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SALISBURY BANCORP INC
Form 10QSB
August 12, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2002

OR

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

For the transition period from _____ to _____

Commission file number 1-14854

Salisbury Bancorp, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Connecticut

06-1514263

(State or Other Jurisdiction of
Incorporation or Organization)

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

5 Bissell Street Lakeville Connecticut

06039

(Address of principal executive offices)

(Zip Code)

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

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

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

Transitional Small Business Disclosure Format: Yes No
Documents Incorporated by Reference: None

APPLICABLE ONLY TO CORPORATE ISSUERS:

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 1, 2002

1,423,238

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SALISBURY BANCORP, INC.

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Part I--FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

SALISBURY BANCORP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except per share data)

	JUNE 30, 2002 ----- (unaudited)	DECEMBER 31 2001 -----
ASSETS		
Cash & due from banks:		
Non-Interest Bearing	\$ 7,415	\$ 7,184
Interest Bearing	244	258
Federal funds sold	8,275	18,150
Money market mutual funds	514	618
	-----	-----
Cash and cash equivalents	16,448	26,210
Investment Securities:		
Held to maturity securities at amortized cost	327	400
Available-for-sale securities at market value	120,278	102,248
Federal Home Loan Bank stock, at cost	2,945	2,945
Loans:		
Commercial, financial and agricultural	10,068	10,797
Real estate-construction and land development	4,786	3,935
Real estate-residential	97,932	102,201
Real estate-commercial	17,323	17,423
Consumer	8,725	10,030
Other	169	125
Allowance for loan losses	(1,473)	(1,445)
	-----	-----
Net loans	137,530	143,066
Bank premises & equipment	2,729	2,683
Investment in real estate	75	75
Accrued interest receivable	1,844	1,681
Intangible assets on branch acquisition	3,145	3,227
Other assets	805	1,067
	-----	-----
Total Assets	\$ 286,126 =====	\$ 283,602 =====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand	\$ 36,441	\$ 37,702
Savings & NOW	61,961	48,435
Money Market	43,044	48,897
Time	64,322	66,317
	-----	-----
Total Deposits	205,768	201,351
Federal Home Loan Bank advances	52,397	53,004
Due to broker	653	4,204

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Other liabilities	1,982	1,680
	-----	-----
Total Liabilities	260,800	260,239
	-----	-----
Shareholders' equity:		
Common stock, par value \$.10 per share;		
Authorized 3,000,000 shares		
Issued and outstanding shares: 1,423,238 at June 30, 2002	142	142
and 1,422,358 at December 31, 2001		
Additional paid-in capital	2,304	2,281
Retained earnings	22,064	21,219
Accumulated other comprehensive income (loss)	816	(279)
	-----	-----
Total Shareholders' Equity	25,326	23,363
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 286,126	\$ 283,602
	=====	=====

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

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SALISBURY BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands, except per share data)
June 30, 2002 and 2001
(unaudited)

	Six Months Ended		Three Mo
	June 30		Jun
	2002	2001	2002
	----	----	----
Interest and dividend income:			
Interest and fees on loans	\$5,007	\$5,748	\$2,438
Interest and dividends on securities:			
Taxable	2,008	2,104	1,028
Tax-exempt	965	433	531
Dividends on equity securities	72	114	37
Other interest	72	115	29
	-----	-----	-----
Total interest and dividend income	8,124	8,514	4,063
	-----	-----	-----
Interest expense:			
Interest on deposits	2,138	2,777	1,050
Interest on Federal Home Loan Bank advances	1,423	1,503	713
	-----	-----	-----
Total interest expense	3,561	4,280	1,763
	-----	-----	-----

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Net interest and dividend income	4,563	4,234	2,300
Provision for loan losses	75	75	38
	-----	-----	-----
Net interest and dividend income after provision for loan losses	4,488	4,159	2,262
	-----	-----	-----
Other income:			
Trust department income	511	511	258
Service charges on deposit accounts	235	245	121
Gain on sale of available-for-sale securities	206	43	191
Other income	394	336	212
	-----	-----	-----
Total other income	1,346	1,135	782
	-----	-----	-----
Other expense:			
Salaries and employee benefits	2,112	1,864	1,060
Occupancy expense	148	115	75
Equipment expense	241	246	118
Data processing	253	253	119
Other expense	1,045	756	612
	-----	-----	-----
Total other expense	3,799	3,234	1,984
	-----	-----	-----
Income before income taxes	2,035	2,060	1,060
Income taxes	563	683	310
	-----	-----	-----
Net income	\$1,472	\$1,377	\$ 750
	=====	=====	=====
Earnings per common share outstanding	\$ 1.03	\$.96	\$.53
	=====	=====	=====
Earnings per common share outstanding, assuming dilution	\$ 1.03	\$.96	\$.53
	=====	=====	=====
Dividends per share	\$.44	\$.42	\$.22
	=====	=====	=====

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

SALISBURY BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

Six months ended June 30, 2002 and 2001
(unaudited)

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	2002 ----	2001 ----
Cash flows from operating activities:		
Net income	\$ 1,472	\$ 1,377
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of securities, net	331	(69)
Gain on sales of available-for-sale securities, net	(206)	(43)
Provision for loan losses	75	75
Depreciation and amortization	118	152
Amortization of intangible assets from branch acquisition	82	0
Accretion of fair value adjustment on deposits	(80)	0
(Increase) decrease in interest receivable	(163)	32
Increase in prepaid expenses	(63)	(41)
Increase in other assets	22	(97)
Increase in taxes payable	(45)	(201)
Decrease in accrued expenses	(115)	(20)
Increase (decrease) in interest payable	(25)	8
Increase (decrease) in other liabilities	20	(8)
	-----	-----
Net cash provided by operating activities	1,423	1,165
	-----	-----
Cash flows from investing activities:		
Purchase of Federal Home Loan Bank stock	(0)	(15)
Purchases of available-for-sale securities	(53,960)	(55,537)
Proceeds from sales of available-for-sale securities	24,381	38,372
Proceeds from maturities of available-for-sale securities	9,733	11,330
Proceeds from maturities of held-to-maturity securities	65	5
Net (increase) decrease in loans	5,452	(7,579)
Recoveries of loans previously charged-off	8	98
Capital expenditures	(164)	(173)
	-----	-----
Net cash used in investing activities	(14,485)	(13,499)
	-----	-----

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

SALISBURY BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

Six months ended June 30, 2002 and 2001

(unaudited)

(continued)

2002	2001
----	----

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Cash flows from financing activities:

Net increase in demand deposits, NOW and savings accounts	6,412	110
Net decrease in time deposits	(1,915)	(1,516)
Advances from Federal Home Loan Bank	0	10,000
Principal payments on advances from Federal Home Loan Bank	(607)	(711)
Dividends paid	(612)	(857)
Net repurchase of common stock	22	(611)
	-----	-----
Net cash provided by financing activities	3,300	6,415
	-----	-----
Net decrease in cash and cash equivalents	(9,762)	(5,919)
Cash and cash equivalents at beginning of period	26,210	13,759
	-----	-----
Cash and cash equivalents at end of period	\$ 16,448	\$ 7,840
	=====	=====
Supplemental disclosures:		
Interest paid	\$ 3,586	\$ 4,272
Income taxes paid	596	863

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

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SALISBURY BANCORP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying condensed interim financial statements are unaudited and include the accounts of Salisbury Bancorp, Inc. (the "Company"), those of Salisbury Bank and Trust Company (the "Bank"), its wholly-owned subsidiary and the Bank's subsidiary, S.B.T. Realty, Inc. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to SEC Form 10-QSB. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. All significant intercompany accounts and transactions have been eliminated in the consolidation. These financial statements reflect, in the opinion of Management, all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the Company's financial position and the results of its operations and its cash flows for the periods presented. Operating results for the six months ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2001 Annual Report on Form 10-KSB.

The year-end condensed balance sheet data was derived from audited financial

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statements, but does not include all disclosures required by GAAP.

NOTE 2 -COMPREHENSIVE INCOME

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

Comprehensive Income

	Three months ended		Six months ended	
	June 30,		June 30,	
	2002	2001	2002	2001
	----	----	----	----
Net income	\$ 750	\$ 735	\$1,472	\$1,377
Net unrealized (losses) gains on securities during period	1,231	(338)	1,095	306
	-----	-----	-----	-----
Comprehensive income	\$1,981	\$ 397	\$2,567	\$1,683
	=====	=====	=====	=====

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NOTE 3 - COMPUTATION OF EARNINGS PER SHARE

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

	(amounts in thousands, except per (unaudited))	
	Income (Numerator)	Shares (Denominator)
	-----	-----
Six months ended June 30, 2002		
Basic EPS		
Net income and income available to common stockholders	\$1,472	1,423
Effect of dilutive securities, options	--	0
Diluted EPS		
Income available to common stockholders and assumed conversions	\$1,472	1,423
Six months ended June 30, 2001		
Basic EPS		

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Net income and income available to common stockholders	\$1,377	1,441
Effect of dilutive securities, options	--	0
Diluted EPS		
Income available to common stockholders and assumed conversions	\$1,377	1,441

(amounts in thousands, except per
(unaudited)

	Income (Numerator)	Shares (Denominator)
	-----	-----
Three months ended June 30, 2002		
Basic EPS		
Net income and income available to common stockholders	\$ 750	1,423
Effect of dilutive securities, options	0	
Diluted EPS		
Income available to common stockholders and assumed conversions	\$ 750	1,423
Three months ended June 30, 2001		
Basic EPS		
Net income and income available to common stockholders	\$ 735	1,435
Effect of dilutive securities, options	--	0
Diluted EPS		
Income available to common stockholders and assumed conversions	\$ 735	1,435

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NOTE 4 - IMPACT OF NEW ACCOUNTING STANDARDS

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

Statement of Financial Accounting Standards No. 141 improves the consistency of the accounting and reporting for business combinations by requiring that all business combinations be accounted for under a single method - the purchase

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method. Use of the pooling-of-interests method is no longer permitted. Statement No. 141 requires that the purchase method be used for business combinations initiated after June 30, 2001. The impact of adopting this Statement on the consolidated financial statements was not material.

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

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Part I - FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis

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Overview

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

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

In order to provide a strong foundation for building shareholder value and serving its customers, the Company remains committed to investing in the technological and human resources necessary to implement new personalized financial products and to deliver them with the highest quality of service. The Bank's internet product called "SBTNET" which is now just over a year old, has over 1100 customers who utilize this product. As reported in the first quarter, the Bank's home page of the website was remodeled to accommodate the expansion of its "free" online services "SBT V-CARD" and "SBT PAL". These additions to our online services have already proven popular with our customers. The Bank has plans to continue enhancing its Internet banking products for customers.

The Company's net income for the six months ended June 30, 2002 was \$1,472,000 as compared to \$1,377,000 for the same period ended June 30, 2001. This represents an increase of \$95,000 or 6.9%. Earnings per diluted share increased

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7.29% for the first six months of 2002 and amounted to \$1.03 per diluted share as compared to \$.96 earnings per diluted share for the same period a year ago. The improvement in net income is primarily the result of an increase in net interest and dividend income, reductions in interest expense, as well as a reduction in income taxes that resulted from increased income from tax exempt securities.

The Company's assets at June 30, 2002 totaled \$286,126,000 which represents growth of \$2,524,000 since December 31, 2001 when assets totaled \$283,602,000. The moderate growth is primarily the result of continuing efforts to develop new business. As reported previously, the asset mix continues to change as the cash received from the acquisition of the Canaan branch, which was invested in Federal Funds at December 31, 2001, has been invested in the securities portfolio. The securities portfolio has also increased as a continuing economic environment of generally lower interest rates that promote refinancing to longer term fixed rate products and continued aggressive competition in the Bank's market area have resulted in a decrease in total net loans outstanding to \$137,530,000 at June 30, 2002. This compares to total net loans outstanding of \$143,066,000 at December 31, 2001 and represents a decrease of 3.87%. Overall however, the increase in the Company's aggregate base of earning assets coupled with the change in asset mix has resulted in an increase in net interest income. The Company continues to carefully monitor the quality of its assets. During the first six months of 2002, nonperforming loans increased to \$793,000 from \$587,000 at December 31, 2001. During the second quarter of 2002 however, nonperforming loans decreased to \$793,000 from \$1,022,000 at March 31, 2002. The net increase of \$206,000 since December 31, 2001 continues to represent less than one percent of total loans outstanding and is not considered to be significant or indicative of any trend. Currently, the Company does not have any assets classified as Other Real Estate Owned; therefore, total nonperforming loans represent total nonperforming assets as well. Traditionally, seasonal cash flows result in a slight decrease in deposits during this period, however continuing efforts to develop new business have resulted in an increase in deposits of \$4,417,000 or 2.19% to \$205,768,000 at June 30, 2002. This compares to total deposits of \$201,351,000 at December 31, 2001.

As a result of the Company's second quarter financial performance, the Board of Directors declared a second quarter cash dividend of \$.22 per common share. This compares to a cash dividend of \$.21 per common share that was paid for the second quarter of 2001. This dividend was paid on July 26, 2002 to shareholders of record as of June 29, 2002. Year-to-date dividends for the first six months of 2002 total \$.44 per common share. This compares to total dividends of \$.42 per common share for the same period in 2001.

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The Company's risk-based capital ratios at June 30, 2002, which included the risk weighted assets and capital of the Salisbury Bank and Trust Company were 15.38% for tier 1 capital and 16.48% for total capital. The Company's leverage ratio was 7.68% at June 30, 2002.

SIX MONTHS ENDED JUNE 30,2002
AS COMPARED TO SIX MONTHS ENDED JUNE 30, 2001

Net Interest Income

The Company's earnings are primarily dependent upon net interest income and noninterest income from its community banking operations with net interest income being the largest component of the Company's revenues. Net interest and

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dividend income is the difference between interest and dividends earned on the loan and securities portfolios and interest paid on deposits and advances from the Federal Home Loan Bank. Noninterest income is primarily derived from the Trust Department and from service charges and other fees related to deposit and loan accounts. For the following discussion, interest income is presented on a fully taxable-equivalent ("FTE") basis. FTE interest income restates reported interest income on tax exempt loans and securities as if such interest were taxed at the Company's federal tax rate of 34% for all periods presented.

(amounts in thousands) (unaudited)		
Six months ended June 30	2002	2001
	----	----
Interest and Dividend Income (financial statements)	\$8,124	\$8,514
Tax Equivalent Adjustment	497	223
	-----	-----
Total Interest Income (on an FTE basis)	8,621	8,737
Interest Expense	3,561	4,280
	-----	-----
Net Interest Income-FTE	\$5,060	\$4,457
	=====	=====

Interest and dividend income on an FTE basis for the six months ended June 30, 2002 totaled \$8,621,000 as compared to \$8,737,000 for the same time period in 2001. This is a decrease of \$116,000 or 1.33%. Although there is an increase in earning assets, this decrease in interest and dividend income is primarily the result of an economic environment of generally lower interest rates. A continuing change in the mix of earning assets which reflects an increase in tax exempt securities has resulted in a significant increase in the tax equivalent adjustment to \$497,000 for the first six months of 2002 as compared to \$223,000 for the same period in 2001. This is an increase of \$274,000 or 123%.

Interest expense on deposits for the first six months of 2002 totaled \$2,138,000 compared to \$2,777,000 for the same period in 2001. This represents a decrease of \$639,000 or 23.01%. Although deposits increased, primarily as the result of the Canaan Branch acquisition during the fourth quarter of 2001, generally lower interest rates resulted in the decrease in interest expense. Interest on Federal Home Loan Bank advances decreased \$80,000 or 5.32% for the same six month period being compared. This is the result of a decrease in funds borrowed to \$52,397,000 in 2002 from \$53,004,000 in 2001.

Overall, net interest and dividend income (on an "FTE" basis) increased \$603,000 or 13.53% to \$5,060,000 for the first six months of 2002. This compares to \$4,457,000 for the same period in 2001.

Noninterest Income

Noninterest income totaled \$1,346,000 for the six months ended June 30, 2002 as compared to \$1,135,000 for the six months ended June 30, 2001. Trust Department income remained consistent at \$511,000 for each year. Service charges decreased \$10,000 or 4.1% to \$235,000 at June 30, 2002 compared to \$245,000 at June 30, 2001. The first six months of

year 2002 produced a gain on the sale of Available-for Sale securities in the amount of \$206,000, as movement in the markets presented opportunities for the

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Company to enhance the return from the securities portfolio and at the same time produce gains on the sale of certain Available-for-Sale securities. Other income increased \$58,000 or 17.26% to \$394,000 for the first six months of 2002 compared to \$336,000 for the corresponding period in 2001. This increase is primarily the result of increased fees generated from the increased refinancing activity in the secondary mortgage market.

Noninterest Expense

Noninterest expense totaled \$3,799,000 for the first six months of 2002 as compared to \$3,234,000 for the same period in 2001. This is an increase of \$565,000 or 17.47%. Salary and employee benefit expenses increased \$248,000 or 13.30%. This is primarily the result of the addition of staff for the Canaan Branch that was opened in September of 2001. Additional staff was also hired to service the increase in new business at the Bank's other facilities. Annual pay raises and the increasing costs of employee benefits have also contributed to the increased expense. Occupancy and equipment expenses increased \$28,000 or 7.76% to \$389,000 when comparing the first six months of 2002 to the same six months expense of \$361,000 in 2001. This is primarily the result of some one time maintenance expenses on the facilities. Data processing costs remained the same when comparing June 30, 2002 to June 30, 2001. Other operating expenses totaled \$1,045,000 at June 30, 2002 and compares to other operating expenses that totaled \$756,000 at June 30, 2001. This is an increase of \$289,000 or 38.23%. This is primarily the result of the amortization of intangible assets from the Canaan Branch acquisition that occurred during the last quarter of 2001 in addition to other operating costs associated with having the new branch operational. The balance of the increase represents increases normally associated with the operations of the Company.

Income Taxes

The income tax provision for the first six months of 2002 totaled \$563,000 in comparison to \$683,000 for the first six months of 2001. The decrease is primarily the result of the impact of an increase in tax exempt interest income earned from the securities portfolio.

Net Income

Overall, net income totaled \$1,472,000 for the six months ended June 30, 2002. This compares to net income of \$1,377,000 for the corresponding period in 2001. This is an increase of \$95,000 or 6.90% and represents earnings of \$1.03 per diluted share. This compares to earnings per diluted share of \$.96 for the same period in 2001. The improvement in net income is primarily a reflection of an increase in interest earning assets, which has resulted in an increase in total net interest income.

THREE MONTHS ENDED JUNE 30, 2002 AS COMPARED TO THREE MONTHS ENDED JUNE 30, 2001

For the following discussion, interest income is presented on a fully taxable equivalent ("FTE") basis. FTE interest restates reported interest income on tax-exempt loans and securities as if such interest were taxed at the Company's federal income tax rate of 34% for all periods presented.

(amounts in thousands) (unaudited)

Three months ended June 30,	2002	2001
	----	----
Interest and Dividend Income	\$4,063	\$4,215

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(financial statements)

Tax Equivalent Adjustment	274	130
Total interest and dividend income (on an FTE basis)	4,337	4,345
Interest Expense	1,763	2,076
Net Interest and Dividend Income-FTE	\$2,574	\$2,269

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Net Interest Income

Total interest and dividend income on a FTE basis equaled \$4,337,000 for the three months ended June 30, 2002 as compared to \$4,345,000 for the same period in 2001. Although there is an increase in earning assets, this decrease in interest and dividend income is primarily the result of an economic environment of generally lower interest rates. As mentioned previously, a change in the mix of earning assets has resulted in an increased portfolio of tax exempt securities which in turn has resulted in a significant increase in the tax equivalent adjustment to \$274,000 in 2002 from \$130,000 in 2001. This is an increase of \$144,000 or 111%.

Interest expense on deposits decreased \$277,000 for the quarter to \$1,050,000, compared to \$1,327,000 for the same quarter in 2001. Although deposits have increased, this decrease is primarily the result of generally lower interest rates. Interest expense on Federal Home Loan Bank advances decreased \$36,000 or 4.81% in 2002 to \$713,000. This compares to interest expense of \$749,000 for the corresponding period in 2001. The decrease is primarily attributable to the reduced volume of FHLB borrowings during the first six months of 2002.

As a result, net interest and dividend income on an FTE basis for the three months ended June 30, 2002 totaled \$2,574,000 as compared to \$2,269,000 for the same period in 2001. The increase was \$305,000 or 13.44%.

Noninterest Income

Noninterest income totaled \$782,000 for the three months ended June 30, 2002, as compared to \$610,000 for the three months ended June 30, 2001. This increase is primarily the result of an increase of \$169,000 in gains on sales of Available-For Sale securities during 2002.

Noninterest Expense

Noninterest expense totaled \$1,984,000 for the three months ended June 30, 2002 as compared to \$1,622,000 for the same period in 2001. This represents an increase of \$362,000 or 22.32%. Salaries and benefits increased \$125,000 or 13.37% to \$1,060,000 for the three months ended June 30, 2002. This compares to expenditures of \$935,000 for the corresponding period in 2001. As mentioned previously, additional staff was hired for the Canaan Branch which opened during the fourth quarter of 2001 and the expenses associated with the new branch will continue to reflect increases for each quarter when comparing the year 2002 to the year 2001. Additionally, annual salary increases and increased costs of employee benefits also contribute to the increase in salary and employee benefit expenses. Occupancy and equipment expenses increased to \$193,000 from \$174,000. This is an increase of \$19,000 or 10.92%. This is primarily the result of maintaining the Canaan Branch which opened in the fall of 2001. Other operating expenses totaled \$612,000 for the three months period ended June 30, 2002. This is an increase of \$217,000 or 54.94% when comparing the three months ended June 30, 2001 other operating expenses of \$395,000. This increase is primarily the result of the operating costs of the additional branch, as mentioned previously,

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however, the Company incurred additional costs relating to Trust operations that also influenced the increase. Data processing expenses remained consistent when comparing the second quarter of 2002 to the second quarter of 2001.

Income Taxes

The income tax provision for the three months ended June 30, 2002 totaled \$310,000 in comparison to an income tax provision of \$354,000 for the same period in 2001. The decrease is primarily the result of the impact of an increase in tax exempt interest income earned from the securities portfolio.

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Net Income

Overall, net income totaled \$750,000 for the second quarter of 2002 compared to \$735,000 for the comparable period of 2001. This is an increase of \$15,000 and represents earnings per share of \$.53 per diluted share. This compares to earnings per diluted share of \$.51 for the same six month period of 2001. The improvement in net income is primarily a reflection of an increase in interest earning assets, which has resulted in an increase in total net interest income.

Provisions and Allowances for Loan Losses

Total loans at June 30, 2002 were \$139,003,000 which compares to total loans of \$144,511,000 at December 31, 2001. This is a decrease of \$5,508,000 or 3.81%. At June 30, 2002 approximately 86% of the Bank's loan portfolio was related to real estate loans and although the portfolio decreased during the second quarter of 2002, the concentration remained consistent as approximately 86% of the portfolio was related to real estate at December 31, 2001. There were no material changes in the composition of the loan portfolio during this period.

Credit risk is inherent in the business of extending loans. The Company maintains an allowance or reserve for credit losses through charges to earnings. The loan loss provision for the period ended June 30, 2002 was \$75,000 and was the same as the corresponding period of 2001.

The Bank formally determines the adequacy of the allowance on a monthly basis. No material changes have been made in the estimation methods or assumptions that the Bank uses in making this determination during the period ended June 30, 2002. This determination is based on assessment of credit quality or "risk rating" of loans by senior management, which is submitted to the Board of Directors for approval. Loans are initially risk rated when originated. If there is deterioration in the credit, the risk rating is adjusted accordingly.

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

1. Non-accrual status;
2. Loans over 90 days delinquent;

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

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

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

The credit card delinquency and loss history is evaluated and given a special loan loss factor because management recognizes the higher risk involved in such loans. Concentrations of credit and local economic factors are also evaluated on a periodic basis. Historical average net losses by loan type are examined as well as trends by type. The Bank's loan mix over the same period of time is also analyzed. A loan loss allocation is made for each type of loan multiplied by the loan mix percentage for each loan type to produce a weighted average factor. There have been no reallocations within

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the allowance during the period ended June 30, 2002.

At June 30, 2002, the allowance for loan losses totaled \$1,473,000 representing 185.75% of nonperforming loans, which totaled \$793,000, and 1.06% of total loans outstanding of \$139,003,000. This compared to \$1,445,000 representing 246.17% of nonperforming loans, which totaled \$587,000 and 1.00% of total loans of \$144,511,000 at December 31, 2001. Management does not believe that this increase of \$206,000 in nonperforming loans represents any trend towards increased delinquency of loans, which would be likely to have an effect on the level of the allowance for loan losses. A total of \$55,000 loans were charged off by the Bank during each of the six month periods ended June 30, 2002 and June 30, 2001, respectively. These charged off loans consisted primarily of loans to individuals. A total of \$8,000 of previously charged off loans was recovered during the six month period ended June 30, 2002. Recoveries for the corresponding period in 2001 totaled \$98,000. When comparing the two periods, and excluding the one large recovery in 2001 of \$82,000, net charge-offs were \$47,000 for the period ended June 30, 2002 and \$39,000 for the same period in 2001, neither of which significantly impacted the level of the allowance for loan losses. Management believes that the allowance for loan losses is adequate. While management estimates loan losses using the best available information, no assurances can be given that future additions to the allowance will not be necessary based on changes in economic and real estate market conditions, further information obtained regarding problem loans, identification of additional problem loans and other factors, both within and outside of management's control. Additionally, with expectations of the Bank to grow its existing portfolio, future additions to the allowance may be necessary to maintain adequate coverage ratios.

Capital

At June 30, 2002, the Company had \$25,326,000 in shareholder equity compared to

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\$23,363,000 at December 31, 2001. This represents an increase of \$1,963,000 or 8.40%. Several components contributed to the change since December 2001. At June 30, 2002, earnings year to date totaled \$1,472,000. Market conditions have resulted in a positive adjustment to unrealized comprehensive income of \$1,095,000. The Company issued 880 new shares of common stock under the terms of the Director Stock Retainer Plan during the second quarter of 2002, which resulted in an increase in capital of \$23,000. The Company also declared two quarterly cash dividends in 2002 resulting in a decrease in capital of \$626,000. Under current regulatory definitions, the Bank is "well capitalized", the highest rating defined under the Federal Deposit Insurance Corporation Improvement Act. As a result, the Bank pays the lowest deposit premiums possible. One primary measure of capital adequacy for regulatory purposes is based on the ratio of risk-based capital to risk weighted assets. This method of measuring capital adequacy helps to establish capital requirements that are more sensitive to the differences in risk associated with various assets. It takes into account off-balance sheet exposure in assessing capital adequacy and it minimizes disincentives to holding liquid, low risk assets. At June 30, 2002, the Company had a risk-based capital ratio of 16.32% compared to 16.21% at December 31, 2001. The leverage ratio at June 30, 2002 was 7.61% which compares to 7.87% at December 31, 2001. These capital ratios substantially exceed all applicable requirements for "well capitalized" institutions as established by Federal Bank supervisory standards.

Maintaining strong capital is essential to bank safety and soundness and to maintaining the confidence of investors, customers and regulators. 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 maintaining consistency with prudent industry practices. Management believes that the capital ratios of the Company and Bank are adequate to continue to meet the current and foreseeable future capital needs of the institution.

Liquidity

The Bank's Asset/Liability Management Committee which operates in accordance with policies established and reviewed by the Bank's Board of Directors, implements and monitors compliance with these policies regarding the Bank's asset/liability management practices with regard to interest rate risk, liquidity and capital. Interest rate risk measures the sensitivity of the Company's income to short and long term changes in interest rates. One of the primary objectives of the Committee is to manage interest rate risk and control the sensitivity of earnings to changes in interest

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rates in order to improve net interest income and interest rate margins and to manage the maturities and interest rate sensitivities of assets and liabilities. At June 30, 2002, the Bank's interest rate position was asset sensitive. However, the level of interest rate risk is within the limits approved by the Board of Directors. Management of liquidity is designed to provide for the Bank's cash needs at a reasonable cost. These needs include the withdrawal of deposits on demand or at maturity, the repayment of borrowings as they mature and lending opportunities. The Company's subsidiary, Salisbury Bank and Trust Company is a member of the Federal Home Loan Bank system which provides credit to its members. This enhances the liquidity position by providing a source of available borrowings. At June 30, 2002, the Company had approximately \$24,706,000 in loan commitments and unadvanced funds outstanding. The Company maintains ample liquidity to meet its present and foreseeable needs.

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Forward Looking Statements

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

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

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

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

- (a) the risk of adverse changes in business conditions in the banking industry generally and in the specific markets in which the Bank operates;
- (b) changes in the legislative and regulatory environment that negatively impact the Company and Bank through increased operating expenses;
- (c) increased competition from other financial and non-financial institutions;
- (d) the impact of technological advances; and
- (e) other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission.

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

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Part II - OTHER INFORMATION

Item 1. - Legal Proceedings-Not applicable

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

Item 3. - Defaults Upon Senior Securities-Not applicable

Item 4. - Submission of Matters to a Vote of Security Holders

The Annual Meeting of Shareholders of Salisbury Bancorp, Inc. (the "Company"), the holding company for Salisbury Bank and Trust Company (the "Bank") was held on Saturday, April 27, 2002. Shareholders voted on the election

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of directors and the ratification of the appointment of independent auditors.

The results of the votes of shareholders regarding each proposal are set forth below:

PROPOSAL 1 ELECTION OF DIRECTORS

Each of the three nominees received in excess of a plurality of the votes cast at the meeting and were elected to serve until their term expires or their successors are elected and qualified.

The vote for electing nominees as directors was as follows:

		For	Withholding Authority
John R. H. Blum (three (3) year term)	Number of Shares:	1,050,301	31,461
	Percentage of Shares Voted:	97.1%	2.9%
	Percentage of Shares Entitled to Vote:	73.8%	2.2%
Louise F. Brown (three (3) year term)	Number of Shares:	1,050,301	31,461
	Percentage of Shares Voted:	97.1%	2.9%
	Percentage of Shares Entitled to Vote:	73.8%	2.2%
Nancy F. Humphreys (three (3) year term)	Number of Shares:	1,050,301	31,461
	Percentage of Shares Voted:	97.1%	2.9%
	Percentage of Shares Entitled to Vote:	73.8%	2.2%

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The three (3) individuals elected at the 2002 Annual Meeting along with the following individuals whose terms did not expire at such meeting constitute the Board of Directors of the Company:

Gordon C. Johnson
Holly J. Nelson
Walter C. Shannon, Jr.
John F. Perotti
Craig E. Toensing
Michael A. Varet

PROPOSAL 2
RATIFICATION OF THE APPOINTMENT OF INDEPENDENT AUDITORS

The appointment of Shatswell, MacLeod & Company, P.C. as independent auditors for the Company for the year ending December 31, 2002 was approved because the votes for such appointment exceeded the votes against such appointment.

The vote to ratify the appointment by the Board of Directors of Shatswell, MacLeod & Company, P.C. as independent auditors for the year ending December 31, 2002 was as follows:

	For	Against	Abstain
Number of Votes:	1,070,566	5,574	5,622
Percentage of Shares Voted:	98%	.5%	.5%
Percentage of Shares Entitled to Vote:	75.3%	.4%	.9%

Item 5. - Other Information - Not applicable

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

a. Exhibits - 99.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

b. Reports on Form 8-K:

The Company filed a Form 8-K on May 1, 2002 to report the events and results of the Company's Annual Meeting of Shareholders that was held on Saturday, April 27, 2002.

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

SALISBURY BANCORP, INC.

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

Salisbury Bancorp, Inc.

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Date: August 9, 2002

by: /s/ John F. Perotti

John F. Perotti
President/Chief Executive Officer

Date: August 9, 2002

by: /s/ John F. Foley

John F. Foley
Chief Financial Officer