

SALISBURY BANCORP INC
Form 10-Q
November 13, 2015

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

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 0-24751

SALISBURY BANCORP, INC.

(Exact name of registrant as specified in its charter)

Connecticut (State or other jurisdiction of incorporation or organization)	06-1514263 (I.R.S. Employer Identification No.)
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5 Bissell Street, Lakeville, CT (Address of principal executive offices)	06039 (Zip code)
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(860) 435-9801

(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark 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 Accelerated filer Non-accelerated filer Smaller reporting company

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

Yes No

The number of shares of Common Stock outstanding as of November 13, 2015 is 2,733,576.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	3
CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2015 (unaudited) AND DECEMBER 31, 2014	3
CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014 (unaudited)	4
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014 (unaudited)	5
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014 (unaudited)	5
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014 (unaudited)	6
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS	8
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	33
Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	52
Item 4. CONTROLS AND PROCEDURES	54
PART II. OTHER INFORMATION	
Item 1. LEGAL PROCEEDINGS	54
Item 1A. RISK FACTORS	56
Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	56
Item 3. DEFAULTS UPON SENIOR SECURITIES	56
Item 4. MINE SAFETY DISCLOSURES	56
Item 5. OTHER INFORMATION	56
Item 6. EXHIBITS	57

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

(in thousands, except share data)	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Cash and due from banks	\$ 11,436	\$ 13,280
Interest bearing demand deposits with other banks	70,259	22,825
Total cash and cash equivalents	81,695	36,105
Securities		
Available-for-sale at fair value	80,371	91,312
Federal Home Loan Bank of Boston stock at cost	3,515	3,515
Loans held-for-sale	573	568
Loans receivable, net (allowance for loan losses: \$5,659 and \$5,358)	687,719	673,330
Other real estate owned	167	1,002
Bank premises and equipment, net	14,588	14,431
Goodwill	12,552	12,552
Intangible assets (net of accumulated amortization: \$2,752 and \$2,258)	2,496	2,990
Accrued interest receivable	2,296	2,334
Cash surrender value of life insurance policies	13,591	13,314
Deferred taxes	2,788	2,428
Other assets	1,882	1,546
Total Assets	\$ 904,233	\$ 855,427
LIABILITIES and SHAREHOLDERS' EQUITY		
Deposits		
Demand (non-interest bearing)	\$ 194,618	\$ 161,386
Demand (interest-bearing)	129,779	117,169
Money market	184,409	174,274
Savings and other	123,017	121,387
Certificates of deposit	129,656	141,210
Total deposits	761,479	715,426
Repurchase agreements	4,210	4,163
Federal Home Loan Bank of Boston advances	26,928	28,813
Note payable	380	—
Capital lease liability	422	424
Accrued interest and other liabilities	5,364	4,780
Total Liabilities	798,783	753,606
Shareholders' Equity		
Preferred stock - \$.01 per share par value		
Authorized: 25,000; Issued: 16,000 (Series B);		
Liquidation preference: \$1,000 per share	16,000	16,000
Common stock - \$.10 per share par value		
Authorized: 5,000,000;		
Issued: 2,733,576 and 2,720,766	273	272

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Paid-in capital	41,362	41,077
Retained earnings	46,558	42,677
Unearned compensation - restricted stock awards	(186)	(313)
Accumulated other comprehensive income	1,443	2,108
Total Shareholders' Equity	105,450	101,821
Total Liabilities and Shareholders' Equity	\$ 904,233	\$ 855,427

3

Salisbury Bancorp, Inc. and Subsidiary**CONSOLIDATED STATEMENTS OF INCOME** (unaudited)

Periods ended September 30, (in thousands, except per share amounts)	Three months ended		Nine months ended	
	2015	2014	2015	2014
Interest and dividend income				
Interest and fees on loans	\$7,955	\$4,656	\$23,727	\$13,983
Interest on debt securities				
Taxable	286	330	910	1,075
Tax exempt	351	416	1,098	1,294
Other interest and dividends	58	42	132	87
Total interest and dividend income	8,650	5,444	25,867	16,439
Interest expense				
Deposits	463	379	1,359	1,079
Repurchase agreements	2	3	5	5
Capital lease	18	12	53	29
Note payable	1	—	1	—
Federal Home Loan Bank of Boston advances	269	296	832	892
Total interest expense	753	690	2,250	2,005
Net interest and dividend income	7,897	4,754	23,617	14,434
Provision for loan losses	655	318	651	969
Net interest and dividend income after provision for loan losses	7,242	4,436	22,966	13,465
Non-interest income				
Trust and wealth advisory	798	791	2,510	2,509
Service charges and fees	798	639	2,307	1,807
Gains on sales and calls of available-for-sale securities, net	6	—	192	—
Gains on sales of mortgage loans, net	47	—	227	43
Mortgage servicing, net	5	41	(15)	80
Other	115	82	343	234
Total non-interest income	1,769	1,553	5,564	4,673
Non-interest expense				
Salaries	2,531	1,980	7,520	5,776
Employee benefits	916	697	2,881	2,176
Premises and equipment	863	667	2,683	2,080
Data processing	404	420	1,276	1,166
Professional fees	398	315	1,642	1,025
Collections, OREO and loan related	125	85	594	319
FDIC insurance	163	119	494	340
Marketing and community support	174	115	465	355
Amortization of core deposit intangibles	161	75	494	194
Merger and acquisition related expenses	—	196	—	586
Other	467	439	1,528	1,269
Total non-interest expense	6,202	5,108	19,577	15,286
Income before income taxes	2,809	881	8,953	2,852
Income tax provision	824	113	2,663	567
Net income	\$1,985	\$768	\$6,290	\$2,285
Net income available to common shareholders	\$1,945	\$728	\$6,170	\$2,159

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Basic earnings per common share	\$0.71	\$0.43	\$2.26	\$1.26
Diluted earnings per common share	0.71	0.43	2.25	1.26
Common dividends per share	0.28	0.28	0.84	0.84

4

Salisbury Bancorp, Inc. and Subsidiary**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)**

Periods ended September 30, (in thousands)	Three months ended		Nine months ended	
	2015	2014	2015	2014
Net income	\$1,985	\$768	\$6,290	\$2,285
Other comprehensive income (loss)				
Net unrealized gains (losses) on securities available-for-sale	116	342	(816)	2,771
Reclassification of net realized gains in net income ⁽¹⁾	(6)	—	(192)	—
Unrealized gains (losses) on securities available-for-sale	110	342	(1,008)	2,771
Income tax (expense) benefit	(37)	(116)	343	(942)
Other comprehensive income (loss), net of tax	73	226	(665)	1,829
Comprehensive income	\$2,058	\$994	\$5,625	\$4,114

(1) Reclassification adjustments include realized security gains and losses. The gains and losses have been reclassified out of other comprehensive income (loss) and have affected certain lines in the consolidated statements of income as follows: The pre-tax amount is reflected as gains on sales of available-for-sale securities, net, the tax effect is included in the income tax provision and the after tax amount is included in net income.

Salisbury Bancorp, Inc. and Subsidiary**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)**

(dollars in thousands) (unaudited)	Common Stock		Preferred stock	Paid-in capital	Retained earnings	Unearned compensation – restricted stock awards	Accumulated other comprehensive income	Total share-holders' equity
	Shares	Amount						
Balances at December 31, 2013	1,710,121	\$ 171	\$16,000	\$13,668	\$42,240	\$ (335)	\$ 1,046	\$72,790
Net income for period	—	—	—	—	2,285	—	—	2,285
Other comprehensive income, net of tax	—	—	—	—	—	—	1,829	1,829
Common stock dividends declared	—	—	—	—	(1,439)	—	—	(1,439)
Preferred stock dividends declared	—	—	—	—	(126)	—	—	(126)
Issuance of restricted common stock	3,000	—	—	81	—	(81)	—	—
Forfeiture of restricted common stock	(2,000)	—	—	(50)	—	50	—	—
Stock based compensation-restricted stock awards	—	—	—	—	—	112	—	112
Issuance of common stock for directors	2,160	—	—	65	—	—	—	65
Balances at September 30, 2014	1,713,281	\$ 171	\$16,000	\$13,764	\$42,960	\$ (254)	\$ 2,875	\$75,516

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Balances at December 31, 2014	2,720,766	\$ 272	\$16,000	\$41,077	\$42,677	\$ (313)	\$ 2,108	\$101,821
Net income for period	—	—	—	—	6,290	—	—	6,290
Other comprehensive loss, net of tax	—	—	—	—	—	—	(665)	(665)
Common stock dividends declared	—	—	—	—	(2,289)	—	—	(2,289)
Preferred stock dividends declared	—	—	—	—	(120)	—	—	(120)
Stock options exercised	9,450	1	—	182	—	—	—	183
Issuance of common stock for executives	1,000	—	—	29	—	—	—	29
Forfeiture of restricted common stock	(300)	—	—	(7)	—	7	—	—
Issuance of common stock for directors	2,660	—	—	81	—	—	—	81
Stock based compensation-restricted stock awards	—	—	—	—	—	120	—	120
Balances at September 30, 2015	2,733,576	\$ 273	\$16,000	\$41,362	\$46,558	\$ (186)	\$ 1,443	\$105,450

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

Nine months ended September 30, (in thousands)	2015	2014
Operating Activities		
Net income	\$6,290	\$2,285
Adjustments to reconcile net income to net cash provided by operating activities: (Accretion), amortization and depreciation:		
Securities	178	163
Bank premises and equipment	917	737
Core deposit intangible	494	193
Mortgage servicing rights	282	220
(Increase) decrease fair value adjustment on loans	(2,031)	24
(Increase) decrease fair value adjustment on deposits (Gains) and losses, including write-downs	(355)	53
Gain on calls of securities available-for-sale, net	(40)	(39)
Gain on sales of securities available-for-sale, net	(152)	—
Gain on sales of loans, excluding capitalized servicing rights	(102)	—
Write-downs of other real estate owned	238	4
Loss on sale/disposals of premises and equipment	45	5
Provision for loan losses	651	969
Proceeds from loans sold	4,897	3,536
Loans originated for sale	(4,800)	(3,324)
Decrease (increase) in deferred loan origination fees and costs, net	25	(21)
Mortgage servicing rights originated	(125)	(6)
Increase (decrease) in mortgage servicing rights impairment reserve	3	(14)
Decrease (increase) in interest receivable	38	(74)
Deferred tax benefit	(17)	(39)
Increase in prepaid expenses	(409)	(81)
Increase in cash surrender value of life insurance policies	(277)	(173)
Increase in income tax receivable	—	(329)
Increase in income tax payable	271	—
Increase in other assets	(87)	(76)
Decrease in accrued expenses	(11)	(144)
Decrease in interest payable	(45)	(5)
Increase in other liabilities	369	82
Stock based compensation-restricted stock awards	120	112
Net cash provided by operating activities	6,367	4,058
Investing Activities		
Maturity of interest-bearing time deposits with other banks	—	738
Redemption of Federal Home Loan Bank of Boston stock	—	1,825
Purchases of securities available-for-sale	(9,322)	—
Proceeds from sales of securities available-for-sale	3,861	—
Proceeds from calls of securities available-for-sale	7,995	4,115
Proceeds from maturities of securities available-for-sale	7,413	7,539
Loan originations and principal collections, net	(13,748)	(24,694)
Recoveries of loans previously charged off	613	50
Proceeds from sales of other real estate owned	698	40
Premiums paid on bank-owned life insurance	—	(1,100)

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Cash and cash equivalents acquired from Sharon, CT branch office of another institution	—	17,462
Capital expenditures	(739)	(1,872)
Net cash (utilized) provided by investing activities	(3,229)	4,103

6

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

Increase in deposit transaction accounts, net	57,607	24,527
(Decrease) increase in time deposits, net	(11,199)	2,174
Increase in securities sold under agreements to repurchase, net	47	3,946
Principal payments on Federal Home Loan Bank of Boston advances	(786)	(1,193)
Modification payment on Federal Home Loan Bank of Boston advances	(1,099)	
Decrease in capital lease obligation	(2)	(1)
Stock options exercised	183	—
Issuance of shares for director fees	81	65
Issuance of shares for executives	29	—
Common stock dividends paid	(2,289)	(1,439)
Series B preferred stock dividends paid	(120)	(126)
Net cash provided by financing activities	42,452	27,953
Net increase in cash and cash equivalents	45,590	36,114
Cash and cash equivalents, beginning of period	36,105	12,711
Cash and cash equivalents, end of period	\$81,695	\$48,825
Cash paid during period		
Interest	\$2,650	\$2,010
Income taxes	2,409	935
Non-cash investing and financing activities		
Transfer from loans to other real estate owned	101	—
Note payable to finance building purchase	380	—
Sharon branch acquisition		
Cash and cash equivalents acquired	—	17,462
Net loans acquired	—	63
Fixed assets acquired	—	158
Core deposit intangible	—	489
Deposits assumed	—	18,171
Accrued interest payable assumed	—	1

Salisbury Bancorp, Inc. and Subsidiary

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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, comprehensive income, shareholders' equity and cash flows for the interim periods presented.

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). 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, expected cash flows from loans acquired in a business combination, other-than-temporary impairment of securities, impairment of goodwill and intangibles and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans.

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 interim period ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. The accompanying condensed financial statements should be read in conjunction with the financial statements and notes thereto included in Salisbury's 2014 Annual Report on Form 10-K for the year ended December 31, 2014.

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 provides 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 May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)." The objective of this ASU is to clarify principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards. The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For public entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. However, in July 2015, the FASB voted to approve deferring the effective date by one year (i.e. interim and annual reporting periods beginning after December 15, 2017). Early adoption is permitted, but not before the original effective date (i.e. interim and annual reporting periods beginning after December 15, 2016). Salisbury is

currently reviewing this ASU to determine if it will have an impact on its consolidated financial statements.

8

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." The amendments in this ASU affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities; (2) Eliminate the presumption that a general partner should consolidate a limited partnership; (3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. Salisbury anticipates that the adoption of this ASU will not have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The standard is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The guidance should be applied on a retrospective basis. Salisbury anticipates that the adoption of this ASU will not have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, "Intangibles – Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer's accounting for service contracts. ASU 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015. Salisbury anticipates that the adoption of this ASU will not have a material impact on its consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07: "Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." The objective of this update is to address the diversity in practice related to how certain investments measured at net asset value with redemption dates in the future are categorized within the fair value hierarchy. The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. Salisbury anticipates that the adoption of this ASU will not have a material impact on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16: "Simplifying the Accounting for Measurement-Period Adjustments." Under the ASU, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The effect on earnings of changes in depreciation or amortization, or other income effects (if any) as a result of the change to the provisional amounts, calculated as if the accounting had been completed as of the acquisition date, must be recorded in the reporting period in which the adjustment amounts are determined rather than retrospectively. The ASU also requires that the acquirer present separately on the face of the income statement, or disclose in the notes, the portion of

the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Early application is permitted for financial statements that have not been issued. Salisbury anticipates that the adoption of this ASU will not have a material impact on its consolidated financial statements.

NOTE 2 - SECURITIES

The composition of securities is as follows:

(in thousands)	Amortized cost (1)	Gross un- realized gains	Gross un- realized losses	Fair value
September 30, 2015				
Available-for-sale				
U.S. Treasury notes	\$ 7,498	\$ 67	\$ —	\$ 7,565
U.S. Government agency notes	498	2	—	500
Municipal bonds	32,691	690	(64)	33,317
Mortgage-backed securities				
U.S. Government agencies and U.S. Government-sponsored enterprises	26,449	575	(18)	27,006
Collateralized mortgage obligations				
U.S. Government agencies	2,136	21	—	2,157
Non-agency	4,834	505	(7)	5,332
SBA bonds	3,297	53	—	3,350
CRA mutual funds	762	7	—	769
Preferred stock	20	355	—	375
Total securities available-for-sale	\$ 78,185	\$ 2,275	\$ (89)	\$ 80,371
Non-marketable securities				
Federal Home Loan Bank of Boston stock	\$ 3,515	\$ —	\$ —	\$ 3,515

(in thousands)	Amortized cost (1)	Gross un- realized gains	Gross un- realized losses	Fair value
December 31, 2014				
Available-for-sale				
U.S. Treasury notes	\$ 2,699	\$ 107	\$ —	\$ 2,806
U.S. Government agency notes	5,850	24	—	5,874
Municipal bonds	38,962	1,455	(65)	40,352
Mortgage-backed securities				
U.S. Government agencies and U.S. Government-sponsored enterprises	27,036	688	(15)	27,709
Collateralized mortgage obligations				
U.S. Government agencies	2,657	22	—	2,679
Non-agency	6,056	552	(12)	6,596
SBA bonds	4,336	129	—	4,465
CRA mutual funds	502	2	—	504
Preferred stock	20	307	—	327
Total securities available-for-sale	\$ 88,118	\$ 3,286	\$ (92)	\$ 91,312
Non-marketable securities				
Federal Home Loan Bank of Boston stock	\$ 3,515	\$ —	\$ —	\$ 3,515

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

Salisbury sold \$3.7 million in securities available-for-sale during the nine month period ended September 30, 2015, and did not sell any securities available-for-sale during the nine month period ended September 30, 2014. Realized gains on sales of securities sold in 2015 are \$153,000.

The following table summarizes, for all securities in an unrealized loss position, the aggregate fair value and gross unrealized loss of securities that have been in a continuous unrealized loss position as of the date presented:

(in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
September 30, 2015						
Available-for-sale						
Municipal bonds	\$1,267	\$ (64)	\$ —	\$ —	\$1,267	\$ (64)
Mortgage-backed securities	1,828	(18)	—	—	1,828	(18)
Collateralized mortgage obligations:						
Non-agency	244	(7)	—	—	244	(7)
Total temporarily impaired securities	3,339	(89)	—	—	3,339	(89)

(in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
December 31, 2014						
Available-for-sale						
Municipal bonds	\$177	\$ 1	\$1,589	\$ 64	\$1,766	\$ 65
Mortgage-backed securities	56	1	1,885	14	1,941	15
Collateralized mortgage obligations:						
Non-agency	441	7	164	5	605	12
Total temporarily impaired securities	674	9	3,638	83	4,312	92

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 whether it has the 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 September 30, 2015.

U.S. Government agency mortgage-backed securities: 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 evaluates these securities for strategic fit and may reduce its position in these securities, although 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 at maturity, and Salisbury does not intend to sell these securities. Therefore, management does not consider these securities to be OTTI at September 30, 2015.

Municipal bonds: Contractual cash flows are performing as expected. 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. Where appropriate, Salisbury performs credit underwriting reviews of unrated issuers, including some that have had their ratings withdrawn and are insured by insurers that have had their ratings withdrawn, to assess default risk. For all completed reviews, pass credit risk ratings have been assigned. Management expects to recover the entire amortized cost basis of these securities. 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 at maturity, and Salisbury does not intend to sell these securities. Therefore, management does not consider these securities to be OTTI at September 30, 2015.

Non-agency CMOs: Salisbury performed a detailed cash flow analysis of its non-agency CMOs at September 30, 2015, to assess whether any of the securities were OTTI. Salisbury uses cash flow forecasts for 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 the four remaining securities not to have additional OTTI and all other CMO securities not to be OTTI as of September 30, 2015. It is possible that future loss assumptions could change necessitating Salisbury to recognize future OTTI for further deterioration in credit quality. Salisbury evaluates these securities for strategic fit and depending upon such factor could reduce its position in these securities, although it has no present intention to do so, 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:

Nine months ended September 30 (in thousands)	2015	2014
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

The Federal Home Loan Bank of Boston (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. 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 September 30, 2015. 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.

NOTE 3 – LOANS

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

(In thousands)	September 30, 2015			December 31, 2014		
	Business	Acquired	Total	Business	Acquired	Total
	Activities	Loans		Activities	Loans	
Residential 1-4 family	\$260,912	\$8,026	\$268,938	\$252,258	\$9,223	\$261,481
Residential 5+ multifamily	6,192	6,228	12,420	5,556	8,735	14,291
Construction of residential 1-4 family	6,193	—	6,193	2,004	—	2,004
Home equity credit	33,880	—	33,880	34,627	—	34,627
Residential real estate	307,177	14,254	321,431	294,445	17,958	312,403
Commercial	110,955	91,467	202,422	98,498	97,899	196,397
Construction of commercial	12,987	4,862	17,849	18,602	9,045	27,647
Commercial real estate	123,942	96,329	220,271	117,100	106,944	224,044
Farm land	3,485	—	3,485	3,239	—	3,239
Vacant land	9,446	—	9,446	9,342	—	9,342
Real estate secured	444,050	110,583	554,633	424,126	124,902	549,028
Commercial and industrial	70,858	53,928	124,786	49,204	68,714	117,918
Municipal	6,947	—	6,947	6,083	—	6,083
Consumer	5,760	74	5,834	4,334	122	4,456
Loans receivable, gross	527,615	164,585	692,200	483,747	193,738	677,485
Deferred loan origination fees and costs, net	1,178	—	1,178	1,203	—	1,203
Allowance for loan losses	(5,386)	(273)	(5,659)	(5,337)	(21)	(5,358)
Loans receivable, net	\$523,407	\$164,312	\$687,719	\$479,613	\$193,717	\$673,330
Loans held-for-sale						
Residential 1-4 family	\$573	\$—	\$573	\$568	\$—	\$568

Concentrations of Credit Risk

Salisbury's loans consist primarily of residential and commercial real estate loans located principally in Litchfield County, Connecticut; Dutchess, Orange and Columbia Counties, New York; and Berkshire County, Massachusetts, 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. 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.

Loan Credit Quality

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

Business Activities Loans

(in thousands)	Pass	Special mention	Substandard	Doubtful	Loss	Total
September 30, 2015						
Residential 1-4 family	\$246,872	\$7,053	\$ 6,895	\$ 92	\$ —	\$260,912
Residential 5+ multifamily	4,180	1,048	964	—	—	6,192
Construction of residential 1-4 family	6,193	—	—	—	—	6,193
Home equity credit	32,331	469	1,080	—	—	33,880
Residential real estate	289,576	8,570	8,939	92	—	307,177
Commercial	99,165	4,984	6,806	—	—	110,955
Construction of commercial	12,416	—	571	—	—	12,987
Commercial real estate	111,581	4,984	7,377	—	—	123,942
Farm land	2,449	—	1,036	—	—	3,485
Vacant land	6,446	71	2,929	—	—	9,446
Real estate secured	410,052	13,625	20,281	92	—	444,050
Commercial and industrial	69,007	1,230	621	—	—	70,858
Municipal	6,947	—	—	—	—	6,947
Consumer	5,742	11	7	—	—	5,760
Loans receivable, gross	\$491,748	\$14,866	\$ 20,909	\$ 92	\$ —	\$527,615
Acquired Loans						

(in thousands)	Pass	Special mention	Substandard	Doubtful	Loss	Total
September 30, 2015						
Residential 1-4 family	\$7,168	\$91	\$ 767	\$ —	\$ —	\$8,026
Residential 5+ multifamily	6,228	—	—	—	—	6,228
Construction of residential 1-4 family	—	—	—	—	—	—
Home equity credit	—	—	—	—	—	—
Residential real estate	13,396	91	767	—	—	14,254
Commercial	83,657	3,052	4,758	—	—	91,467
Construction of commercial	4,590	—	272	—	—	4,862
Commercial real estate	88,247	3,052	5,030	—	—	96,329
Farm land	—	—	—	—	—	—
Vacant land	—	—	—	—	—	—
Real estate secured	101,643	3,143	5,797	—	—	110,583
Commercial and industrial	52,051	1,192	603	82	—	53,928
Municipal	—	—	—	—	—	—
Consumer	50	7	—	17	—	74
Loans receivable, gross	\$153,744	\$4,342	\$ 6,400	\$ 99	\$ —	\$164,585

Business Activities Loans

(in thousands)	Pass	Special mention	Substandard	Doubtful	Loss	Total
December 31, 2014						
Residential 1-4 family	\$232,628	\$12,350	\$ 7,187	\$ 93	\$ —	\$252,258
Residential 5+ multifamily	3,420	1,072	1,064	—	—	5,556
Construction of residential 1-4 family	2,004	—	—	—	—	2,004
Home equity credit	32,639	807	1,181	—	—	34,627
Residential real estate	270,691	14,229	9,432	93	—	294,445
Commercial	79,975	10,728	7,795	—	—	98,498
Construction of commercial	18,024	—	578	—	—	18,602
Commercial real estate	97,999	10,728	8,373	—	—	117,100
Farm land	772	1,361	1,106	—	—	3,239
Vacant land	6,039	140	3,163	—	—	9,342
Real estate secured	375,501	26,458	22,074	93	—	424,126
Commercial and industrial	44,903	3,527	774	—	—	49,204
Municipal	6,083	—	—	—	—	6,083
Consumer	4,271	53	10	—	—	4,334
Loans receivable, gross	\$430,758	\$30,038	\$ 22,858	\$ 93	\$ —	\$483,747
Acquired Loans						

(in thousands)	Pass	Special mention	Substandard	Doubtful	Loss	Total
December 31, 2014						
Residential 1-4 family	\$8,661	\$—	\$ 562	\$ —	\$ —	\$9,223
Residential 5+ multifamily	8,735	—	—	—	—	8,735
Construction of residential 1-4 family	—	—	—	—	—	—
Home equity credit	—	—	—	—	—	—
Residential real estate	17,396	—	562	—	—	17,958
Commercial	89,820	3,830	3,723	526	—	97,899
Construction of commercial	9,045	—	—	—	—	9,045
Commercial real estate	98,865	3,830	3,723	526	—	106,944
Farm land	—	—	—	—	—	—
Vacant land	—	—	—	—	—	—
Real estate secured	116,261	3,830	4,285	526	—	124,902
Commercial and industrial	66,098	1,675	941	—	—	68,714
Municipal	—	—	—	—	—	—
Consumer	96	7	19	—	—	122
Loans receivable, gross	\$182,455	\$5,512	\$ 5,245	\$ 526	\$ —	\$193,738

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

Business Activities Loans

(in thousands)	Current	Past due				90-179 days	180 days and over	30 days and over	Accruing 90 days and over	Non-accrual
		1-29 days	30-59 days	60-89 days						
September 30, 2015										
Residential 1-4 family	\$252,773	\$3,454	\$332	\$426	\$93	\$3,834	\$4,685	\$ —	\$5,770	
Residential 5+ multifamily	6,032	71	—	—	—	89	89	—	89	
Construction of residential 1-4 family	6,193	—	—	—	—	—	—	—	—	
Home equity credit	32,733	424	291	—	422	10	723	—	494	
Residential real estate	297,731	3,949	623	426	515	3,933	5,497	—	6,353	
Commercial	106,638	1,708	1,569	240	119	681	2,609	—	2,423	
Construction of commercial	12,539	—	—	448	—	—	448	—	—	
Commercial real estate	119,177	1,708	1,569	688	119	681	3,057	—	2,423	
Farm land	2,762	—	—	—	—	723	723	—	1,036	
Vacant land	5,504	1,119	—	—	—	2,823	2,823	—	2,857	
Real estate secured	425,174	6,776	2,192	1,114	634	8,160	12,100	—	12,669	
Commercial and industrial	69,459	840	139	397	5	18	559	5	419	
Municipal	6,947	—	—	—	—	—	—	—	—	
Consumer	5,653	92	14	1	—	—	15	—	—	
Loans receivable, gross	\$507,233	\$7,708	\$2,345	\$1,512	\$639	\$8,178	\$12,674	\$ 5	\$13,088	
Acquired Loans										

September 30, 2015										
Residential 1-4 family	\$6,977	\$190	\$—	\$—	\$269	\$590	\$859	\$91	\$767	
Residential 5+ multifamily	6,228	—	—	—	—	—	—	—	—	
Construction of residential 1-4 family	—	—	—	—	—	—	—	—	—	
Home equity credit	—	—	—	—	—	—	—	—	—	
Residential real estate	13,205	190	—	—	269	590	859	91	767	
Commercial	86,852	1,982	—	461	102	2,070	2,633	—	2,172	
Construction of commercial	4,590	—	—	—	—	272	272	—	272	
Commercial real estate	91,442	1,982	—	461	102	2,342	2,905	—	2,444	
Farm land	—	—	—	—	—	—	—	—	—	
Vacant land	—	—	—	—	—	—	—	—	—	
Real estate secured	104,647	2,172	—	461	371	2,932	3,764	91	3,211	
Commercial and industrial	53,116	561	191	20	40	—	251	—	40	
Municipal	—	—	—	—	—	—	—	—	—	
Consumer	70	—	4	—	—	—	4	—	—	
Loans receivable, gross	\$157,833	\$2,733	\$195	\$481	\$411	\$2,932	\$4,019	\$91	\$3,251	

Business Activities Loans

(in thousands)	Current	Past due					180 days and over	30 days and over	Accruing 90 days and over	Non-accrual
		1-29 days	30-59 days	60-89 days	90-179 days					
December 31, 2014										
Residential 1-4 family	\$241,567	\$7,299	\$1,250	\$555	\$976	\$611	\$3,392	\$ —	\$2,445	
Residential 5+ multifamily	5,467	—	—	—	89	—	89	—	89	
Construction of residential 1-4 family	2,004	—	—	—	—	—	—	—	—	
Home equity credit	33,488	387	122	528	39	63	752	—	348	
Residential real estate	282,526	7,686	1,372	1,083	1,104	674	4,233	—	2,882	
Commercial	94,598	2,079	602	—	—	1,219	1,821	—	1,219	
Construction of commercial	18,602	—	—	—	—	—	—	—	—	
Commercial real estate	113,200	2,079	602	—	—	1,219	1,821	—	1,219	
Farm land	2,119	—	13	723	—	384	1,120	—	384	
Vacant land	6,422	51	7	—	39	2,823	2,869	—	2,862	
Real estate secured	404,267	9,816	1,994	1,806	1,143	5,100	10,043	—	7,347	
Commercial and industrial	48,478	582	91	17	36	—	144	17	33	
Municipal	6,083	—	—	—	—	—	—	—	—	
Consumer	4,274	47	8	5	—	—	13	—	—	
Loans receivable, gross	\$463,102	\$10,445	\$2,093	\$1,828	\$1,179	\$5,100	\$10,200	\$ 17	\$7,380	

Acquired Loans

December 31, 2014										
Residential 1-4 family	\$8,661	\$—	\$—	\$—	\$—	\$562	\$562	\$—	\$562	
Residential 5+ multifamily	8,735	—	—	—	—	—	—	—	—	
Construction of residential 1-4 family	—	—	—	—	—	—	—	—	—	
Home equity credit	—	—	—	—	—	—	—	—	—	
Residential real estate	17,396	—	—	—	—	562	562	—	562	
Commercial	95,695	1,109	167	—	285	643	1,095	—	1,931	
Construction of commercial	9,045	—	—	—	—	—	—	—	—	
Commercial real estate	104,740	1,109	167	—	285	643	1,095	—	1,931	
Farm land	—	—	—	—	—	—	—	—	—	
Vacant land	—	—	—	—	—	—	—	—	—	
Real estate secured	122,136	1,109	167	—	285	1,205	1,657	—	2,493	
Commercial and industrial	67,665	740	89	220	—	—	309	—	—	
Municipal	—	—	—	—	—	—	—	—	—	
Consumer	117	5	—	—	—	—	—	—	—	
Loans receivable, gross	\$189,918	\$1,854	\$256	\$220	\$285	\$1,205	\$1,966	\$—	\$2,493	

Interest on impaired loans that would have been recorded as additional interest income for the nine months ended September 30, 2015 and 2014 had the loans been current in accordance with their original terms totaled \$609,000 and \$410,000, respectively, disregarding the impact of purchased accounting on these loans.

Troubled Debt Restructurings

Troubled debt restructurings occurring during the periods are as follows:

Business Activities Loans (in thousands)	Nine months ended September 30, 2015		September 30, 2014	
	Pre- modification balance	Post- modification balance	Pre- modification balance	Post- modification balance
Residential real estate	2 \$ 923	\$ 923	2 \$ 237	\$ 237
Commercial real estate	2 478	478	3 846	846
Construction of commercial	— —	—	1 131	131
Home equity credit	1 35	35	2 72	72
Troubled debt restructurings	5 \$ 1,436	\$ 1,436	8 \$ 1,286	\$ 1,286
Rate reduction and term extension	2 \$ 478	\$ 478	— —	—
Interest only and term extension	— —	—	1 48	48
Term extension and amortization	— —	—	2 338	338
Interest only	— —	—	2 54	54
Debt consolidation, rate reduction, term extension	— —	—	1 399	399
Debt consolidation and term extension	— —	—	2 447	447
Note bifurcation	1 48	48	— —	—
Term extension	2 910	910	— —	—
Troubled debt restructurings	5 \$ 1,436	\$ 1,436	8 \$ 1,286	\$ 1,286

Five loans were modified in troubled debt restructurings during 2015, one of which was past due at September 30, 2015.

There was one acquired loan modified in a troubled debt restructuring during the nine months ended September 30, 2015.

As of September 30, 2015, the Bank had \$4.3 million in loans collateralized by residential real estate property in the process of foreclosure.

Allowance for Loan Losses

Changes in the allowance for loan losses are as follows:

(in thousands)	Business Activities Loans					Acquired Loans				
	Three months ended September 30, 2015					Three months ended September 30, 2015				
	Beginning balance	Provision (benefit)	Charge-offs	Recoveries	Ending balance	Beginning balance	Provision (benefit)	Charge-offs	Recoveries	Ending balance
Residential	\$2,147	\$ 632	\$ (92)	\$111	\$2,798	\$15	\$ 55	\$ —	\$ —	\$ 70
Commercial	1,339	(102)	(10)	—	1,227	77	81	—	5	163
Land	182	168	(72)	—	278	—	—	—	—	—
Real estate	3,668	698	(174)	111	4,303	92	136	—	5	233
Commercial and industrial	691	(197)	—	4	498	52	(22)	—	10	40
Municipal	64	(16)	—	—	48	—	—	—	—	—
Consumer	123	1	(17)	6	113	—	—	—	—	—
Unallocated	369	55	—	—	424	—	—	—	—	—
Totals	\$4,915	\$ 541	\$ (191)	\$121	\$5,386	\$144	\$ 114	\$ —	\$ 15	\$ 273
(in thousands)	Business Activities Loans					Acquired Loans				
	Nine months ended September 30, 2015					Nine months ended September 30, 2015				
	Beginning balance	Provision (benefit)	Charge-offs	Recoveries	Ending balance	Beginning balance	Provision (benefit)	Charge-offs	Recoveries	Ending balance
Residential	\$2,306	\$ 952	\$ (573)	\$113	\$2,798	\$—	\$ 70	\$ —	\$ —	\$ 70
Commercial	1,697	(256)	(214)	—	1,227	7	151	—	5	163
Land	164	186	(72)	—	278	—	—	—	—	—