for evaluating if the applicable securities were OTTI at March 31, 2011.

U.S Government Agency notes, U.S. Government Agency mortgage-backed securities and U.S. Government Agency CMOs: The contractual cash flows are guaranteed by U.S. government agencies and U.S. government-sponsored enterprises. Changes in fair values are a function of changes in investment spreads and interest rate movements and not changes in credit quality. Management expects to recover the entire amortized cost basis of these securities. Furthermore, Salisbury does not intend to sell these securities and it is not more likely than not that Salisbury will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these securities to be OTTI at March 31, 2011.

Municipal bonds: Contractual cash flows are performing as expected. The decline in fair values at March 31, 2011 as compared with December 31, 2010, is primarily due to an increase in interest rates and risk premium spreads for municipal bonds in 2011 compared to 2010. Late in 2010 and continuing into 2011 the municipal bond market experienced significant price declines as uncertainty about the health of local and state government finances caused investors to exit the market. Salisbury purchased substantially all of these securities during 2006-to-2008 as bank qualified, insured, AAA rated general obligation or revenue bonds. Salisbury's portfolio is mostly comprised of tax-exempt general obligation bonds or public-purpose revenue bonds for schools, municipal offices, sewer infrastructure and fire houses, for small towns and municipalities across the United States. In the wake of the financial crisis, most monoline bond insurers had their ratings downgraded or withdrawn because of excessive exposure to insurance for collateralized debt obligations. Salisbury has performed credit underwriting reviews of certain issuers, including those that have had their ratings withdrawn and those that are insured by insurers that have had their ratings withdrawn, to assess their default risk. For all completed reviews pass credit risk ratings have been assigned. Management believes that unrealized losses on its municipal bonds are a function of interest rate movements and changes in investor spreads for credit sensitive securities. Management expects to recover the entire amortized cost basis of these securities. Salisbury does not intend to sell these securities and it is not more likely than not that Salisbury will be required to sell these securities before recovery of their cost basis, which may be maturity. Management does not consider these securities to be OTTI at March 31, 2011.

Non-agency CMOs: Salisbury performed a detailed cash flow analysis of its non-agency CMOs at March 31, 2011 to assess whether any of the securities were OTTI. Salisbury uses third party provided cash flow forecasts of each security based on a variety of market driven assumptions and securitization terms, including prepayment speed, default or delinquency rate, and default severity for losses including interest, legal fees, property repairs, expenses and realtor fees, that, together with the loan amount are subtracted from collateral sales proceeds to determine severity. In 2009 Salisbury determined that five non-agency CMO securities reflected OTTI and recognized losses for deterioration in credit quality of $1,128,000. Salisbury judged these five securities not to have additional OTTI and all other CMO securities not to be OTTI as of March 31, 2011. It is possible that future loss assumptions could change necessitating Salisbury to recognize future OTTI for further deterioration in credit quality. Salisbury does not intend to sell these securities and it is not more likely than not that Salisbury will be required to sell these securities before recovery of their cost basis.

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

Three months ended March 31 (in thousands)	2011	2010
Balance, beginning of period	$1,128	$1,128
Credit component on debt securities in which OTTI was not previously recognized	-	-
Balance, end of period	$1,128	$1,128

Federal Home Loan Bank of Boston ("FHLBB"): The Bank is a member of the FHLBB. The FHLBB is a cooperative that provides services, including funding in the form of advances, to its member banking institutions. As a requirement of membership, the Bank must own a minimum amount of FHLBB stock, calculated periodically based primarily on its level of borrowings from the FHLBB. No market exists for shares of the FHLBB and therefore, they are carried at par value. FHLBB stock may be redeemed at par value five years following termination of FHLBB membership, subject to limitations which may be imposed by the FHLBB or its regulator, the Federal Housing Finance Board, to maintain capital adequacy of the FHLBB. While the Bank currently has no intentions to terminate its FHLBB membership, the ability to redeem its investment in FHLBB stock would be subject to the conditions imposed by the FHLBB. In 2008, the FHLBB announced to its members that it is focusing on preserving capital in response to ongoing market volatility including the extension of a moratorium on excess stock repurchases and in 2009 announced the suspension of its quarterly dividends. On February 22, 2011, the FHLBB declared a modest cash dividend payable to its members on March 2, 2011. The FHLBB also announced that it expects to continue to declare modest cash dividends through 2011. Based on the capital adequacy and the liquidity position of the FHLBB, management believes there is no impairment related to the carrying amount of the Bank's FHLBB stock as of March 31, 2011. Further deterioration of the FHLBB's capital levels may require the Bank to deem its restricted investment in FHLBB stock to be OTTI. If evidence of impairment exists in the future, the FHLBB stock would reflect fair value using either observable or unobservable inputs. The Bank will continue to monitor its investment in FHLBB stock.

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NOTE 3 - LOANS

The composition of loans receivable and loans held-for-sale is as follows:

(in thousands)	March 31, 2011	December 31, 2010
Residential 1-4 family	$183,194	$176,892
Residential 5+ multifamily	3,271	2,889
Construction of residential 1-4 family	4,564	5,988
Home equity credit	34,608	34,164
Residential real estate	225,637	219,933
Commercial	74,519	75,495
Construction of commercial	7,777	7,312
Commercial real estate	82,296	82,807
Farm land	5,221	5,690
Vacant land	12,757	12,979
Real estate secured	325,911	321,409
Commercial and industrial	29,289	25,123
Municipal	4,563	4,338
Consumer	4,574	4,677
Loans receivable, gross	364,337	355,547
Deferred loan origination fees and costs, net	879	822
Allowance for loan losses	(3,978)	(3,920)
Loans receivable, net	$361,238	$352,449
Loans held-for-sale		
Residential 1-4 family	$187	$1,184

The composition of loans receivable by delinquency status is as follows:

	Current	Past due 1-29 days	30-59 days	60-89 days	90-179 days	180 days and over	30 days and over	Accruing 90 days and over	Non-accural
Residential 1-4 family	$175,498	$3,018	$1,663	$822	$1,152	$1,041	$4,678	$100	$2,524
Residential 5+ multifamily	3,111	-	160	-	-	-	160	-	-
Residential 1-4 family construction	4,564	-	-	-	-	-	-	-	-
Home equity credit	33,582	199	788	14	-	25	827	-	359
Residential real estate	216,755	3,217	2,611	836	1,152	1,066	5,665	100	2,883
Commercial	71,057	1,737	834	541	351	-	1,726	-	3,061
Construction of commercial	7,756	-	21	-	-	-	21	-	-
Commercial real estate	78,813	1,737	855	541	351	-	1,747	-	3,061
Farm land	4,523	383	-	315	-	-	315	-	-
Vacant land	8,637	564	159	-	-	3,397	3,556	-	3,933
Real estate secured	308,728	5,901	3,625	1,692	1,503	4,463	11,283	100	9,877
Commercial and industrial	28,441	140	45	492	171	-	708	50	848
Municipal	4,563	-	-	-	-	-	-	-	-

Consumer	4,383	132	50	9	-	-	59	-	-
Loans receivable, gross	$346,115	$6,173	$3,720	$2,193	$1,674	$4,463	$12,050	$150	$10,725

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Allowance for Loan Losses

Changes in the allowance for loan losses are as follows:

Three months ended (in thousands)	Beginning balance	Provision	Charge-offs	Reco-veries	Ending balance
	March 31, 2011				
Residential	$ 1,504	$ 60	$ (101)	$ -	$ 1,463
Commercial	1,132	291	(80)	-	1,343
Land	392	(18)	(79)	-	295
Real estate	3,028	333	(260)	-	3,101
Commercial & industrial	541	(9)	-	-	532
Municipal	51	4	-	-	55
Consumer	164	16	(19)	7	168
Unallocated	136	(14)	-	-	122
Total	$ 3,920	$ 330	$ (279)	$ 7	$ 3,978

The composition of loans receivable and the allowance for loan losses at March 31, 2011 is as follows:

	Collectively evaluated		Individually evaluated		Total portfolio	
March 31, 2011 (in thousands)	Loan balance	Allowance	Loan balance	Allowance	Loan Balance	Allowance
Residential 1-4 family	$ 176,460	$ 768	$ 6,734	$ 283	$ 183,194	$ 1,051
Residential 5+ multifamily	3,271	27	-	-	3,271	27
Construction of residential 1-4 family	4,564	18	-	-	4,564	18
Home equity credit	34,249	367	359	-	34,608	367
Residential real estate	218,544	1,180	7,093	283	225,637	1,463
Commercial	66,873	865	7,646	425	74,519	1,290
Construction of commercial	7,777	53	-	-	7,777	53
Commercial real estate	74,650	918	7,646	425	82,296	1,343
Farm land	5,221	54	-	-	5,221	54
Vacant land	8,665	97	4,092	144	12,757	241
Real estate secured	307,080	2,249	18,831	852	325,911	3,101
Commercial and industrial	28,167	395	1,122	137	29,289	532
Municipal	4,563	55	-	-	4,563	55
Consumer	4,574	168	-	-	4,574	165
Unallocated allowance	-	122	-	-	-	122
Totals	$ 344,384	$ 2,989	$ 19,953	$ 989	$ 364,337	$ 3,978

Credit Quality Information

The composition of loans receivable by risk rating grade is as follows:

March 31, 2011 (in thousands)	Pass	Special mention	Substandard	Doubtful	Loss	Total

Residential 1-4 family	$161,295	$13,306	$8,593	$-	$-	$183,194
Residential 5+ multifamily	2,189	994	88	-	-	3,271
Construction of residential 1-4 family	3,450	1,114	-	-	-	4,564
Home equity credit	31,723	1,696	1,189	-	-	34,608
Residential real estate	198,657	17,110	9,870	-	-	225,637
Commercial	52,414	9,926	12,179	-	-	74,519
Construction of commercial	6,814	492	471	-	-	7,777
Commercial real estate	59,228	10,418	12,650	-	-	82,296
Farm land	3,164	884	1,173	-	-	5,221
Vacant land	8,315	262	4,180	-	-	12,757
Real estate secured	269,364	28,674	27,873	-	-	325,911
Commercial and industrial	19,129	8,430	1,730	-	-	29,289
Municipal	4,563	-	-	-	-	4,563
Consumer	4,342	159	65	8	-	4,574
Loans receivable, gross	$297,398	$37,263	$29,668	$8	$-	$364,337

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Concentrations of Credit Risk

Salisbury's loans consist primarily of residential and commercial real estate loans located principally in northwestern Connecticut and nearby New York and Massachusetts towns, which constitute Salisbury's service area. Salisbury offers a broad range of loan and credit facilities to borrowers in its service area, including residential mortgage loans, commercial real estate loans, construction loans, working capital loans, equipment loans, and a variety of consumer loans, including home equity lines of credit, and installment and collateral loans. All residential and commercial mortgage loans are collateralized by first or second mortgages on real estate. The ability of single family residential and consumer borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the market area and real estate values. The ability of commercial borrowers to honor their repayment commitments is dependent on the general economy as well as the health of the real estate economic sector in Salisbury's market area.

Impaired loans

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

(in thousands)	March 31, 2011	December 31, 2010
Non-accrual loans, excluding troubled debt restructured loans	$7,080	$5,791
Non-accrual troubled debt restructured loans	3,645	4,254
Accruing troubled debt restructured loans	5,323	5,330
Total impaired loans	$16,048	$15,375
Commitments to lend additional amounts to impaired borrowers	$-	$-

Certain data with respect to loans individually evaluated for impairment at March 31, 2011 is as follows:

	Impaired loans with specific allowance					Impaired loans with no specific allowance			
	Loan balance			Specific	Income	Loan balance			Income
	Book	Note	Average	allowance	recognized	Book	Note	Average	recognized
Residential 1-4 family	$ 2,048	$ 2,217	$ 1,657	$ 150	$ 6	$ 3,853	$ 3,852	$ 4,278	$ 29
Home equity credit	-	-	-	-	-	359	361	361	3
Residential real estate	2,048	2,217	1,657	150	6	4,212	4,213	4,639	32
Commercial	2,701	2,803	2,395	179	41	2,032	2,380	2,429	11
Vacant land	670	774	787	64	-	3,263	3,627	3,202	-
Real estate secured	5,419	5,794	4,839	393	47	9,507	10,220	10,270	43
Commercial and industrial	396	403	229	137	1	726	1,252	673	3
Totals	$ 5,815	$ 6,197	$ 5,068	$ 530	$ 48	$ 10,233	$ 11,472	$ 10,943	$ 46

NOTE 4 - MORTGAGE SERVICING RIGHTS

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

March 31, (in thousands)	2011	2010
Residential mortgage loans serviced for others	$101,636	$75,414
Fair value of mortgage servicing rights	948	493

Changes in mortgage servicing rights are as follows:

Three months ended March 31, (in thousands)	2011	2010
Loan Servicing Rights		
Balance, beginning of period	$683	$427
Originated	77	28
Amortization (1)	(59)	(31)
Balance, end of period	701	424
Valuation Allowance		
Balance, beginning of period	(10)	(30)
Decrease in impairment reserve (1)	2	2
Balance, end of period	(8)	(28)
Loan servicing rights, net	$693	$396

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

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NOTE 5 - PLEDGED ASSETS

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

in thousands)	March 31, 2011	December 31, 2010
Securities available-for-sale (at fair value)	$61,866	$62,764
Loans receivable	116,489	114,424
Total pledged assets	$178,355	$177,188

At March 31, 2011, securities were pledged as follows: $46.1 million to secure public deposits and Treasury Tax and Loan deposits, $12.5 million to secure repurchase agreements and $3.4 million to secure FHLBB advances. Loans receivable were pledged to secure FHLBB advances and credit facilities.

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NOTE 6 – EARNINGS PER SHARE

The calculation of earnings per share is as follows:

Three months ended March 31, (in thousands, except per share amounts)	2011	2010
Net income	$943	$594
Preferred stock net accretion	5	5
Preferred stock dividends paid	110	110
Net income available to common shareholders	$828	$479
Weighted average common stock outstanding - basic	1,688	1,687
Weighted average common and common equivalent stock outstanding- diluted	1,688	1,687
Earnings per common and common equivalent share		
Basic	$0.49	$0.28
Diluted	0.49	0.28

NOTE 7 – SHAREHOLDERS' EQUITY

Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require Salisbury and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Tier 1 capital (as defined) to average assets (as defined) and total and Tier 1 capital (as defined) to risk-weighted assets (as defined). Management believes, as of March 31, 2011, that Salisbury and the Bank meet all of their capital adequacy requirements.

The Bank was classified, as of its most recent notification, as "well capitalized". The Bank's actual regulatory capital position and minimum capital requirements as defined "To Be Well Capitalized Under Prompt Corrective Action Provisions" and "For Capital Adequacy Purposes" are as follows:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2011						
Total Capital (to risk-weighted assets)						
Salisbury	$52,209	14.01 %	$29,810	8.0 %	n/a	-
Bank	42,628	11.23	30,366	8.0	$37,957	10.0 %
Tier 1 Capital (to risk-weighted assets)						
Salisbury	48,131	12.92	14,905	4.0	n/a	-

Bank	38,551	10.16	15,183	4.0	22,774	6.0
Tier 1 Capital (to average assets)						
Salisbury	48,131	8.60	22,394	4.0	n/a	-
Bank	38,551	6.90	22,349	4.0	27,936	5.0
March 31, 2010						
Total Capital (to risk-weighted assets)						
Salisbury	49,916	12.75	31,311	8.0	n/a	-
Bank	40,420	10.36	31,227	8.0	38,034	10.0
Tier 1 Capital (to risk-weighted assets)						
Salisbury	46,207	11.81	15,656	4.0	n/a	-
Bank	36,712	9.41	15,613	4.0	23,420	6.0
Tier 1 Capital (to average assets)						
Salisbury	46,207	8.40	22,387	4.0	n/a	-
Bank	36,712	6.68	21,996	4.0	27,494	5.0

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Restrictions on Cash Dividends to Common Shareholders

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

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

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

Preferred Stock

In March 2009, Salisbury issued to the Treasury $8,816,000 of Preferred Stock under the CPP.

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

As part of the CPP, Salisbury issued to the Treasury a 10-year Warrant to purchase 57,671 shares of Common Stock at an exercise price of $22.93 per share. If the Warrant were fully exercised, Salisbury estimates that the ownership percentage of the current shareholders would be diluted by approximately 3.3% percent.

NOTE 8 – PENSION AND OTHER BENEFITS

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

Three months ended March 31, (in thousands)	2011	2010
Service cost	$95	$100
Interest cost on benefit obligation	93	91
Expected return on plan assets	(106)	(100)

Amortization of prior service cost	-	-
Amortization of net loss	17	18
Net periodic benefit cost	$99	$109

Salisbury's 401(k) Plan contribution expense was $43,000 and $41,000, respectively, for the three month periods ended March 31, 2011 and 2010. Other post-retirement benefit obligation expense for endorsement split-dollar life insurance arrangements was $12,000 and $12,000, respectively, for the three month periods ended March 31, 2011 and 2010.

NOTE 9 - COMPREHENSIVE INCOME

Comprehensive income includes net income and any changes in equity from non-owner sources that are not recorded in the income statement (such as changes in net unrealized gains (losses) on securities). The purpose of reporting comprehensive income is to report a measure of all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners.

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The components of comprehensive income are as follows:

Three months ended March 31, (in thousands)	2011	2010
Net income	$943	$594
Other comprehensive income		
Net unrealized gains on securities available-for-sale	848	975
Reclassification of net realized gains in net income	-	-
Unrealized gains on securities available-for-sale	848	975
Income tax (expense)	(288)	(331)
Unrealized gains (losses) on securities available-for-sale, net of tax	560	644
Pension plan income	17	18
Income tax expense	(6)	(6)
Pension plan income, net of tax	11	12
Other comprehensive income, net of tax	571	656
Comprehensive income	$1,514	$1,250

The components of accumulated other comprehensive loss are as follows:

Three months ended March 31, (in thousands)	2011	2010
Unrealized losses on securities available-for-sale, net of tax	$(2,022)	$(3,186)
Unrecognized pension plan expense, net of tax	(1,176)	(1,236)
Accumulated other comprehensive loss, net	$(3,198)	$(4,422)

NOTE 10 – FAIR VALUE OF ASSETS AND LIABILITIES

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

Salisbury adopted ASC 820-10, "Fair Value Measurements and Disclosures," which provides a framework for measuring fair value under generally accepted accounting principles, in 2008. This guidance permitted Salisbury 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. Salisbury did not elect fair value treatment for any financial assets or liabilities upon adoption.

In accordance with ASC 820-10, Salisbury groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

GAAP specifies a hierarchy of valuation techniques based on whether the types of valuation information ("inputs") are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Salisbury's market assumptions. These two types of inputs have created the following fair value hierarchy

- Level 1. Quoted prices in active markets for identical assets. 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. Significant other observable inputs. 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. Significant unobservable inputs. Valuations for assets and liabilities that are derived from other methodologies, including option pricing models, discounted cash flow models and similar techniques, and 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.

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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.

The following is a description of valuation methodologies for assets recorded at fair value, including the general classification of such assets and liabilities pursuant to the valuation hierarchy.

- Securities available-for-sale. Securities available-for-sale are recorded at fair value on a recurring basis. Level 1 securities include exchange-traded equity securities. Level 2 securities include debt securities with quoted prices, which are traded less frequently than exchange-traded instruments, whose value is determined using matrix pricing with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes obligations of the U.S. Treasury and U.S. government-sponsored enterprises, mortgage-backed securities, collateralized mortgage obligations, municipal bonds, SBA bonds, corporate bonds and certain preferred equities. 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.

- Collateral dependent loans that are deemed to be impaired are valued based upon the fair value of the underlying collateral less costs to sell. Such collateral primarily consists of real estate and, to a lesser extent, other business assets. Management may adjust appraised values to reflect estimated market value declines or apply other discounts to appraised values resulting from its knowledge of the property. Internal valuations are utilized to determine the fair value of other business assets. Collateral dependent impaired loans are categorized as Level 3.

- Other real estate owned acquired through foreclosure or repossession is adjusted to fair value less costs to sell upon transfer out of loans. Subsequently, it is carried at the lower of carrying value or fair value less costs to sell. Fair value is generally based upon independent market prices or appraised values of the collateral. Management adjusts appraised values to reflect estimated market value declines or apply other discounts to appraised values for unobservable factors resulting from its knowledge of the property, and such property is categorized as Level 3.

Assets measured at fair value are as follows:

	Fair value measurements using			Assets at
(in thousands)	Level 1	Level 2	Level 3	fair value
March 31, 2011				
Assets at fair value on a recurring basis				
Securities available-for-sale	$176	$125,047	$-	$125,223
Assets at fair value on a non-recurring basis				
Collateral dependent impaired loans	-	-	5,285	5,285
Other real estate owned	-	-	500	500

Changes in Level 3 assets measured at fair value are as follows:

(in thousands)	Securities available-for-sale	Collateral dependent	Other real estate	Level 3 assets at

		impaired Loans	owned	fair value
Balance, December 31, 2010	$ -	$4,768	$557	$5,325
Gains and losses (realized/unrealized)				
Included in earnings	-	-	-	-
Included in other comprehensive income	-	-	-	-
Principal paydowns of securities, net of accretion	-	-	-	-
Write-down of other real estate owned			(57)	
Transfers in and/or out of Level 3	-	517	-	460
Balance, March 31, 2011	$ -	$5,285	$500	$5,785
Amount of total gains or losses for the period				
attributable to the change in unrealized gains or losses				
Relating to assets still held at the reporting date	$ -	$-	$-	$-

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

	March 31, 2011		December 31, 2010	
(in thousands)	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial Assets				
Cash and due from banks	$ 43,091	$ 43,091	$ 26,908	$ 26,908
Interest bearing time deposits with other banks	5,000	5,000	5,000	5,000
Securities available-for-sale	125,223	125,223	147,422	147,422
Security held-to-maturity	55	56	56	58
Federal Home Loan Bank stock	6,032	6,032	6,032	6,032
Loans held-for-sale	187	188	1,184	1,193
Loans receivable net	361,238	361,791	352,449	351,628
Accrued interest receivable	2,002	2,002	2,132	2,132
Financial Liabilities				
Demand (non-interest-bearing)	$ 74,690	$ 74,690	$ 71,565	$ 71,565
Demand (interest-bearing)	59,311	59,311	63,258	63,258
Money market	106,468	106,471	77,089	77,089
Savings and other	97,407	97,407	93,324	93,324
Certificates of deposit	114,503	114,589	125,053	125,172
Deposits	452,379	452,468	430,289	430,408
FHLBB advances	55,888	61,065	72,812	78,317
Repurchase agreements	8,241	8,241	13,190	13,190
Accrued interest payable	334	334	435	435

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

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

Management's discussion and analysis of financial condition and results of operations of Salisbury and its subsidiary should be read in conjunction with Salisbury's Annual Report on Form 10-K for the year ended December 31, 2010.

BUSINESS

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

Application of Critical Accounting Policies

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

Salisbury’s significant accounting policies are presented in Note 1 of Notes to Consolidated Financial Statements in Salisbury's 2010 Annual Report on Form 10-K for the period ended December 31, 2010 and, along with this Management’s Discussion and Analysis, provide information on how significant assets are valued in the financial statements and how those values are determined. Management believes that the following accounting estimates are the most critical to aid in fully understanding and evaluating Salisbury’s reported financial results, and they require management’s most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain.

The allowance for loan losses represents management’s estimate of credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the balance sheet. Note 1 of Notes to Consolidated Financial Statements in Salisbury's 2010 Annual Report on Form 10-K for the period ended December 31, 2010 describes the methodology used to determine the allowance for loan losses. A discussion of the factors driving changes in the amount of the allowance for loan losses are included in the “Provision and Allowance for Loan Losses” section of Management’s Discussion and Analysis.

Management evaluates goodwill and identifiable intangible assets for impairment annually using valuation techniques that involve estimates for discount rates, projected future cash flows and time period calculations, all of which are susceptible to change based on changes in economic conditions and other factors. Future events or changes in the estimates, which are used to determine the carrying value of goodwill and identifiable intangible assets or which otherwise adversely affects their value or estimated lives could have a material adverse impact on the results of operations.

Management evaluates securities for other-than-temporary impairment giving consideration to the extent to which the fair value has been less than cost, estimates of future cash flows, delinquencies and default severity, and the intent and ability of Salisbury to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The consideration of the above factors is subjective and involves estimates and assumptions about matters that are inherently uncertain. Should actual factors and conditions differ materially from those used by management, the actual realization of gains or losses on investment securities could differ materially from the amounts recorded in the financial statements.

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The determination of the obligation and expense for pension and other postretirement benefits is dependent on certain assumptions used in calculating such amounts. Key assumptions used in the actuarial valuations include the discount rate, expected long-term rate of return on plan assets and rates of increase in compensation and health care costs. Actual results could differ from the assumptions and market driven rates may fluctuate. Significant differences in actual experience or significant changes in the assumptions may materially affect the future pension and other postretirement obligations and expense.

RESULTS OF OPERATIONS

For the three month periods ended March 31, 2011 and 2010

Overview

Net income available to common shareholders was $828,000, or $0.49 per common share, for the first quarter ended March 31, 2011 compared with $479,000, or $0.28 per common share, for the first quarter of 2010.

Net income available to common shareholders for the first quarters of 2011 and 2010 is net of preferred stock dividends of $115,000 per quarter.

Tax equivalent net interest income for the first quarter of 2011 increased $470,000, or 10.9%, versus the first quarter of 2010. Average total deposits increased $18.3 million, or 4.4%, versus the first quarter of 2010. Average earning assets increased $6.95 million, or 1.3%, versus the first quarter of 2010. The net interest margin increased 31 basis points to 3.56% for first quarter 2011.

The provision for loan losses for the first quarter of 2011 was $330,000, compared with $180,000 for the first quarter of 2010. Net loan charge-offs were $272,000 and $4,000 for the respective periods.

Non-interest income for the first quarter of 2011 increased $272,000, or 24%, due primarily to increased Trust and Wealth Advisory revenues, due to both growth in and higher valuations of managed assets, and a higher volume of mortgage loan sales.

Non-interest expense for the first quarter of 2011 increased $112,000 versus the first quarter of 2010 due to increases in compensation, premises and equipment, an OREO write-down and FDIC insurance, offset in part by decreases in data processing, professional fees and other operating expenses.

The effective income tax rates for the first quarters of 2011 and 2010 were 18.27% and 11.80%, respectively.

Net Interest Income

Net interest income, on a tax equivalent basis, increased $470,000, or 10.9%, to $4.8 million for the first quarter of 2011 as compared with the first quarter of 2010, and the net interest margin increased 31 basis points to 3.56% from 3.25%, for the respective periods.

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

Three months ended March 31,	Average Balance		Income / Expense		Average Yield / Rate			
(dollars in thousands)	2011	2010	2011	2010	2011		2010	
Loans (a)	$362,436	$333,347	$4,664	$4,487	5.15	%	5.38	%
Securities (c)(d)	145,216	150,385	1,594	1,745	4.39		4.64	
FHLBB stock	6,032	6,032	6	-	0.42		-	
Short term funds (b)	23,753	40,747	33	46	0.56		0.45	
Total earning assets	537,437	530,511	6,297	6,278	4.69		4.73	
Other assets	33,436	32,865						
Total assets	$570,873	$563,376						
Interest-bearing demand deposits	$63,094	$49,158	116	147	0.74		1.20	
Money market accounts	84,306	66,413	110	95	0.52		0.57	
Savings and other	95,454	87,644	97	143	0.41		0.65	
Certificates of deposit	120,688	148,941	548	813	1.82		2.18	
Total interest-bearing deposits	363,542	352,156	871	1,198	0.96		1.36	
Repurchase agreements	12,077	12,601	15	27	0.50		0.86	
FHLBB advances	63,080	75,752	646	758	4.10		4.00	
Total interest-bearing liabilities	438,699	440,509	1,532	1,983	1.40		1.80	
Demand deposits	72,989	66,122						
Other liabilities	3,995	3,791						
Shareholders' equity	55,190	52,954						
Total liabilities & shareholders' equity	$570,873	$563,376						
Net interest income			$4,765	$4,295				
Spread on interest-bearing funds					3.29		2.93	
Net interest margin (e)					3.56		3.25	

(a) Includes non-accrual loans.
(b) Includes interest-bearing deposits in other banks and federal funds sold.
(c) Average balances of securities are based on historical cost.
(d) Includes tax exempt income of $258,000 and $259,000, respectively for 2011 and 2010 on tax-exempt securities whose income and yields are calculated on a tax-equivalent basis.
(e) Net interest income divided by average interest-earning assets.

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

Three months ended March 31, (in thousands)	2011 versus 2010		
Change in interest due to	Volume	Rate	Net
Interest-earning assets			
Loans	$383	$(206)	$177
Securities	(58)	(93)	(151)
FHLBB stock	-	6	6
Short term funds	(21)	8	(13)

Total	304	(285)	19
Interest-bearing liabilities			
Deposits	(73)	(254)	(327)
Repurchase agreements	(1)	(11)	(12)
FHLBB advances	(128)	16	(112)
Total	(202)	(249)	(451)
Net change in net interest income	$506	$(36)	$470

Interest Income

Tax equivalent interest income increased $19,000, or 0.3%, to $6.3 million for the first quarter of 2011 as compared with the first quarter of 2010. Loan income increased $177,000, or 3.9%, primarily due to a $29.0 million, or 8.7%, increase in average loans offset by a 23 basis points decline in the average loan yield. The increase in the average loan volume resulted from strong loan growth during the past year.

Income from securities, on a tax equivalent basis, decreased $145,000, or 8.3%, for the first quarter of 2011 as compared with the first quarter of 2010, as a result of a 23 basis points decline in the average yield and a $5.2 million, or 3.4%, decrease in average volume. The lower yield resulted from the effect of lower market interest rates on securities purchases, calls of agency bonds and prepayments of mortgage backed securities. The decline in volume resulted from the redeployment of some of the cash flows from securities maturities, principal payments and calls, into new loans.

Income from short term funds decreased $13,000 for the first quarter of 2011 as compared with the first quarter of 2010 as a result of a $17.0 million decrease in the average balance, and partially offset by a higher average yield.

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Interest Expense

Interest expense decreased $451,000, or 22.7%, to $1.5 million for the first quarter of 2011 as compared with the first quarter of 2010.

Interest on deposit accounts and retail repurchase agreements decreased $339,000, or 27.7%, as a result of a lower average rate, down 39 basis points to 0.95%, offset in part by a $10.9 million, or 3.0%, increase in the average balance. The lower average rate resulted from the effect of lower market interest rates on rates paid and changes in product mix. The higher average volume resulted from deposit growth.

Interest expense on FHLBB borrowings decreased $112,000 as a result of lower average borrowings, down $12.7 million, offset in part by a higher average borrowing rate, up 10 basis points as compared with 2010. The decline in advances resulted from maturities that were not replaced with new advances.

Provision and Allowance for Loan Losses

The provision for loan losses was $330,000 for the first quarter of 2011, compared with $180,000 for the first quarter of 2010. Net loan charge-offs were $272,000 and $4,000, for the respective quarters. The following table sets forth changes in the allowance for loan losses and other selected statistics:

As of or for the three months ended (dollars in thousands)	March 31, 2011	December 31, 2010	March 31, 2010
Balance, beginning of period	$3,920	$3,847	$3,473
Provision (benefit) or loan losses	330	380	180
Charge-offs			
Real estate mortgages	(260)	(202)	-
Commercial & industrial	-	(95)	-
Consumer	(19)	(18)	(10)
Total charge-offs	(279)	(315)	(10)
Recoveries			
Real estate mortgages	-	-	-
Commercial & industrial	-	-	-
Consumer	7	8	6
Total recoveries	7	8	6
Net (charge-offs) recoveries	(272)	(307)	(4)
Balance, end of period	$3,978	$3,920	$3,649
Loans receivable, gross	$364,337	$355,547	$332,622
Non-performing loans	10,875	10,141	12,064
Accruing loans past due 30-89 days	3,991	1,917	5,383
Ratio of allowance for loan losses:			
to loans receivable, gross	1.09 %	1.10 %	1.10 %
to non-performing loans	36.58	38.65	30.25
Ratio of non-performing loans			
to loans receivable, gross	2.98	2.85	3.62
Ratio of accruing loans past due 30-89 days			
to loans receivable, gross	1.10	0.54	1.62

Reserve coverage at March 31, 2011, as measured by the ratio of allowance for loan losses to gross loans, remained substantially unchanged at 1.09%, as compared with 1.10% at December 31, 2010 and 1.10% a year ago at March 31,

2010. Non-performing loans (non-accrual loans and accruing loans past-due 90 days or more) increased $0.7 million in the first quarter of 2011 to $10.9 million, or 2.98% of gross loans receivable, while accruing loans past due 30-89 days increased $2.1 million to $4.0 million, or 1.10% of gross loans receivable. See "Financial Condition – Loan Credit Quality" for further discussion and analysis.

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The allowance for loan losses represents management's estimate of the probable credit losses inherent in the loan portfolio as of the reporting date. The allowance is increased by provisions charged to earnings and by recoveries of amounts previously charged off, and is reduced by loan charge-offs. Loan charge-offs are recognized when management determines a loan or portion of a loan to be uncollectible. The allowance for loan losses is computed by segregating the portfolio into three components: (1) loans collectively evaluated for impairment: general loss allocation factors for non-impaired loans are segmented into pools of loans based on similar risk characteristics such as loan product, collateral type and loan-to-value, loan risk rating, historical loss experience, delinquency factors and other similar economic indicators, (2) loans individually evaluated for impairment: individual loss allocations for loans deemed to be impaired based on discounted cash flows or collateral value, and (3) unallocated: general loss allocations for other environmental factors.

Management assesses the adequacy of the allowance, and the provisions for loan losses, based on an ongoing review of numerous factors, including the growth and composition of the loan portfolio, historical loss experience over a 10-to-15 year economic cycle, probable credit losses based upon internal and external portfolio reviews, credit risk concentrations, changes in lending policy, current economic conditions, analysis of current levels and asset quality, delinquency levels and trends, estimates of the current value of underlying collateral, the performance of individual loans in relation to contract terms, and other pertinent factors. Determining the adequacy of the allowance at any given period is difficult, particularly during deteriorating or uncertain economic periods, and therefore management takes a relatively long view of loan loss asset quality measures. Management must make estimates using assumptions and information that are often subjective and changing rapidly. The review of the loan portfolio is a continuing event in light of a changing economy and the dynamics of the banking and regulatory environment. Should the economic climate deteriorate, borrowers could experience difficulty and the level of non-performing loans, charge-offs and delinquencies could rise and require increased provisions. In management's judgment, Salisbury remains adequately reserved both against total loans and non-performing loans at March 31, 2011.

Management's loan risk rating assignments, loss percentages and specific reserves are subjected annually to an independent credit review by an external firm. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies could require the Bank to recognize additions to the allowance based on their judgments of information available to them at the time of their examination. The Bank was examined by the Connecticut Department of Banking in April 2010 and by the FDIC in February 2009. No additions to the allowance were requested as a result of these examinations.

Non-interest income

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

Three months ended March 31, (dollars in thousands)	2011	2010	2011 vs. 2010	
Gains on securities, net	$11	$-	$11	(100.00)%
Trust and wealth advisory fees	667	545	122	22.38
Service charges and fees	499	453	46	10.15
Gains on sales of mortgage loans, net	133	42	91	216.66
Mortgage servicing, net	32	33	(1)	(3.03)
Other	59	56	3	5.36
Total non-interest income	$1,401	$1,129	$272	24.09

Gains on securities result from the accretion of discounts on called securities. The increase in Trust and Wealth Advisory revenues resulted primarily from both growth in and higher valuation of managed assets. The increase in service charges relates primarily to higher interchange activity. Sales of mortgage loans were $6.1 million for the first quarter of 2011 versus $4.2 million for the first quarter of 2010.

Non-interest expense

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

Three months ended March 31, (dollars in thousands)	2011	2010	2011 vs. 2010			
Salaries	$1,729	$1,571	$158		(10.06	)%
Employee benefits	634	630	4		0.63	
Premises and equipment	583	515	68		13.20	
Data processing	377	408	(31	)	7.60	
Professional fees	280	402	(122	)	30.35	
FDIC insurance	223	171	52		30.41	
Marketing and community contributions	68	62	6		9.68	
Amortization of intangible assets	56	56	-		-	
Other	474	497	(23	)	(4.63	)
Non-interest expense	$4,424	$4,312	$112		2.60	

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Salary expense increased primarily due to year-over-year merit increases and changes in staffing levels and mix. Increased health benefits costs, due to premium increases and increased staff utilization, were substantially offset by a decline in the net periodic pension expense. Higher premises expense resulted from the Sheffield branch relocation in August 2010 and the Sharon branch renovation. The decrease in data processing expense resulted from a $10,000 per month decrease in Salisbury's core processing contract. Professional fees include legal, consulting, audit and investment management services. The decrease results from lower usage in all categories. FDIC insurance premiums increased as a result of both deposit growth and higher premiums. The decrease in other operating expenses is due to lower spending on printing, loan related services, telecommunications, consumable supplies and other operational items.

Income taxes

The effective income tax rates for the first quarters of 2011 and 2010 were 18.27% and 11.80%, respectively. The increase in the effective rate resulted from a higher proportion of taxable income to total income in the 2011 period versus 2010. Salisbury's effective tax rate is generally less than the 34% federal statutory rate due to holdings of tax-exempt municipal bonds and bank owned life insurance.

Salisbury did not incur Connecticut income tax in 2011 or 2010, other than minimum state income tax, as a result of its utilization of Connecticut tax legislation that permits banks to shelter certain mortgage income from the Connecticut corporation business tax through the use of a special purpose entity called a Passive Investment Company ("PIC"). In accordance with this legislation, in 2004 the Bank formed a PIC, SBT Mortgage Service Corporation. Salisbury's income tax provision reflects the full impact of the Connecticut legislation. Salisbury does not expect to pay other than minimum state income tax in the foreseeable future unless there is a change in the State of Connecticut corporate tax law.

FINANCIAL CONDITION

Overview

Total assets were $577 million at March 31, 2011, up $1,424,000 from December 31, 2010. Loans receivable, net, were $361 million at March 31, 2011, up $8.8 million, or 2.5%, from December 31, 2010. Non-performing assets were $11.7 million at March 31, 2011, up $1.0 million from $10.7 million at December 31, 2010. Reserve coverage, as measured by the ratio of the allowance for loan losses to gross loans, was 1.09%, 1.10% and 1.10%, at March 31, 2011, December 31, 2010 and March 31, 2010, respectively. Deposits were $452 million, up $22 million from $430 million at December 31, 2010.

At March 31, 2011, book value and tangible book value per common share were $27.92 and $21.39, respectively. Salisbury's Tier 1 leverage and total risk-based capital ratios were 8.60% and 14.01%, respectively, and above the "well capitalized" limits as defined by the FRB.

Securities and Short Term Funds

During the first quarter of 2011, securities decreased $22 million to $123 million, and FHLBB advances decreased $17 million, while cash and cash-equivalents (interest-bearing deposits with other banks, money market funds and federal funds sold) increased $16 million to $43 million as Salisbury increased its liquidity position in light of historically low interest rates and growth in volatile deposits.

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

Salisbury does not intend to sell any of its securities and it is not more likely than not that Salisbury will be required to sell any of its securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider any of its securities, other than the five non-agency CMO securities reflecting OTTI, to be OTTI at March 31, 2011.

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In 2009 Salisbury determined that five non-agency CMO securities reflected OTTI and recognized losses for deterioration in credit quality of $1,128,000. Salisbury judged these five securities not to have additional OTTI and all other CMO securities not to be OTTI as of March 31, 2011. It is possible that future loss assumptions could change necessitating Salisbury to recognize future OTTI for further deterioration in credit quality. Salisbury does not intend to sell these securities and it is not more likely than not that Salisbury will be required to sell these securities before recovery of their cost basis.

Accumulated other comprehensive income at March 31, 2011 included net unrealized holding losses, net of tax, of $2.0 million that management deems as temporary impairment.

Loans

During the first quarter of 2011, net loans receivable grew $8.8 million, or 2.49%, to $361.2 million at March 31, 2011, despite soft loan demand and competition for loans in Salisbury's market area. First quarter 2011 loan growth compares with loan growth of $1.6 million, or 0.5%, in the first quarter of 2010.

The composition of loans receivable and loans held-for-sale is as follows:

(in thousands)	March 31, 2011	December 31, 2010
Residential 1-4 family	$183,194	$176,892
Residential 5+ multifamily	3,271	2,889
Construction of residential 1-4 family	4,564	5,988
Home equity credit	34,608	34,164
Residential real estate	225,637	219,933
Commercial	74,519	75,495
Construction of commercial	7,777	7,312
Commercial real estate	82,296	82,807
Farm land	5,221	5,690
Vacant land	12,757	12,979
Real estate secured	325,911	321,409
Commercial and industrial	29,289	25,123
Municipal	4,563	4,338
Consumer	4,574	4,677
Loans receivable, gross	364,337	355,547
Deferred loan origination fees and costs, net	879	822
Allowance for loan losses	(3,978)	(3,920)
Loans receivable, net	$361,238	$352,449
Loans held-for-sale		
Residential 1-4 family	$187	$1,184

Loan Credit Quality

Loan credit quality indicators deteriorated during the first quarter of 2011 versus the fourth quarter of 2010, reflecting the persistent weakness in the local and regional economies and seasonal factors. Non-performing assets increased $990,000 during first quarter 2011 to $11.7 million, or 2.03% of assets, compared with $10.8 million at December 31, 2010, and decreased $0.6 million compared with $12.3 million, or 2.19% of assets, at March 31, 2010. Loans past due 30 days or more increased $3.1 to $12.0 million, or 3.3% of loans, at March 31, 2011, compared with $8.9 million, or 2.5% of loans, at December 31, 2010.

Non-Performing Assets

Salisbury pursues the resolution of all non-performing assets through collections, restructures, voluntary liquidation of collateral by the borrower and legal action. When all attempts to work with a customer to bring the loan current or restructure and bring the loan back to performing status are unsuccessful, Salisbury will initiate appropriate legal action to either foreclose the property, to acquire it by deed in lieu of foreclosure, or to liquidate business assets.

Non-performing assets increased $1.0 million to $11.7 million, or 2.03% of assets, at March 31, 2011, up from $10.7 million, or 1.87% of assets at December 31, 2010. After deteriorating in the first quarter 2010, reflecting the weakness in the local and regional economies, loan credit quality remained relatively stable thereafter. The components of non-performing assets are as follows:

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(in thousands)	March 31, 2011	December 31, 2010
Residential 1-4 family	$2,524	$2,534
Home equity credit	359	362
Commercial	3,061	2,923
Vacant land	3,933	4,018
Real estate secured	9,877	9,837
Commercial and industrial	848	208
Total non-accruing loans	10,725	10,045
Accruing loans past due 90 days and over	150	96
Total non-performing loans	10,875	10,141
Real estate acquired in settlement of loans	866	610
Total non-performing assets	$11,741	$10,751

Changes in non-performing assets during the first quarter of 2011 included $1.4 million of loans placed on non-accruing status, $0.1 million of loan repayments and payoffs, a $0.3 million loan foreclosure, and $259,000 of loan charge-offs.

Substantially all non-performing loans are collateralized with real estate and the repayment of such loans is largely dependent on the sale of the underlying real estate.

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

(in thousands)	March 31, 2011	December 31, 2010
Current	$2,188	$2,931
Past due 001-029 days	829	219
Past due 030-059 days	728	541
Past due 060-089 days	993	1,050
Past due 090-179 days	1,674	683
Past due 180 days and over	4,463	4,717
Total non-performing loans	$10,875	$10,141

At March 31, 2011, 20.4% of non-accrual loans were current with respect to loan payments, compared with 28.9% at December 31, 2010. Loans past due 180 days include a $3.0 million loan secured by residential building lots where Salisbury has initiated a foreclosure action. See Item 1 of Part II, Legal Proceedings, for additional information.

Troubled Debt Restructured Loans

Troubled debt restructured loans include those for which concessions such as reduction of interest rates, other than normal market rate adjustments, or deferral of principal or interest payments, extension of maturity dates, or reduction of principal balance or accrued interest, have been granted due to a borrower's financial condition. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit Salisbury by increasing the ultimate probability of collection.

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

Troubled debt restructured loans decreased $0.6 million to $9.0 million at March 31, 2011, down from $9.6 million at December 31, 2010. The components of troubled debt restructured loans are as follows:

(in thousands)	March 31, 2011	December 31, 2010
Residential 1-4 family	$3,377	$3,377
Commercial	1,672	1,677
Real estate secured	5,049	5,054
Commercial and industrial	274	276
Accruing troubled debt restructured loans	5,323	5,330
Residential 1-4 family	450	552
Commercial	2,520	2,923
Vacant land	536	621
Real estate secured	3,506	4,096
Commercial and Industrial	140	158
Non-accrual troubled debt restructured loans	3,646	4,254
Troubled debt restructured loans	$8,969	$9,584

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Changes in troubled debt restructured loans during the first quarter of 2011 included $42,000 of loan repayments, a $0.3 million loan foreclosure, and $259,000 of loan charge-offs.

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

(in thousands)	March 31, 2011	December 31, 2010
Current	$4,478	$4,798
Past due 001-029 days	688	375
Past due 030-059 days	157	157
Accruing troubled debt restructured loans	5,323	5,330
Current	1,782	2,585
Past due 001-029 days	829	169
Past due 030-059 days	402	378
Past due 090-179 days	351	346
Past due 180 days and over	282	776
Non-accrual troubled debt restructured loans	3,646	4,254
Total troubled debt restructured loans	$8,969	$9,584

At March 31, 2011, 59.4% of troubled debt restructured loans were accruing, of which 84.1% were current with respect to loan payments, as compared with 55.6% and 90.0%, respectively, at December 31, 2010.

Past Due Loans

Loans past due 30 days or more increased $3.1 million during first quarter 2011 to $12.0 million, or 3.3% of gross loans receivable, compared with $8.9 million, or 2.5% of loans, at December 31, 2010, and $11.9 million, or 3.6% of loans at March 31, 2010.

The components of loans past due 30 days or greater are as follows:

(in thousands)	March 31, 2011	December 31, 2010
Past due 030-059 days	$2,991	$1,188
Past due 060-089 days	1,200	730
Past due 090-179 days	150	96
Accruing loans	4,341	2,014
Past due 030-059 days	729	541
Past due 060-089 days	993	1,050
Past due 090-179 days	1,524	587
Past due 180 days and over	4,463	4,716
Non-accrual loans	7,709	6,894
Total loans past due 30 days or greater	$12,050	$8,908

Potential Problem Loans

Salisbury uses credit risk ratings to categorize loans by common financial and structural characteristics that measure the credit strength of a borrower. The rating model has eight risk rating grades, with each grade corresponding to a progressively greater risk of default. Grades 1 through 4 are pass ratings and 5 through 8 are criticized as defined by the regulatory agencies. Risk ratings are assigned to differentiate risk within the portfolio and are reviewed on an ongoing basis and revised, if needed, to reflect changes in the borrowers' current financial position and outlook, risk profiles and the related collateral and structural positions.

Loans rated as "substandard" are loans where the Bank's position is clearly not protected adequately by borrower current net worth or payment capacity. These loans have well defined weaknesses based on objective evidence and include loans where future losses to the Bank may result if deficiencies are not corrected, and loans where the primary source of repayment such as income is diminished and the Bank must rely on sale of collateral or other secondary sources of collection.

Potential problem loans consist of performing loans rated as substandard, and exclude all non-performing and impaired loans. Management cannot predict the extent to which economic or other factors may impact such borrowers future payment capacity and there can be no assurance that such loans will not become 90 days or more past due, be placed on nonaccrual status, restructured, or require increased allowance coverage and provision for loan losses.

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Potential problem loans increased $5.7 million during first quarter 2011 to $13.6 million, or 3.7% of gross loans receivable, compared with $7.9 million, or 2.2% of loans, at December 31, 2010.

The components of potential problem loans are as follows:

(in thousands)	March 31, 2011	December 31, 2010
Residential 1-4 family	$2,692	$2,483
Residential 5+ multifamily	88	89
Construction of residential 1-4 family	-	75
Home equity credit	829	817
Residential real estate	3,609	3,464
Commercial	7,446	2,327
Construction of commercial	471	47
Commercial real estate	7,917	2,374
Farm land	1,173	881
Vacant land	247	249
Real estate secured	12,946	6,968
Commercial and Industrial	608	897
Consumer	65	67
Potential problem loans	$13,619	$7,932

The $5.7 million increase in potential problem loans during the first quarter of 2011 resulted from the classification of $7.1 million of performing loans as substandard, offset in part by $1.2 million of loans placed on non-accruing status and $0.2 million of loan repayments, payoffs and risk rating up-grades. Loans newly classified as substandard include two relationships totaling $5.2 million. The downgrades were based on the customers' current financial position and outlook. Management continues to work closely with these and all potential problem loan customers to remediate financial performance deficiencies.

The past due status of potential problem loans is as follows:

(in thousands)	March 31, 2011	December 31, 2010
Current	$11,502	$5,757
Past due 001-029 days	511	1,233
Past due 001-029 days	359	357
Past due 030-059 days	1,097	534
Past due 090-179 days	150	51
Total potential problem loans	$13,619	$7,932

At March 31, 2011, 84.4% of potential problem loans were current with respect to loan payments, as compared with 72.6% at December 31, 2010.

Deposits and Borrowings

During the three-month period ended March 31, 2011 deposits grew $22 million, or 5.13%, to $452 million, while retail repurchase agreements decreased $5 million to $8 million.

During this period Salisbury's Federal Home Loan Bank of Boston (FHLBB) advances decreased by $17 million from scheduled loan repayments.

Liquidity

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

Salisbury manages its liquidity in accordance with a liquidity funding policy, and also maintains a contingency funding plan that provide for the prompt and comprehensive response to unexpected demands for liquidity. At March 31, 2011, Salisbury's liquidity ratio, as represented by cash, short term available-for-sale securities and marketable assets to net deposits and short term unsecured liabilities, was 25.9%, down from 28.4% at December 31, 2010. Management believes Salisbury's funding sources will meet anticipated funding needs.

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Operating activities for the three-month period ended March 31, 2011 provided net cash of $3.3 million. Investing activities provided net cash of $13.3 million, principally from $23.0 million in securities repayments, maturities and calls, offset by funding of $9.4 million of net loan advances. Financing activities utilized net cash of $367,000, principally for $16.9 million of scheduled FHLB advance repayments, a $4.9 million decrease in repurchase agreements and $583,000 of cash dividends, offset in part by a $22.0 million net increase in deposits.

At March 31, 2011, Salisbury had outstanding commitments to fund new loan originations of $8.5 million and unused lines of credit of $47.3 million. Salisbury believes that these commitments can be met in the normal course of business. Salisbury believes that its liquidity sources will continue to provide funding sufficient to support operating activities, loan originations and commitments, and deposit withdrawals.

CAPITAL RESOURCES

Shareholders' equity was $55.9 million at March 31, 2011, up $932,000 from December 31, 2010. Book value and tangible book value per share were $27.92 and $21.39, respectively, compared with $27.37 and $20.81, respectively, at December 31, 2010. Contributing to the increase in shareholders' equity for the first quarter of 2011 was net income of $943,000, other comprehensive income of $571,000, less common and preferred stock dividends of $472,000 and $110,000, respectively. Other comprehensive income includes unrealized gains on securities available-for-sale, net of tax, of $(2,022,000) and pension plan income, net of tax, of $(1,176,000).

Capital Requirements

Salisbury and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Under current regulatory definitions, Salisbury and the Bank are considered to be "well capitalized" for capital adequacy purposes. As a result, the Bank pays lower federal deposit insurance premiums than banks that are not "well capitalized." Salisbury and the Bank's regulatory capital ratios are as follows:

	Well capitalized	March 31, 2011 Salisbury	March 31, 2011 Bank	December 31, 2010 Salisbury	December 31, 2010 Bank
Total Capital (to risk-weighted assets)	10.00 %	14.01 %	11.23 %	13.91 %	11.11 %
Tier 1 Capital (to risk-weighted assets)	6.00	12.92	10.16	12.84	10.06
Tier 1 Capital (to average assets)	5.00	8.60	6.90	8.39	6.72

A well capitalized institution, which is the highest capital category for an institution as defined by the Prompt Corrective Action Regulations issued by the FDIC and the FRB, is one which maintains a Total Risk-Based ratio of 10% or above, a Tier 1 Risk-Based ratio of 6% or above and a Leverage ratio of 5% or above, and is not subject to any written order, written agreement, capital directive, or prompt corrective action directive to meet and maintain a specific capital level. Maintaining strong capital is essential to Salisbury's and the Bank's safety and soundness. However, the effective management of capital resources requires generating attractive returns on equity to build value for shareholders while maintaining appropriate levels of capital to fund growth, meet regulatory requirements and be consistent with prudent industry practices.

Dividends

During the three month period ended March 31, 2011 Salisbury paid $110,000 in preferred stock dividends to the U.S. Treasury's TARP CPP, and $472,000 in common stock dividends.

The Board of Directors of Salisbury declared a common stock dividend of $0.28 per common share payable on May 25, 2011 to shareholders of record on May 11, 2011. Common stock dividends, when declared, will generally be paid the last business day of February, May, August and November, although Salisbury is not obligated to pay dividends on those dates or at any other time.

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

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

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

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

IMPACT OF INFLATION AND CHANGING PRICES

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

FORWARD-LOOKING STATEMENTS

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

(a) assumptions concerning future economic and business conditions and their effect on the economy in general and on the markets in which Salisbury and the Bank do business; and

(b) expectations for revenues and earnings for Salisbury and the Bank.

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

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

(a) the risk of adverse changes in business conditions in the banking industry generally and in the specific markets in which the Bank operates;

(b) changes in the legislative and regulatory environment that negatively impacts Salisbury and Bank through increased operating expenses;

(c) increased competition from other financial and non-financial institutions;

(d) the impact of technological advances; and

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

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

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

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

The ALCO manages interest rate risk using income simulation to measure interest rate risk inherent in Salisbury’s financial instruments at a given point in time by showing the effect of interest rate shifts on net interest income over a 24-month horizon. In management’s March 31, 2011 analysis, three of the simulations incorporate management’s growth assumptions over the simulation horizons, with allowances made for loan, deposit and security product mix shifts in selected interest rate scenarios, such as movements between lower rate savings and money market deposit accounts and higher rate time deposits, and changes in the reinvestment of loan and securities cash flows. The fourth simulation incorporates a static balance sheet scenario. Additionally, the simulations take into account the specific re-pricing, maturity and prepayment characteristics of differing financial instruments that may vary under different interest rate scenarios.

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

The ALCO uses four interest rate scenarios to evaluate interest risk exposure and may vary these interest rate scenarios to show the effect of steepening or flattening changes in yield curves as well as parallel changes in interest rates. At March 31, 2011 the ALCO used the following interest rate scenarios: (1) unchanged interest rates; (2) immediately rising interest rates – immediate non-parallel upward shift in market interest rates ranging from 300 basis points for short term rates to 150 basis points for the 10-year Treasury; (3) immediately falling interest rates – immediate non-parallel downward shift in market interest rates ranging from 0 basis points for short term rates to 100 basis points for the 10-year Treasury; and (4) gradually rising interest rates – gradual non-parallel upward shift in market interest rates ranging from 400 basis points for short term rates to 185 basis points for the 10-year Treasury. Deposit rates are assumed to shift by lesser amounts due to their relative historical insensitivity to market interest rate movements. Further, deposits are assumed to have certain minimum rate levels below which they will not fall. Because income simulations assume that Salisbury’s balance sheet will remain static over the simulation horizon, the results do not reflect adjustments in strategy that the ALCO could implement in response to rate shifts.

As of March 31, 2011 net interest income simulations indicated that the Bank’s exposure to changing interest rates over the simulation horizons remained within its tolerance levels. The following table sets forth the estimated change in net interest income from an unchanged interest rate scenario over the periods indicated for changes in market interest rates using the Bank’s financial instruments as of March 31, 2011:

As of March 31, 2011	Months 1-12		Months 13-24	
Immediately rising interest rates (management’s growth assumptions)	(13.91	)%	(13.53	)%
Immediately falling interest rates (management’s growth assumptions)	0.77		(1.25	)
Gradually rising interest rates (static balance sheet)	(14.84	)	(18.18	)

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

While the ALCO reviews simulation assumptions and back-tests simulation results to ensure that they are reasonable and current, income simulation may not always prove to be an accurate indicator of interest rate risk or future net interest margin. Over time, the re-pricing, maturity and prepayment characteristics of financial instruments and the composition of Salisbury's balance sheet may change to a different degree than estimated. Simulation modeling assumes a relatively static balance sheet that does not necessarily reflect Salisbury's expectation for future balance sheet growth, which is a

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function of the business environment and customer behavior. Another significant simulation assumption is the sensitivity of core savings deposits to fluctuations in interest rates. Income simulation results assume that changes in both core savings deposit rates and balances are related to changes in short-term interest rates. The assumed relationship between short-term interest rate changes and core deposit rate and balance changes used in income simulation may differ from the ALCO's estimates. Lastly, mortgage-backed securities and mortgage loans involve a level of risk that unforeseen changes in prepayment speeds may cause related cash flows to vary significantly in differing rate environments. Such changes could affect the level of reinvestment risk associated with cash flow from these instruments, as well as their market value. Changes in prepayment speeds could also increase or decrease the amortization of premium or accretion of discounts related to such instruments, thereby affecting interest income.

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

As of March 31, 2011 (in thousands)	Rates up 100bp	Rates up 200bp
U.S. Treasury notes	$(257)	$(500)
U.S. Government agency notes	(769)	(1,613)
Municipal bonds	(3,965)	(7,522)
Mortgage backed securities	(408)	(990)
Collateralized mortgage obligations	(749)	(1,624)
SBA pools	(17)	(30)
Total available-for-sale debt securities	$(6,165)	$(12,279)

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Salisbury's management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the disclosure controls and procedures as of March 31, 2011. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective.

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

In addition, based on an evaluation of its internal controls over financial reporting, no change in Salisbury's internal control over financial reporting occurred during the quarter ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, Salisbury's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Bank is involved in various claims and legal proceedings arising out of the ordinary course of busi