SALISBURY BANCORP INC
Form DEF 14A
February 13, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities and Exchange Act of 1934 (Amendment No. __)

Filed by the Registrant [X]
Filed by a party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material under ss. 240.14a-12

Salisbury Bancorp, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

SALISBURY BANCORP, INC.
5 BISSELL STREET
P.O. BOX 1868
LAKEVILLE, CONNECTICUT 06039

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON MARCH 10, 2009

To the Shareholders of Salisbury Bancorp, Inc.:

NOTICE IS HEREBY GIVEN that a Special Meeting of Shareholders of Salisbury Bancorp, Inc. (The "Company") will be held at 10:00 a.m., local time, on Tuesday, March 10, 2009 at The Interlaken Inn, 74 Interlaken Road, Route 112, Lakeville, Connecticut for the following purposes:

1. To approve an amendment to the Company's Certificate of Incorporation to authorize a class of 25,000 shares of preferred stock, par value $0.01 per share; and

2. To transact such other business as may properly be brought before the Special Meeting or any adjournment(s) thereof.

Only those shareholders of record at the close of business on February 4, 2009 are entitled to notice of, and to vote at, this Special Meeting or any adjournment thereof.

In order that you may be represented at the Special Meeting, please complete, date, sign and mail promptly the enclosed proxy for which a postage-prepaid return envelope is provided.

BY ORDER OF THE BOARD OF DIRECTORS
OF SALISBURY BANCORP, INC.

February 12, 2009 John F. Foley
Lakeville, Connecticut Secretary

SHAREHOLDERS ARE REQUESTED TO MARK, DATE, SIGN AND RETURN THE ENCLOSED PROXY AS SOON AS POSSIBLE REGARDLESS OF WHETHER THEY PLAN TO ATTEND THE MEETING. ANY PROXY GIVEN BY A SHAREHOLDER WHO EXECUTES AND RETURNS A PROXY AND WHO ATTENDS THE SPECIAL MEETING MAY WITHDRAW THE PROXY AT TIME BEFORE IT IS VOTED AND VOTE HIS OR HER SHARES IN PERSON. A PROXY MAY ALSO BE REVOKED BY GIVING NOTICE TO JOHN F. FOLEY, SECRETARY OF THE COMPANY, 5 BISSELL STREET, P.O. BOX 1868, LAKEVILLE, CT 06039, IN WRITING PRIOR TO THE TAKING OF A VOTE.

SALISBURY BANCORP, INC.
5 BISSELL STREET
LAKEVILLE, CT 06039
860-435-9801

PROXY STATEMENT
FOR SPECIAL MEETING OF SHAREHOLDERS
MARCH 10, 2009

INTRODUCTION

The enclosed proxy card (the "Proxy") is solicited by the Board of Directors (the "Board of Directors") of Salisbury Bancorp, Inc. (the "Company"), for use at the Special Meeting of Shareholders (the "Special Meeting") to be held on Tuesday, March 10, 2009, at 10:00 a.m., at The Interlaken Inn, 74 Interlaken Road, Route 112, Lakeville, Connecticut 06039, and at any and all adjournments thereof. Any Proxy given may be revoked at any time before it is actually voted on any matter in accordance with the procedures set forth on the Notice of Special Meeting. This Proxy Statement and the enclosed form of Proxy are being mailed to shareholders (the "Shareholders") on or about February 12, 2009. The cost of preparing, assembling and mailing this Proxy Statement and the material enclosed herewith is being borne by the Company. In addition, proxies may be solicited by Directors, officers and employees of the Company and Salisbury Bank and Trust Company (the "Bank") personally by telephone or other means. The Company will reimburse banks, brokers, and other custodians, nominees, and fiduciaries for their reasonable and actual costs in sending the proxy materials to the beneficial owners of the Company's common stock (the "Common Stock"). The Company has engaged Morrow & Co., LLC to assist in the solicitation of proxies at a fee of $7,500 plus expenses.

If your shares are in a brokerage or fiduciary account, your broker or bank will send you a voting instruction form instead of a Proxy. Please follow the instructions on such form to instruct your broker or bank how to vote your shares. If you wish to attend the Special Meeting and vote your shares in person, you must follow the instructions on the voting instructions form to obtain a legal proxy from your broker or bank.

OUTSTANDING STOCK AND VOTING RIGHTS

The Board of Directors has fixed the close of business on February 4, 2009 as the record date (the "Record Date") for the determination of Shareholders entitled to notice of and to vote at the Special Meeting. As of the Record Date, 1,685,861 shares of the Company's Common Stock (par value $.10 per share) were outstanding and entitled to vote and held of record by approximately 1,500 shareholders of Record. Each share of Common Stock is entitled to one vote on all matters to be presented at the Special Meeting. Votes withheld, abstentions and broker non-votes are counted only for purposes of determining whether a

quorum is present at the Special Meeting but will the effect of a vote against Proposal 1.

A Proxy card is enclosed for your use. YOU ARE SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS TO COMPLETE, DATE, SIGN AND RETURN THE PROXY CARD IN THE ACCOMPANYING ENVELOPE, which is postage-prepaid if mailed in the United States.

If the enclosed form of Proxy is properly executed and received by the Company in time to be voted at the Special Meeting, the shares represented thereby will be voted in accordance with the instructions marked thereon. Executed, but unmarked proxies will be voted "FOR" Proposal 1 discussed in this Proxy Statement.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Proxy Statement 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 Salisbury Bank and Trust Company (the "Bank") do business; and

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

Such forward-looking statements are based on assumptions rather than historical or current facts and, therefore, are inherently uncertain and subject to risk. For those statements, 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 affect 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 impacts 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.

PROPOSAL 1

APPROVAL OF AMENDMENT TO CERTIFICATE OF INCORPORATION

Description of the Proposal

The Board of Directors has adopted an amendment to the Company's Certificate of Incorporation to authorize a class of 25,000 shares of preferred stock, par value $0.01 per share (the "Preferred Stock"). The full text of the proposed amendment to the Company's Certificate of Incorporation is set forth in Exhibit A to this proxy statement. The Company's Certificate of Incorporation currently authorizes only the issuance of Common Stock. The proposed amendment will vest in the Board of Directors the authority to determine by resolution the terms of one or more series of Preferred Stock, including the preferences, rights and limitations of each series. Provisions in a company's certificate of incorporation authorizing preferred stock in this manner are often referred to as "blank check" provisions, as they give a board of directors the flexibility, at any time or from time to time, without further shareholder approval (except as may be required by applicable laws, regulatory authorities or the rules of any stock exchange on which a company's securities are then listed), to create one or more series of preferred stock and to determine by resolution the terms of each such series. The Board of Directors believes that authorization of the Preferred Stock in the manner proposed will provide the Company with greater flexibility in meeting future capital requirements by creating series of Preferred Stock customized to meet the needs of particular transactions and then prevailing market conditions. Series of Preferred Stock would also be available for issuance from time to time for any other proper corporate purposes, including in connection with the redemption of the Preferred Stock described below, strategic alliances, joint ventures, or acquisitions.

The Board of Directors does not have any plans calling for the issuance of shares of Preferred Stock at the present time, other than the possible issuance of Preferred Stock to the U.S. Department of the Treasury (the "Treasury") in connection with the Treasury's recently announced Troubled Asset Relief Program ("TARP") Capital Purchase Program described below.

Terms of the Capital Purchase Program

On October 14, 2008, the Treasury announced the TARP Capital Purchase Program. This program encourages U.S. financial institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy. Under the program, the Treasury will purchase senior preferred shares from banks, bank holding companies, and other financial institutions. The senior preferred shares will qualify as Tier 1 capital for regulatory purposes and will rank senior to common stock and at an equal level in the capital structure with any existing preferred shares other than preferred shares which by their terms rank junior to any other existing preferred shares. The senior preferred shares purchased by the Treasury will pay a cumulative dividend rate of 5 percent per annum for the first five years they are outstanding and thereafter at a rate of 9 percent per annum. The senior preferred shares will be non-voting, other than voting rights on matters that could adversely affect the shares. The shares will be callable at one hundred percent of their issue price plus any accrued and unpaid dividends after three years.

Prior to the end of three years, the senior preferred shares may be redeemed with the proceeds from a qualifying equity offering of any Tier 1 perpetual preferred or common stock.

If dividends on the senior preferred shares are not paid in full for six dividend periods, whether or not consecutive, the senior preferred shares will have the right to elect two directors. The right to elect directors will end when full dividends have been paid for four consecutive dividend periods.

The Treasury will receive warrants to purchase a number of shares of common stock having an aggregate market price equal to 15% of the senior preferred shares on the date of investment, subject to reduction as set forth below. The initial exercise price for the warrants, and the market price for determining the number of shares of common stock subject to the warrants, will be the market price for the common stock on the date of the preliminary approval of the application (calculated on a 20-trading day trailing average), subject to customary anti-dilution adjustments. The warrants will have a term of ten years. The warrants will be immediately exercisable, in whole or in part. The warrants will not be subject to any contractual restrictions on transfer, provided that the Treasury may only transfer or exercise an aggregate of one-half of the warrants prior to the earlier of (i) the date on which the issuer has received aggregate gross proceeds of not less than 100% of the issue price of the senior preferred shares from one or more Qualified Equity Offerings (the sale by the issuer after the date of the sale of the senior preferred shares of Tier 1 qualifying perpetual preferred stock or common stock for cash) and (ii) December 31, 2009. In the event that the issuer receives aggregate gross proceeds of not less than 100% of the issue price of the senior preferred shares from one or more Qualified Equity Offerings on or prior to December 31, 2009, the number of shares of common stock underlying the warrants then held by the Treasury will be reduced by a number of shares equal to the product of (i) the number of shares originally underlying the warrants (taking into account all adjustments) and (ii) 0.5.

An issuer participating in the Capital Purchase Program will be required to file a shelf registration statement with the Securities and Exchange Commission for the purpose of registering the senior preferred shares, the warrants and the common stock underlying the warrants as promptly as practicable after the date of the sale of the senior preferred shares and will take all action required to cause the shelf registration statement to be declared effective as soon as possible and maintain the effectiveness of the registration statement. The issuer will be required to apply for the listing on the national exchange on which the issuer's common stock is traded of the common stock underlying the warrants and will take such other steps as may be reasonably requested to facilitate the transfer of the warrants or the common stock.

The Treasury will agree not to exercise voting power with respect to any shares of common stock of the issuer issued to it upon exercise of the warrants.

The Treasury's consent also will be required for any increase in common stock dividends per share or certain repurchases of common stock until the third anniversary of the date of the investment unless prior to the third anniversary that the senior preferred shares are issued are redeemed in whole or the Treasury has transferred all of the senior preferred shares to third parties.

Banks and bank holding companies participating in the Capital Purchase Program also must modify or terminate all benefit plans, arrangements and agreements (including golden parachute agreements) to the extent necessary to be in compliance with the executive compensation and corporate governance requirements of Section 111 of the Emergency Economic Stabilization Act of 2008 and any guidance or regulations issued by the Secretary of the Treasury for the period during which the Treasury holds equity issued under the Capital Purchase

Program. These standards include: (i) ensuring that incentive compensation for specified senior executive officers does not encourage unnecessary and excessive risks that threaten the value of the Company; (ii) requiring a clawback of any bonus or incentive compensation paid to a specified senior executive officer based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (iii) prohibiting the Company from making any golden parachute payment to a specified senior executive officer based on applicable Internal Revenue Code provisions; and (iv) agreeing not to deduct for tax purposes executive compensation in excess of $500,000 for each specified senior officer executive.

The Company has reviewed its executive compensation arrangements and does not anticipate that it will be necessary to modify any existing employee plans or contracts to comply with the applicable limits on executive compensation described above.

See Exhibit B for the Summary of Senior Preferred Terms and Summary of Warrant Terms as published by the Treasury.

Company Participation in the Capital Purchase Program

The Company received preliminary approval on January 7, 2009 from the Treasury to issue and sell up to 8,816 shares of the Preferred Stock and a warrant to purchase approximately 57,671 shares of Common Stock (the "Warrant") at an estimated exercise price of $22.93 per share for aggregate consideration of $8,816,000. Each share of Preferred Stock issued to the Treasury will have a liquidation preference of $1,000. If the Company sells the maximum amount of Preferred Stock authorized under the Capital Purchase Program, the Company estimates that the ownership percentage of the current shareholders would be diluted by approximately 3.3% if the Warrant were fully exercised.

At September 30, 2008, the Company had capital ratios in excess of those required to be considered well-capitalized under banking regulations. The Board of Directors believes it is prudent for the Company to apply for capital available under the Capital Purchase Program because (i) the Company believes that the cost of capital under the Capital Purchase Program may be significantly lower than the cost of capital otherwise available to the Company at this time, and (ii) despite being well-capitalized, additional capital obtained under the capital Purchase Program would provide the Company additional flexibility to meet future capital needs that may arise.

The Board of Directors believes that the flexibility to issue shares of Preferred Stock other than under the Capital Purchase Program can enhance the Board of Director's arm's-length bargaining capability on behalf of the Company's shareholders in a takeover situation. However, under some circumstances, the ability to designate the rights of, and issue, Preferred Stock could be used by the Board of Directors to make a change in control of the Company more difficult.

The rights of the holders of the Company's Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future, including that issued under the Capital Purchase Program. To the extent that dividends will be payable on any issued shares of Preferred Stock, the result would be to reduce the amount otherwise available for payment of dividends on outstanding shares of the Company's Common Stock and there might be restrictions placed on the Company's ability to declare dividends on the Common Stock or to repurchase shares of Common Stock. The issuance of any Preferred Stock having voting rights would dilute the voting

power of the holders of Common Stock. To the extent that any Preferred Stock is made convertible into shares of Common Stock, the effect, upon such conversion, would also be to dilute the voting power and ownership percentage of the holders of Common Stock. In addition, holders of Preferred Stock would normally receive superior rights in the event of any dissolution, liquidation, or winding up of the Company, thereby diminishing the rights of the holders of Common Stock to distribution of the Company's assets. Shares of Preferred Stock of any series would not entitle the holder to any pre-emptive right to purchase or subscribe for any shares of that or any other class.

The Company has not made a final determination as to whether it will participate in the Capital Purchase Program. If it does participate, it intends to participate in the amount of $8,816,000, the maximum amount for which it has received preliminary approval. Assuming that the amendment to the Certificate of Incorporation is approved by shareholders, the Board will make a final decision near to the time of the closing of the sale to the Treasury, which is currently scheduled to occur on March 13, 2009. Among the factors the Board will consider are the then-current economic conditions nationally, regionally and locally, the performance of the Bank at that time, especially of the loan portfolio, the capital and liquidity positions of the Company and the Bank at that time, and any restrictions on the use of the proceeds or corporate governance matters imposed by Congress, the Treasury or bank regulatory authorities between the date of this Proxy statement and the date that the Board makes the final determination or are anticipated to be imposed in the future. There can be no assurance that the Company will participate in the Capital Purchase Program. If the amendment to the Certificate of Incorporation is approved by shareholders and the Company does not participate in the Capital Purchase Program, the Preferred Stock authorized will remain available for future issuance as described above.

Use of Proceeds

Subject to limitations on use of proceeds that may be specified by the Treasury, the Company intends to invest all of the proceeds from the issuance of the Preferred Stock to the Treasury as equity in the Bank, its wholly-owned banking subsidiary. Initially, the Bank intends to use the funds to reduce borrowings. In the longer-term, the Bank has identified the following priorities for the use of the funds: (i) increase, where possible and prudent, additional consumer and commercial lending to stimulate economic activity in the Bank's local and regional markets; (ii) strengthen the Bank in the face of an uncertain and potentially prolonged economic downturn, which could have severe negative effects upon the national and regional economy and which could provoke credit or other than temporary impairment losses at the Bank at levels outside historical norms and (iii) possibly facilitate appropriate acquisitions of bank branches, or entire banks, whose capacity to flourish or even survive in the current economy has become suspect.

Pro Forma Effect on the Company's Financial Statements

The following discusses the pro forma effect of participation in the Capital Purchase Program on the Company's financial statements. As indicated above, the Company was notified on January 7, 2009 that the Treasury had preliminarily approved the Company's application to participate in the Capital Purchase Program in the amount of $8,816,000. This discussion assumes that the Company receives $8,816,000, the maximum amount for which it has received preliminary approval, which is the intention of the Company if it participates in the Capital Purchase Program.

The pro forma effect of the receipt of $8,816,000 under the Capital Purchase Program as of September 30, 2008 is as follows:

	As Reported September 30, 2008 (dollars in thousands)	Pro Forma as of September 30, 2008 (dollars in thousands)	"
Capital Purchase Program Investment	0	$ 8,816	
Total Tier 1 Capital	$35,358	$44,174	
Total Tier 2 Capital	$ 3,140	$ 3,140	
Total Capital (Tier 1 & 2)	$38,498	$47,314	
Leverage Ratio	7.54%	9.43%	
Tier 1 Ratio	12.08%	15.09%	
Total Capital Ratio	13.15%	16.16%	

(1) Minimum regulatory percentages for banks. All other numbers and percentages are calculated based on the Company's financial statements.

The following unaudited pro forma financial information of the Company for the fiscal year ended December 31, 2007 and the nine-month period ended September 30, 2008 show the effect of the receipt of $8,816,000 from the Treasury pursuant to the Capital Purchase Program upon the issuance of Preferred Stock and the Warrant. The pro forma financial data is not necessarily indicative of the financial results that would have resulted had the proceeds of the Capital Purchase Program been received for the above periods and is not necessarily indicative of the results that the Company will achieve in the future. The Company can provide no assurance that the pro forma results will be achieved.

The Company has included the following unaudited pro forma financial information solely for the purpose of providing shareholders with information that may be useful for purposes of considering and evaluating the proposal to amend the Company's Certificate of Incorporation. The Company's future results are subject to prevailing economic, industry specific conditions, financial, business and other known and unknown risks, and uncertainties, certain of which are beyond the Company's control. These factors include, without limitation, those described in this Proxy Statement under "Cautionary Statement Concerning Forward-Looking Statements" and those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2007 and Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, which are specifically incorporated by reference in this Proxy Statement.

Pro Forma Effect - Balance Sheet

Pro Forma Condensed Consolidated Balance Sheet
September 30, 2008
(dollars in thousands)
(Unaudited)

	As of 09/30/08	Pro Forma Adjustments	Pro Fo
Balance Sheet Data:			
ASSETS			
Cash and due from banks	$ 12,741	$ 0	$
Securities available for sale, at fair value	144,482	0	1
Loans, net of allowance for loan losses	293,740	0	2
Other Assets	34,687	0	
TOTAL ASSETS	$ 485,650	$ 0	$ 4
LIABILITIES			
Total deposits	$ 344,608	0	$ 3
Borrowings (1)	98,861	8,816	
Other Liabilities	3,461	0	
TOTAL LIABILITIES	446,930	8,816	4
SHAREHOLDERS' EQUITY			
Preferred Stock (1) (2)	$ 0	$ 8,816	$
Capital Stock	169	0	
Warrants (2) (4)	0	112	
Discount on Preferred Stock (2) (3)	0	(112))	
Surplus	13,158	0	
Retained Earnings	34,037	0	
Accumulated other comprehensive (loss) income	(8,644)	0)	
TOTAL SHAREHOLDERS' EQUITY	38,720	8,816	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 485,650	$ 8,816	$ 4

(1) Pro forma amounts are based on the investment by the Treasury pursuant to the Capital Purchase Program of the maximum amount of $8,816,000 for which the Company has received preliminary approval. The Company expects ultimately to utilize the proceeds to (i) increase, where prudent, consumer and commercial lending; (ii) strengthen the Bank and (iii) when appropriate, facilitate the acquisition of bank branches or entire banks. Prior to such deployment, the proceeds may be used to reduce borrowings. Expenses related to the issuance of the Preferred Stock and the Warrant to the Treasury are expected to be immaterial and have not been deducted from the sale proceeds.

(2) The proceeds from the sale of the securities to the Treasury would be allocated between the Preferred Stock and the Warrant based on their relative fair values on the issue date. The fair value of the Warrant would be determined using the Black-Scholes model, which includes assumptions regarding the price of the Common Stock (assumed to be $22.93), dividend yield (assumed to be 4.88%) and stock price volatility (assumed to be 15.1%), as well as assumptions regarding the risk-free interest rate (assumed to be 2.16%). The fair value of the Preferred Stock issued to the Treasury would be determined based on assumptions regarding the discount rate (market rate) on the Preferred Stock, which is currently estimated at 12%.

(3) The discount on the Preferred Stock issued to the Treasury would be determined based on the value that is allocated to the Warrant upon issuance and would be accreted back to the value of the Preferred Stock over a five-year period, which is the expected life of the Preferred Stock upon issuance, using the constant effective yield method (approximately 5.30%).

(4) Assuming participation in the Capital Purchase Program in the maximum amount of $8,816,000 for which the Company has received preliminary approval, based on an exercise price of $22.93 per share for the Warrant, the Company estimates that the Warrant would give the Treasury the right to purchase approximately 57,671 shares of Common Stock.

Pro Forma Effect - Income Statements

Pro Forma Condensed Consolidated Statements of Income
Pro Forma Impact of Maximum Estimated Proceeds
$8,816,000 Preferred and Warrants for 57,671 shares
For the Year Ended December 31, 2007
(in thousands, except per share data)

	Historical 12 Months Ended 12/31/07	Adjustments (unaudited)	Pro Forma 12 Months Ended 12/31/07 (unaudited)
Net Interest Income	$ 13,720	$ 426(1)	$ 14,14
Loan Loss Provision	0		
Net Interest Income after Provision	13,720	426	14,14
Noninterest Income	4,465		4,46
Noninterest Expense	13,514		13,5
Income/(Loss) Before Taxes	4,671	426	5,09
Provision for Income Taxes	870	94(2)	96
Income before Preferred Dividends	3,801	332	4,13
Less: Preferred Dividends and Preferred Accretion	0	461(3)	46
Income available to common shareholders	$ 3,801	$ (129)	$ 3,67
Basic Earnings Per Share	$ 2.26	$ 0	$ 2.1

Diluted Earnings Per Share	$ 2.26	$ 0	$ 2.1
Weighted Average Shares Outstanding:			
Basic	1,684,699	0	1,684,69
Diluted	1,684,699	19,484(4)	1,704,18

(1) Assumes maximum Capital Purchase Program proceeds of $8,816,000 are used to decrease borrowings carrying an assumed average annualized yield of approximately 4.83%. The actual impact to net interest income could be different as the Company expects ultimately to utilize a portion of the proceeds to (i) increase, where prudent, consumer and commercial lending; (ii) strengthen the Bank and (iii) when appropriate facilitate the acquisition of bank branches or entire banks. Expenses related to the issuance of the Preferred Stock and the Warrant to the

Treasury are expected to be immaterial and have not been deducted from the sale proceeds.

(2) Additional income tax expense is attributable to additional net interest income as described in Note (1).

(3) Consists of dividends on the Preferred Stock at a 5% annual rate in the amount of $440,800 as well as accretion on discount on the Preferred Stock upon issuance in the amount of $20,100. The discount is determined based on the value that is allocated to the Warrant upon issuance. The discount is accreted back to par value on a constant effective yield method (approximately 5.30%) over a five-year term, which is the expected life of the Preferred Stock upon issuance. The estimated accretion is based on a number of assumptions, which are subject to change. These assumptions include the discount (market rate at issuance) rate on the Preferred Stock and assumptions underlying the value of the Warrant. The estimated proceeds are allocated based on the relative fair value of the Warrant as compared to the fair value of the Preferred Stock. The fair value of the Warrant is determined under a Black-Scholes model. The model includes assumptions regarding the price of the Common Stock (assumed to be $22.93), dividend yield (assumed to be 4.88%), stock price volatility (assumed to be 15.1%), as well as assumptions regarding the risk-free interest rate (assumed to be 2.16%). The lower the value of the Warrant, the lower is the negative impact on net income and earnings per share available to common shareholders. The fair value of the Preferred Stock is determined based on assumptions regarding the discount rate (market rate) on the Preferred Stock, which is currently estimated at 12%. The lower the discount rate, the less the negative impact on net income and earnings per share available to common shareholders.

(4) Assuming participation in the Capital Purchase Program in the maximum amount of $8,816,000 for which the Company has received preliminary approval, based on an exercise price of $22.93 per share for the Warrant, the Company estimates that the Warrant would give the Treasury the right to purchase approximately 57,671 shares of Common Stock. The pro forma adjustment shows the increase in diluted shares outstanding assuming that the Warrants had been issued on January 1, 2007 at the strike price of $22.93 and remained outstanding for the entire period presented. The treasury stock method was utilized to determine dilution of the Warrant for the period presented.

Pro Forma Condensed Consolidated Statements of Income
Pro Forma Impact of Maximum Estimated Proceeds
$8,816,000 Preferred and Warrants for 57,671 shares
For the Nine Months Ended September 30, 2008

(in thousands, except per share data)
(unaudited)

	Historical 9 Months Ended 09/30/08	Adjustments	Pro 9 Mo En 09/3
Net Interest Income	$ 11,666	$ 308(1)	$
Loan Loss Provision	690		
Net Interest Income after Provision	10,976	308	
Noninterest Income	1,241		
Noninterest Expense	11,183		
Income/(Loss) Before Taxes	1,034	308	
Provision for Income Taxes	882	68(2)	
Income before Preferred Dividends	152	240	
Less: Preferred Dividends and Preferred Accretion	0	346(3)	
Income available to common shareholders	$ 152	($106)	$
Basic Earnings Per Share	$ 0.09	$ 0	$
Diluted Earnings Per Share	$ 0.09	$ 0	$
Weighted Average Shares Outstanding:			
Basic	1,685,444		1,
Diluted	1,685,444	14,708(4)	1,

11

(1) Assumes maximum Capital Purchase Program proceeds of $8,816,000 are used to decrease borrowings carrying an assumed average annualized yield of approximately 4.66%. The actual impact to net interest income could be different as the Company expects ultimately to utilize a portion of the proceeds to (i) increase, where prudent, consumer and commercial lending; (ii) strengthen the Bank and (iii) when appropriate facilitate the acquisition of bank branches or entire banks. Expenses related to the issuance of the Preferred Stock and the Warrant to the Treasury are expected to be immaterial and have not been deducted from the sale proceeds.

(2) Additional income tax expense is attributable to additional net interest income as described in Note (1).

(3) Consists of dividends on the Preferred Stock at a 5% annual rate in the amount of $330,600 as well as accretion on discount on the Preferred Stock upon issuance in the amount of $15,800. The discount is determined based on the value that is allocated to the Warrant upon issuance. The discount is accreted back to par value on a constant effective yield method (approximately 5.30%) over a five-year term, which is the expected life of the Preferred Stock upon issuance. The estimated accretion is based on a number of assumptions, which are subject to change. These assumptions include the discount (market rate at issuance) rate on the Preferred Stock and assumptions underlying the value of the Warrant. The

estimated proceeds are allocated based on the relative fair value of the Warrant as compared to the fair value of the Preferred Stock. The fair value of the Warrant is determined under a Black-Scholes model. The model includes assumptions regarding the price of the Common Stock (assumed to be $22.93), dividend yield (assumed to be 4.88%), stock price volatility (assumed to be 15.1%), as well as assumptions regarding the risk-free interest rate (assumed to be 2.16%). The lower the value of the Warrant, the lower is the negative impact on net income and earnings per share available to common shareholders. The fair value of the Preferred Stock is determined based on assumptions regarding the discount rate (market rate) on the Preferred Stock, which is currently estimated at 12%. The lower the discount rate, the less the negative impact on net income and earnings per share available to common shareholders.

(4) Assuming participation in the Capital Purchase Program in the maximum amount of $8,816,000 for which the Company has received preliminary approval, based on an exercise price of $22.93 per share for the Warrant, the Company estimates that the Warrant would give the Treasury the right to purchase approximately 57,671 shares of Common Stock. The pro forma adjustment shows the increase in diluted shares outstanding assuming that the Warrants had been issued on January 1, 2008 at the strike price of $22.93 and remained outstanding for the entire period presented. The treasury stock method was utilized to determine dilution of the Warrant for the period presented.

COMPANY FINANCIAL STATEMENTS

The following financial statements and other information of the Company as reported in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007 as filed with the SEC (the "Form 10-K") and the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008 as filed with the SEC (the "Form 10-Q") are provided with this Proxy Statement and are a part hereof:

- The audited consolidated financial statements and notes thereto as of and for the fiscal year ended December 31, 2007, the opinion of the independent registered public accounting firm relating thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations; and
- The unaudited condensed consolidated financial statements and notes thereto as of and for the three and nine months ended September 30, 2008 and Management's Discussion and Analysis of Financial Condition and Results of Operations.

12

Since January 1, 2006, the Company and the Bank have had no changes in or disagreements with independent accountants on accounting and financial disclosure matters.

The Form 10-K and the Form 10-Q and the Company's other filings with the SEC are available on the Company's website at www.salisburybank.com/shareholder_relations.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We do not anticipate that representatives from Shatswell, MacLeod & Company, P.C. will be present and available to respond to questions or make a statement at the Special Meeting.

Approval Requirement and Board of Directors Recommendation

Approval of the proposed amendment to the Company's Certificate of Incorporation requires the approval of at least a majority of the votes entitled to be cast at the meeting.

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE PROPOSAL TO AMEND THE COMPANY'S CERTIFICATE OF INCORPORATION.

OTHER BUSINESS

The Company is not aware of any business to be acted upon at the Special Meeting other than that which is discussed in this Proxy Statement. In the event that any other business requiring a vote of the Shareholders is properly presented at the Special Meeting, the holders of the Proxies will vote your shares in accordance with their best judgment and the recommendations of a majority of the Board of Directors.

You are encouraged to exercise your right to vote by marking the appropriate boxes and dating and signing the enclosed Proxy card. The Proxy card may be returned in the enclosed envelope, postage-prepaid if mailed in the United States. In the event that you are later able to attend the Special Meeting, you may revoke your Proxy and vote your shares in person. A prompt response will be helpful and your cooperation is appreciated.

SECURITY OWNERSHIP OF MANAGEMENT AND SHAREHOLDERS

The following table sets forth certain information as of December 31, 2008 regarding the number of shares of Common Stock beneficially owned by each Director and Executive Officer of the Company and by all Directors and Executive Officers of the Company as a group. Management is not aware of any person (including any "group" as defined in Rule 13(d)(3) of the Securities and Exchange Commission (the "SEC")) who owns beneficially more than 5% of the Common Stock as of December 31, 2008.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent
Louis E. Allyn, II	1,481	
John R. H. Blum	16,365 (3)	
Louise F. Brown	2,928	
Richard J. Cantele, Jr.	3,006 (4)	
Robert S. Drucker	8,468 (5)	
John F. Foley	7,443 (6)	
Nancy F. Humphreys	1,840 (7)	
Holly J. Nelson	1,888 (8)	
John F. Perotti	11,454 (9)	
Michael A. Varet	66,486 (10)	3
(All Directors and Executive Officers of the Company as a group of ten (10) persons)	121,359	7

(1) The shareholdings also include, in certain cases, shares owned by or in trust for a director's spouse and/or children or grandchildren, and in which all beneficial interest has been disclaimed by the Director or has the right to acquire such security within sixty (60) days of December 31, 2008.

(2) Percentages are based upon the 1,685,861 shares of the Company's Common Stock outstanding and entitled to vote on December 31, 2008. The definition of beneficial owner includes any person who, directly or indirectly, through any contract, agreement or understanding, relationship or otherwise, has or shares voting power or investment power with respect to such security.

(3) Includes 2,100 shares owned by John R. H. Blum's spouse.

(4) Includes 1,320 shares owned jointly by Richard J. Cantele, Jr. and his spouse and 6 shares owned by Richard J. Cantele, Jr. as custodian for his daughter.

(5) Includes 1,500 shares owned by Robert S. Drucker's spouse.

(6) Includes 3,322 shares owned jointly by John F. Foley and his spouse, 1,543 owned by his spouse and 100 shares owned by John F. Foley as custodian for his children.

(7) Includes 1,000 shares owned jointly by Nancy F. Humphreys and her spouse.

(8) Includes 6 shares owned by Holly J. Nelson as guardian for a minor child.

(9) Includes 9,514 shares owned jointly by John F. Perotti and his spouse, 1,100 shares owned by his spouse and 564 shares owned by his son, of which shares owned by his spouse and son, John F. Perotti has disclaimed beneficial ownership.

(10) Includes 18,540 shares which are owned by his spouse and 18,546 shares which are owned by his children, of which shares Michael A. Varet has disclaimed beneficial ownership.

IMPORTANT NOTICE REGARDING THE AVAILABILTY OF PROXY MATERIALS FOR THE SPECIAL SHAREHOLDER MEETING TO BE HELD ON MARCH 10, 2009

This Notice and Proxy Statement are available at www.cfpproxy.com/4607sm

Directions to the Interlaken Inn, 74 Interlaken Road, Route 112, Lakeville, Connecticut, may be obtained by writing to John F. Foley, Secretary, Salisbury Bancorp, Inc. 5 Bissell Street, PO Box 1868, Lakeville, CT 06039-1868, by calling 1-860-435-9801 or toll-free at 1-800-222-9801.

DEADLINE FOR SUBMISSION OF SHAREHOLDER PROPOSALS

Any proposal that a Company shareholder wishes to have included in the Company's Proxy Statement and form of Proxy relating to the Company's 2009 Annual Meeting of Shareholders under Rule 14a-8 of the SEC must have been

received by the Company's Secretary by December 8, 2008.

In addition, under the Company's Bylaws, shareholders who wish to nominate a director or bring other business before an annual meeting must comply with the following:

- You must be a shareholder of record and must have given notice in writing to the Secretary of the Company (a) not less than twenty (20) days nor more than one hundred thirty (130) days prior to the meeting with respect to matters other than the nomination of directors and (b) not less than thirty (30) days nor more than fifty (50) days prior to the meeting with respect to the nomination of directors.
- Your notice must contain specific information required in the Company's Bylaws.

Nominations and proposals should be addressed to John F. Foley, Secretary, Salisbury Bancorp, Inc., 5 Bissell Street, PO Box 1868, Lakeville, CT 06039-1868.

By order of the Board of Directors

John F. Foley
Secretary

Lakeville, Connecticut
February 12, 2009

Exhibit A

PROPOSED AMENDMENT TO
CERTIFICATE OF INCORPORATION
OF
SALISBURY BANCORP, INC.

Article THIRD shall be amended and restated in its entirety as follows:

THIRD: Capital Stock. The amount of the capital stock of the Corporation hereby authorized is three million (3,000,000) shares of Common Stock, par value $0.10 per share and twenty-five thousand (25,000) shares of Preferred Stock, par value $0.01 per share.

A. Common Stock.

Each holder of shares of Common Stock shall be entitled to one vote for each share held by such holder. There shall be no cumulative voting rights in the election of directors. Each share of Common Stock shall have the same relative rights as and be identical in all respects with all other shares of Common Stock. The voting, dividend and liquidation rights of the Common stock are subject to and qualified by the rights of the holders of the Preferred Stock of any series as may be determined by the Board of Directors before the issuance of any series of Preferred Stock.

B. Preferred Stock.

(1) General. Preferred Stock may be issued from time to time in one

or more series, each to have such terms as are set forth herein and in the resolutions of the Board of Directors authorizing the issue of such series. Any shares of Preferred Stock which may be redeemed, purchased or otherwise acquired by the Bank may be reissued. Different series of Preferred Stock shall not be construed to constitute different classes of shares for the purposes of voting by classes unless expressly so provided.

(2) Authority of Board of Directors. The Board of Directors may from time to time issue the Preferred Stock in one or more series. The Board of Directors may, in connection with the creation of any such series, determine the preferences, limitations and relative rights of each such series before the issuance of such series. Without limiting the foregoing, the Board of Directors may fix the voting powers, dividend rights, conversion rights, redemption privileges and liquidation preferences, all as the Board of Directors deems appropriate, to the full extent now or hereafter permitted by the Connecticut Business Corporation Act.

The resolutions providing for issuance of any series of Preferred Stock may provide that such series shall be superior or rank equally or be junior to the Preferred Stock of any other series to the extent permitted by law. Except as otherwise provided in this Certificate of Incorporation, no vote of the holders of the Preferred Stock or Common Stock shall be a prerequisite to the designation or issuance of shares of any series of the Preferred Stock authorized by and complying with the conditions of this Certificate of Incorporation and the Connecticut Business Corporation Act.

C. No shareholder of the Corporation shall by reason of his holding shares of capital stock of the Corporation have any preemptive or preferential rights to purchase or subscribe to any share of any class of stock of the Corporation, now or hereafter to be authorized, or to any notes, debentures, bonds or other securities (whether or not convertible into or carrying options or warrants to purchase shares of any class of capital stock) now or hereafter to be authorized, excepting only such preemptive or preferential rights, warrants or options as the Board of Directors in its discretion may grant from time to time; and the Board of Directors may issue shares of any class of stock of the Corporation, or any notes, debentures, bonds or other securities (whether or not convertible into or carrying rights, options or warrants to purchase shares of any class of capital stock) without offering any such shares to the existing Shareholders of the Corporation.

Exhibit B

TARP Capital Purchase Program
Senior Preferred Stock and Warrants

Summary of Senior Preferred Terms

Issuer: Qualifying Financial Institution ("QFI") means (i) any U.S. bank or U.S. savings association not controlled by a Bank Holding Company ("BHC")or Savings and Loan Holding Company ("SLHC"); (ii) any U.S. BHC, or any U.S. SLHC which engages only in activities permitted for financial holdings companies under Section 4(k) of the Bank Holding Company Act, and any U.S. bank or U.S. savings association controlled by such a qualifying U.S. BHC or U.S. SLHC; and (iii) any U.S. BHC or U.S. SLHC whose U.S. depository institution subsidiaries are the subject of an application under Section 4(c)(8) of the Bank Holding Company Act; except that QFI shall not mean any BHC, SLHC, bank or savings association that is controlled by a foreign bank or company. For purposes of this program, "U.S. bank", "U.S. savings association", "U.S. BHC" and "U.S. SLHC" means a bank, savings association, BHC or SLHC organized under the laws of the United States or any State of the United States, the District of Columbia, any territory or possession of the United States, Puerto Rico, Northern Mariana Islands, Guam, American Samoa, or the Virgin Islands. The United States Department of the Treasury will determine eligibility and allocation for QFIs after consultation with the appropriate Federal banking agency.

Initial Holder: United States Department of the Treasury (the "UST").

Size: QFIs may sell preferred to the UST subject to the limits and terms described below.

Each QFI may issue an amount of Senior Preferred equal to not less than 1% of its risk-weighted assets and not more than the lesser of (i) $25 billion and (ii) 3% of its risk-weighted assets.

Security: Senior Preferred, liquidation preference $1,000 per share. (Depending upon the QFI's available authorized preferred shares, the UST may agree to purchase Senior Preferred with a higher liquidation preference per share, in which case the UST may require the QFI to appoint a depositary to hold the Senior Preferred and issue depositary receipts.)

Ranking: Senior to common stock and pari passu with existing preferred shares other than preferred shares which by their terms rank junior to any existing preferred shares.

Regulatory Capital Status: Tier 1.

Term: Perpetual life.

Dividend: The Senior Preferred will pay cumulative dividends at a rate of 5% per annum until the fifth anniversary of the date of this investment and thereafter at a rate of 9% per annum.

B-1

For Senior Preferred issued by banks which are not subsidiaries of holding companies, the Senior Preferred will pay non-cumulative dividends at a rate of 5% per annum until the fifth anniversary of the date of this investment and thereafter at a rate of 9% per annum. Dividends will be payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year.

Redemption: Senior Preferred may not be redeemed for a period of three years from the date of this investment, except with the proceeds from a Qualified Equity Offering (as defined below) which results in aggregate gross proceeds to the QFI of not less than 25% of the issue price of the Senior Preferred. After the third anniversary of the date of this investment, the Senior Preferred may be redeemed, in whole or in part, at any time and from time to time, at the

option of the QFI. All redemptions of the Senior Preferred shall be at 100% of its issue price, plus (i) in the case of cumulative Senior Preferred, any accrued and unpaid dividends and (ii) in the case of noncumulative Senior Preferred, accrued and unpaid dividends for the then current dividend period (regardless of whether any dividends are actually declared for such dividend period), and shall be subject to the approval of the QFI's primary federal bank regulator.

"Qualified Equity Offering" shall mean the sale by the QFI after the date of this investment of Tier 1 qualifying perpetual preferred stock or common stock for cash.

Following the redemption in whole of the Senior Preferred held by the UST, the QFI shall have the right to repurchase any other equity security of the QFI held by the UST at fair market value.

Restrictions on Dividends: For as long as any Senior Preferred is outstanding, no dividends may be declared or paid on junior preferred shares, preferred shares ranking pari passu with the Senior Preferred, or common shares (other than in the case of pari passu preferred shares, dividends on a pro rata basis with the Senior Preferred), nor may the QFI repurchase or redeem any junior preferred shares, preferred shares ranking pari passu with the Senior Preferred or common shares, unless (i) in the case of cumulative Senior Preferred all accrued and unpaid dividends for all past dividend periods on the Senior Preferred are fully paid or (ii) in the case of non-cumulative Senior Preferred the full dividend for the latest completed dividend period has been declared and paid in full.

Common dividends: The UST's consent shall be required for any increase in common dividends per share until the third anniversary of the date of this investment unless prior to such third anniversary the Senior Preferred is redeemed in whole or the UST has transferred all of the Senior Preferred to third parties.

Repurchases: The UST's consent shall be required for any share repurchases (other than (i) repurchases of the Senior Preferred and (ii) repurchases of junior preferred shares or common shares in connection with any benefit plan in the ordinary course of business consistent with past practice) until the third anniversary of the date of this investment unless prior to such third anniversary the Senior Preferred is redeemed in whole or the UST has transferred all of the Senior Preferred to third parties. In addition, there shall be no share repurchases of junior preferred shares, preferred shares ranking pari passu with the Senior Preferred, or common shares if prohibited as described above under "Restrictions on Dividends".

Voting rights: The Senior Preferred shall be non-voting, other than class voting rights on (i) any authorization or issuance of shares ranking senior to the Senior Preferred, (ii) any amendment to the rights of Senior Preferred, or (iii) any merger, exchange or similar transaction which would adversely affect the rights of the Senior Preferred. If dividends on the Senior Preferred are not paid in full for six dividend periods, whether or not consecutive, the Senior Preferred will have the right to elect 2 directors. The right to elect directors will end when full dividends have been paid for four consecutive dividend periods.

Transferability: The Senior Preferred will not be subject to any contractual restrictions on transfer. The QFI will file a shelf registration statement covering the Senior Preferred as promptly as practicable after the date of this investment and, if necessary, shall take all action required to cause such shelf

registration statement to be declared effective as soon as possible. The QFI will also grant to the UST piggyback registration rights for the Senior Preferred and will take such other steps as may be reasonably requested to facilitate the transfer of the Senior Preferred including, if requested by the UST, using reasonable efforts to list the Senior Preferred on a national securities exchange. If requested by the UST, the QFI will appoint a depositary to hold the Senior Preferred and issue depositary receipts.

Executive Compensation: As a condition to the closing of this investment, the QFI and its senior executive officers covered by the EESA shall modify or terminate all benefit plans, arrangements and agreements (including golden parachute agreements) to the extent necessary to be in compliance with, and following the closing and for so long as UST holds any equity or debt securities of the QFI, the QFI shall agree to be bound by, the executive compensation and corporate governance requirements of Section 111 of the EESA and any guidance or regulations issued by the Secretary of the Treasury on or prior to the date of this investment to carry out the provisions of such subsection. As an additional condition to closing, the QFI and its senior executive officers covered by the EESA shall grant to the UST a waiver releasing the UST from any claims that the QFI and such senior executive officers may otherwise have as a result of the issuance of any regulations which modify the terms of benefits plans, arrangements and agreements to eliminate any provisions that would not be in compliance with the executive compensation and corporate governance requirements of Section 111 of the EESA and any guidance or regulations issued by the Secretary of the Treasury on or prior to the date of this investment to carry out the provisions of such subsection.

Summary of Warrant Terms

Warrant: The UST will receive warrants to purchase a number of shares of common stock of the QFI having an aggregate market price equal to 15% of the Senior Preferred amount on the date of investment, subject to reduction as set forth below under "Reduction". The initial exercise price for the warrants, and the market price for determining the number of shares of common stock subject to the warrants, shall be the market price for the common stock on the date of the Senior Preferred investment (calculated on a 20-trading day trailing average), subject to customary anti-dilution adjustments. The exercise price shall be reduced by 15% of the original price on each six-month anniversary of the issue date of the warrants if the consent of the QFI stockholders described below has not been received, subject to a maximum reduction of 45% of the original exercise price.

Term: 10 years.

Exercisability: Immediately exercisable, in whole or in part.

Transferability: The warrants will not be subject to any contractual restrictions on transfer; provided that the UST may only transfer or exercise an aggregate of one-half of the warrants prior to the earlier of (i) the date on which the QFI has received aggregate gross proceeds of not less than 100% of the issue price of the Senior Preferred from one or more Qualified Equity Offerings and (ii) December 31, 2009. The QFI will file a shelf registration statement covering the warrants and the common stock underlying the warrants as promptly as practicable after the date of this investment and, if necessary, shall take all action required to cause such shelf registration statement to be declared effective as soon as possible. The QFI will also grant to the UST piggyback registration rights for the warrants and the common stock underlying the warrants and will take such other steps as may be reasonably requested to

facilitate the transfer of the warrants and the common stock underlying the warrants. The QFI will apply for the listing on the national exchange on which the QFI's common stock is traded of the common stock underlying the warrants and will take such other steps as may be reasonably requested to facilitate the transfer of the warrants or the common stock.

Voting: The UST will agree not to exercise voting power with respect to any shares of common stock of the QFI issued to it upon exercise of the warrants.

Reduction: In the event that the QFI has received aggregate gross proceeds of not less than 100% of the issue price of the Senior Preferred from one or more Qualified Equity Offerings on or prior to December 31, 2009, the number of shares of common stock underlying the warrants then held by the UST shall be reduced by a number of shares equal to the product of (i) the number of shares originally underlying the warrants (taking into account all adjustments) and (ii) 0.5.

Consent: In the event that the QFI does not have sufficient available authorized shares of common stock to reserve for issuance upon exercise of the warrants and/or stockholder approval is required for such issuance under applicable stock exchange rules, the QFI will call a meeting of its stockholders as soon as practicable after the date of this investment to increase the number of authorized shares of common stock and/or comply with such exchange rules, and to take any other measures deemed by the UST to be necessary to allow the exercise of warrants into common stock.

Substitution: In the event the QFI is no longer listed or traded on a national securities exchange or securities association, or the consent of the QFI stockholders described above has not been received within 18 months after the issuance date of the warrants, the warrants will be exchangeable, at the option of the UST, for senior term debt or another economic instrument or security of the QFI such that the UST is appropriately compensated for the value of the warrant, as determined by the UST.

B-4

[LOGO SALISBURY BANCORP, INC.]

February 12, 2009

To Our Shareholders:

In the past several months, we have witnessed a global economic meltdown and unprecedented financial devastation affecting some of the largest U.S. companies and financial institutions. It seems that with each new day we hear about more lay-offs and financial difficulties. No one can predict with any degree of certainty when economic conditions will improve. With this uncertainty comes fear, which is an emotion caused by events that we cannot control. In response, the U.S. Treasury Department initiated a Capital Purchase Program to encourage U.S. financial institutions to build capital to increase the flow of financing to U.S. businesses and consumers and restore confidence.

As a "well-capitalized" community banking company, we have both a historical record and commitment to meeting the financial needs of the businesses, consumers and communities which we serve, while building a prudent and profitable franchise for our shareholders. Accordingly, Salisbury Bancorp applied for, and was granted preliminary approval from the U.S. Treasury, to participate in this Program in an amount up to $8,816,000. Your management team and Board of Directors are evaluating the advantages and disadvantages of participating in this Program, and we ask you to authorize an amendment to our

Certificate of Incorporation to create the preferred stock necessary to sell to the Treasury, should the Company decide to participate. As a "well-capitalized" and profitable institution, we are not seeking a "bailout" and we will only participate if the Board determines that participation is in the best interests of the Company and its shareholders based upon the information available at the time. In deciding whether to participate, the Board is considering the costs, benefits and uncertainties of participating in the Capital Purchase Program as well as the potential risks of declining to participate in the Program.

We are calling upon our shareholders to consider and approve a proposed amendment to our Certificate of Incorporation which would authorize preferred stock and provide us with the potential to participate in the Capital Purchase Program. The enclosed proxy material should answer any questions you might have regarding the Capital Purchase Program and our potential participation. However, we encourage you to contact us and to attend the Special Meeting of Shareholders to be held at 10:00 a.m. on Tuesday, March 10, 2009 at The Interlaken Inn, 74 Interlaken Road, Route 112, Lakeville, Connecticut 06039 to consider and vote upon this proposed amendment. Even if you plan to attend the Special Meeting, we request that you complete, sign, date and mail the enclosed proxy in the envelope provided. If you attend the Special Meeting, you may revoke the proxy and vote in person if you wish.

We would like to conclude this letter by saying "Thank you". We greatly value your commitment to our Company and your continued support.

Sincerely,

/s/ John F. Perotti

John F. Perotti
Chairman and Chief Executive Officer

/s/ Richard J. Cantele. Jr.

Richard J. Cantele. Jr.
President and Chief Operating Officer

[X] PLEASE MARK VOTES AS IN THIS EXAMPLE

REVOCABLE PROXY
SALISBURY BANCORP, INC.

THIS PROXY SOLICITED ON BEHALF OF
THE BOARD OF DIRECTORS OF SALISBURY BANCORP, INC.

The undersigned holder(s) of the Common Stock of Salisbury Bancorp, Inc. (the "Company") do hereby nominate, constitute and appoint Louis E. Allyn, II and Holly J. Nelson jointly and severally, proxies with full power of substitution, for us and in our name, place and stead to vote all the Common Stock of the Company, standing in our name on February 4, 2009 at the Special Meeting of its Shareholders to be held at the Interlaken Inn, 74 Interlaken Road, Lakeville, Connecticut 06039 on Tuesday, March 10, 2009 at 10:00 a.m. or any adjournment thereof with all the powers the undersigned would possess if personally present, as follows:

(1) APPROVAL of an amendment to the Company's Certificate of Incorporation to authorize 25,000 shares of preferred stock, par value $0.01 per share.

FOR	AGAINST	ABSTAIN
[ ]	[ ]	[ ]

(2) OTHER BUSINESS: To conduct whatever other business may properly be brought before the Special Meeting or any adjournment thereof. Management at present knows of no other business to be presented by or on behalf of the Company or its Management at the Special Meeting. In the event that any other business requiring a vote of the Shareholders is properly presented at the Special Meeting, the holders of the proxies will vote your shares in accordance with their best judgment and the recommendations of a majority of the Board of Directors.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL (1).

THIS PROXY WILL BE VOTED IN ACCORDANCE WITH THE SPECIFICATION INDICATED. IF NO SPECIFICATION IS INDICATED, THIS PROXY WILL BE VOTED "FOR" PROPOSAL (1) AND IN ACCORDANCE WITH THE DETERMINATION OF A MAJORITY OF THE BOARD OF DIRECTORS AS TO OTHER MATTERS.

PLEASE CHECK THE BOX IF YOU PLAN TO ATTEND THE MEETING [ ]

Please be sure to sign and date this Proxy in the box below.

Date ____________, 2009

Shareholder sign above

Co-holder (if any) sign above

Detach above card, sign, date and mail in postage paid envelope provided.

SALISBURY BANCORP, INC.

PLEASE ACT PROMPTLY PLEASE COMPLETE, DATE, SIGN, AND MAIL THIS PROXY CARD PROMPTLY IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

All joint owners must sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title. If more than one trustee, all must sign.

THIS PROXY MAY BE REVOKED AT ANY TIME PRIOR TO THE MEETING BY PROVIDING WRITTEN NOTICE TO THE COMPANY SECRETARY OR MAY BE WITHDRAWN AND YOU MAY VOTE IN PERSON SHOULD YOU ATTEND THE SPECIAL MEETING.

IF YOUR ADDRESS HAS CHANGED, PLEASE CORRECT THE ADDRESS IN THE SPACE PROVIDED BELOW AND RETURN THIS PORTION WITH THE PROXY IN THE ENVELOPE PROVIDED.

SALISBURY BANCORP, INC.

UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

AND RELATED INFORMATION

EXTRACTED FROM THE FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED

SEPTEMBER 30, 2008

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except per share data)
September 30, 2008 and December 31, 2007

	September 30, 2008 (unaudited)
ASSETS	
Cash and due from banks	$ 6,915
Interest bearing demand deposits with other banks	1,445
Money market mutual funds	1,422
Federal funds sold	2,958
Cash and cash equivalents	12,740
Investments in available-for-sale securities (at fair value)	144,482
Investments in held-to-maturity securities (fair values of $67 as of September 30, 2008 and $71 as of December 31, 2007)	68
Federal Home Loan Bank stock, at cost	5,323
Loans held-for-sale	122
Loans, less allowance for loan losses of $3,105 as of September 30, 2008 and $2,475 as of December 31, 2007	293,740
Investment in real estate	75
Other real estate owned	205
Premises and equipment	7,269
Goodwill	9,829
Core deposit intangible	1,206
Accrued interest receivable	2,395
Cash surrender value of life insurance policies	3,780
Other assets	4,416
Total assets	$485,650
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits:	
Noninterest-bearing	$ 69,198
Interest-bearing	275,411

Total deposits	344,609
Securities sold under agreements to repurchase	12,370
Federal Home Loan Bank advances	86,490
Other liabilities	3,461
Total liabilities	446,930
Shareholders' equity:	
Common stock, par value $.10 per share; authorized 3,000,000 shares; issued and outstanding, 1,685,861 shares at September 30, 2008 and 1,685,021 shares at December 31, 2007	169
Paid-in capital	13,158
Retained earnings	34,037
Accumulated other comprehensive loss	(8,644)
Total shareholders' equity	38,720
Total liabilities and shareholders' equity	$485,650

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

1

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands, except per share data)
(unaudited)

	Nine Months Ended September 30,		Three Sept
	2008	2007	2008
Interest and dividend income:			
Interest and fees on loans	$ 13,918	$ 13,273	$ 4,68
Interest on debt securities:			
Taxable	3,988	4,094	1,35
Tax-exempt	1,775	1,745	62
Dividends on equity securities	169	241	3
Other interest	121	46	
Total interest and dividend income	19,971	19,399	6,71
Interest expense:			
Interest on deposits	5,124	6,109	1,48
Interest on securities sold under agreements to repurchase	46	0	4
Interest on Federal Home Loan Bank advances	3,135	3,126	1,05
Total interest expense	8,305	9,235	2,58
Net interest and dividend income	11,666	10,164	4,12

Provision for loan losses	690	0	52
Net interest and dividend income after provision for loan losses	10,976	10,164	3,60
Noninterest income (charge):			
Trust department income	1,684	1,508	54
Loan commissions	2	22	
Service charges on deposit accounts	610	544	20
(Write downs) gains on available-for-sale securities, net	(2,317)	222	(2,67
Gain on sales of loans held-for-sale	236	246	7
Other income	1,026	757	49
Total noninterest income (charge)	1,241	3,299	(1,34
Noninterest expense:			
Salaries and employee benefits	6,225	5,763	2,14
Occupancy expense	721	586	25
Equipment expense	650	584	21
Data processing	1,005	939	31
Insurance	148	121	5
Printing and stationery	201	216	6
Professional fees	651	500	21
Legal expense	282	167	11
Amortization of core deposit intangible	123	123	4
Other expense	1,176	1,026	40
Total noninterest expense	11,182	10,025	3,83
Income (loss) before income taxes	1,035	3,438	(1,57
Income taxes	883	638	33
Net income (loss)	$ 152	$ 2,800	$ (1,91
Earnings (loss) per common share	$ .09	$ 1.66	$ (1.1
Dividends per common share	$ .84	$ .81	$ .2

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

2

SALISBURY BANCORP INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)
Nine months ended September 30, 2008 and 2007
(unaudited)

	2008	

Cash flows from operating activities:		
Net income	$ 152	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	57	
Gain on sales of available-for-sale securities, net	(539)	
Write-downs of available-for-sale securities	2,856	
Provision for loan losses	690	
Change in loans held-for-sale	(2)	
Change in deferred loan costs, net	(2)	
Net (increase) decrease in mortgage servicing rights	(1)	
Depreciation and amortization	519	
Amortization of core deposit intangible	123	
Accretion of fair value adjustment on deposits & borrowings	(98)	
Amortization of fair value adjustment on loans	36	
Decrease (increase) in interest receivable	144	
Deferred tax benefit	(138)	
(Increase) decrease in taxes receivable	(13)	
(Increase) decrease in prepaid expenses	(30)	
Increase in cash surrender value of insurance policies	(92)	
Increase in income tax payable	0	
(Increase) decrease in other assets	(159)	
Increase in accrued expenses	213	
Decrease in interest payable	(164)	
Decrease in other liabilities	(8)	
Issuance of shares for Directors' fees	28	
(Decrease) increase in unearned income on loans	(1)	
Cash and cash equivalents acquired from New York Community Bank net of expenses paid of $115	0	
Net cash provided by operating activities	3,571	
Cash flows from investing activities		
Purchase of Federal Home Loan Bank stock	(147)	
Purchases of available-for-sale securities	(102,304)	
Proceeds from sales of available-for-sale securities	94,723	
Proceeds from maturities of held-to-maturity securities	3	
Loan originations and principal collections, net	(24,372)	
Purchase of loans	(1,935)	
Recoveries of loans previously charged-off	36	
Other real estate owned - expenditures capitalized	(204)	
Capital expenditures	(941)	
Net cash used in investing activities	(35,141)	

3

SALISBURY BANCORP INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)
Nine months ended September 30, 2008 and 2007
(unaudited)
(continued)

	2008
Cash flows from financing activities:	
Net increase (decrease) in demand deposits, NOW and savings accounts	24,927
Net increase in time deposits	1,940
Federal Home Loan Bank advances	17,000
Principal payments on advances from Federal Home Loan Bank	(16,786)
Net change in short term advances from Federal Home Loan Bank	(8,637)
Net increase in securities sold under agreements to repurchase	12,370
Dividends paid	(1,682)
Net cash provided by financing activities	29,132
Net decrease in cash and cash equivalents	(2,438)
Cash and cash equivalents at beginning of period	15,178
Cash and cash equivalents at end of period	$ 12,740
Supplemental disclosures:	
Interest paid	$ 8,567
Income taxes paid	1,034
New York Community Bank Branch Acquisition:	
Cash and cash equivalents acquired	
Deposits assumed	
Net liabilities assumed	
Acquisition costs	
Goodwill	

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

4

SALISBURY BANCORP, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying condensed consolidated interim financial statements are unaudited and include the accounts of Salisbury Bancorp, Inc. (the "Company"), its wholly owned subsidiary Salisbury Bank and Trust Company (the "Bank"), and the Bank's subsidiaries, S.B.T. Realty, Inc. and SBT Mortgage Service Corporation (the "PIC") formed in April 2004. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial

information and with the instructions to SEC Form 10-Q. Accordingly, they do not include all the information and footnotes required by 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 nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2007 Annual Report on Form 10-K.

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

NOTE 2 - COMPREHENSIVE (LOSS) INCOME

Statement of Financial Accounting Standards ("SFAS") 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 (loss) 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 sources of other comprehensive (loss) income are the net changes in unrealized holding (losses) or gains on securities and the net change in unrecognized pension plan expense.

Comprehensive (Loss) Income

	Nine months ended September 30, 2008	Nine months ended September 30, 2007	Three months ended September 30, 2008	Three months ended September 30, 2007
	(amounts in thousands)		(amounts in thousand	
Net income	$ 152	$ 2,800	$(1,912)	$ 91
Net change in unrealized holding (losses) or gains on securities and net change in unrecognized pension plan expense, net of tax during period	(5,325)	(1,775)	(2,403)	96
Comprehensive (loss) income	$(5,173)	$ 1,025	$(4,315)	$ 1,88

NOTE 3 - IMPACT OF NEW ACCOUNTING STANDARDS

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, "Accounting for Certain Hybrid Instruments" (SFAS 155), which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with SFAS 133. The statement also subjects beneficial interests issued by securitization vehicles to the requirements of SFAS No. 133. The statement is effective as of January 1, 2007. The adoption of SFAS 155 did not have an impact on the Company's financial condition and results of operations.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets- an amendment of FASB Statement No. 140 ("SFAS No. 156"). SFAS 156 requires any entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specific situations. Additionally, the servicing asset or servicing liability shall be initially measured at fair value; however, an entity may elect the "amortization method" or "fair value method" for subsequent balance

sheet reporting periods. The adoption of this statement did not have a material impact on the Company's financial condition, results of operations or cash flows.

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

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP) and enhances disclosures about fair value measurements. SFAS 157 retains the exchange price notion and clarifies that the exchange price is the price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. SFAS 157 is effective for the Company's consolidated financial statements for the year beginning on January 1, 2008, with earlier adoption permitted. The adoption of this statement did not have a material impact on its financial condition and results of operations. See Note 5.

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task force ("EITF") on Issue No. 06-4 "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," (EITF Issue 06-4). EITF 06-4 requires companies with an endorsement split-dollar life insurance arrangement to recognize a liability for future postretirement benefits. The effective date is for fiscal years beginning after December 15, 2007, with earlier application permitted. Companies should recognize the effects of applying this issue through either (a) a change in accounting principle through a cumulative effect adjustment to retained earnings or (b) a change in accounting principle through retrospective application to all periods. The adoption of EITF Issue 06-4 did not have a material impact on the Company's financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115" (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement also establishes presentation and disclosure

requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective at the beginning of the Company's fiscal year beginning January 1, 2008, and early application may be elected in certain circumstances. The adoption of this statement did not have a material impact on its financial condition and results of operations.

In December 2007, the FASB issued SFAS No. 141 (Revised 2008), "Business Combinations" (SFAS 141(R)). SFAS 141(R) will significantly change the accounting for business combinations. Under SFAS 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. It also amends the accounting treatment for certain specific items including acquisition costs and non controlling minority interests and includes a substantial number of new disclosure requirements. SFAS 141(R) applies prospectively to business combinations for which acquisition date is on or after January 1, 2009. The Company does not expect the adoption of this statement to have a material impact on its financial condition and results of operations.

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

NOTE 4 - DEFINED BENEFIT PENSION PLAN

The following summarizes the net periodic benefit cost for the nine months and three months ended September 30:

	Nine Months Ended September 30,		Three Months En September 30	
	2008	2007	2008	200
Components of net periodic benefit cost:				
Service cost	$ 302,856	$ 328,305	$ 100,952	$ 109
Interest cost	275,213	256,517	91,738	85
Expected return on plan assets	(320,244)	(276,707)	(106,748)	(92
Amortization of:				
Prior service cost	669	670	223	
Actuarial loss	33,646	51,177	11,215	17
Net periodic benefit cost	$ 292,140	$ 359,962	$ 97,380	$ 119

The following actuarial weighted average assumptions were used in calculating net periodic benefit cost:

Discount rate	6.00%	6.00%	6.00%
Average wage increase	Graded table*	Graded table*	Graded table
Expected return on plan assets	7.50%	7.25%	7.50%

*5% at age 20 grading down to 3% at age 60 and beyond (roughly 3.25% on average).

NOTE 5 - ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

The fair value hierarchy established by SFAS No. 157 is based on observable and unobservable inputs participants use to price an asset or liability. SFAS No. 157 has prioritized these inputs into the following value hierarchy:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from a corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair value of the asset or liability and are based on the entity's own assumption about the assumptions that market participants would use to price the asset or liability.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general clarification of such instruments pursuant to the valuation hierarchy is set forth below. These valuation methodologies were applied to all of the Company's financial assets and liabilities carried at fair value effective January 1, 2008.

7

($ in 000s)		Fair Value Measurements at Reporting using		
Description	9/30/08	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
AFS securities	$ 144,482	$0	$144,482	$0
Total	$ 144,482	$0	$144,482	$0

Management's Discussion and Analysis
of Financial Condition and Results of Operations

Business

The following provides Management's comments on the financial condition and results of operations of Salisbury Bancorp, Inc. (the "Company"), a Connecticut corporation that is the holding company for Salisbury Bank and Trust Company (the "Bank"). The Company's sole subsidiary is the Bank, which has seven (7) full service offices including a Trust/Wealth Services Division. Such offices are located in the towns of North Canaan, Lakeville, Salisbury and Sharon, Connecticut, Sheffield and South Egremont, Massachusetts, and Dover Plains, New York. In addition, the bank has received regulatory approvals to open a full-service branch in Millerton, New York. The Company and Bank were formed in 1998 and 1848, respectively. In order to provide a strong foundation for building shareholder value and servicing customers, the Company remains committed to investing in the technological and human resources necessary to developing new personalized financial products and services to meet the needs of customers. This discussion should be read in conjunction with Salisbury Bancorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007.

RESULTS OF OPERATIONS

Overview

The Company's assets at September 30, 2008 totaled $485,650,000 compared to total assets of $461,960,000 at December 31, 2007. During the first nine months of 2008, net loans outstanding, not including loans held-for-sale, increased $25,549,000 or 9.53% to $293,740,000. This compares to total net loans outstanding, not including loans held-for-sale, of $268,191,000 at December 31, 2007. This increase is primarily attributable to increased loan demand during the period that was generated as the result of new business development efforts. The growth was funded by an increase in deposits. Non-performing assets totaled $1,796,000 at September 30, 2008. Non-performing loans totaled $1,591,000 at September 30, 2008 or 0.54% of total loans outstanding and Other Real Estate Owned totaled $205,000. This compares to non-performing loans totaling $1,824,000 at December 31, 2007 or 0.68% of total loans outstanding. There were no other non-performing assets at December 31, 2007. The Bank continues to monitor the quality of the loan portfolio to ensure that loan quality will not be sacrificed for growth or otherwise compromise the Company's objectives. Deposits at September 30, 2008 totaled $344,609,000 as compared to total deposits of $317,741,000 at December 31, 2007. This increase is primarily the result of new business development efforts.

The Company's earnings for the nine months ended September 30, 2008 was $152,000 or $.09 per average share outstanding. This compares to earnings of $2,800,000 or $1.66 per share for the same period in 2007. The Company reported a third quarter loss of $1,912,000 or $1.13 per average share outstanding compared to earnings of $917,000 or $.54 per average share outstanding, in the third quarter

of 2007. Earnings for the respective periods were impacted by a pre-tax charge of $2,856,000 as a result of the U.S. Government placing FHLMC (Freddie Mac) into conservatorship, which necessitated the Company to take a write-down of Freddie Mac preferred stock during the quarter ended September 30, 2008. No tax benefit was recognized as a result of this charge for the quarter ended September 30, 2008, because applicable law at the time forced financial institutions to treat the loss as a capital loss. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was enacted, which includes a

provision permitting banks to recognize losses relating to the Freddie Mac preferred stock as an ordinary loss, thereby allowing a tax benefit for both tax and financial reporting purposes. If the legislation permitting this action had been effective in the third quarter rather than the fourth quarter, the positive impact of the tax charge that would have been recorded would have resulted in September 30, 2008 year-to-date earnings of $1,123,000 or $.67 per average share outstanding. The Company will recognize the additional tax benefit totaling approximately $971,000 or $.58 per average share outstanding relating to the write-down of the Freddie Mac preferred stock in the quarter ending December 31, 2008. Earnings, not including the Freddie Mac preferred stock write-down, for the first nine months of 2008 would have totaled $3,008,000 or $1.78 per average share outstanding.

The Bank remains "well capitalized" pursuant to the standards of the Federal Deposit Insurance Corporation. The Bank's total risk based capital ratio was 13.15%; the Tier 1 capital ratio was 12.08% and the leverage ratio was 7.54%. As previously disclosed, on September 2, 2008 the Board of Directors declared a third quarter cash dividend of $.28 per common share, which was paid on October 31, 2008 to shareholders of record as of September 30, 2008. This compared to a cash dividend of $.27 per common share that was paid for the third quarter of 2007. Year-to-date dividends total $.84 per common share outstanding for this year. This compares to total year-to-date dividends of $.81 per common share one year ago.

Critical Accounting Estimates

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

NINE MONTHS ENDED SEPTEMBER 30, 2008
AS COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2007

Net Interest and Dividend Income

The Company's earnings are primarily dependent upon net interest and dividend income, and to a lesser extent noninterest income. Net interest and dividend income is the difference between interest and dividends earned primarily on the loan and securities portfolios and interest paid on deposits, securities sold under agreements to repurchase and advances from the Federal Home Loan Bank. Noninterest income is primarily derived from the Trust/Wealth Advisory Services division, service charges and other fees related to deposit and loan accounts and income from gains in securities transactions. For the following discussion, net interest and dividend income is presented on a fully taxable-equivalent ("FTE") basis. FTE interest income restates reported interest income on tax exempt securities as if such interest were taxed at the Company's federal tax rate of 34% for all periods presented.

(amounts in thousands) Nine Months Ended September 30,	2008	2007
Total Interest and Dividend Income (financial statements)	$ 19,971	$ 19,399
Tax Equivalent Adjustment	914	898
Total Interest and Dividend Income (on a FTE basis)	20,885	20,297
Total Interest Expense	8,305	9,235
Net Interest and Dividend Income-FTE	$ 12,580	$ 11,062

Total interest and dividend income on a FTE basis for the nine months ended September 30, 2008, when compared to the same period in 2007, increased $588,000 or 2.90%. The increase was primarily attributable to an increase in earning assets.

Interest expense on deposits for the first nine months of 2008 totaled $5,124,000, a decrease of $985,000 or 16.12% when compared to $6,109,000 for the same period in 2007. This decrease reflects an economic environment of generally lower interest rates. The Bank's volume of Federal Home Loan Bank advances outstanding at September 30, 2008 decreased 9.00% when compared to total advances outstanding at December 31, 2007, however overnight borrowings through out the year resulted in an increase of interest expense totaling $9,000. Total interest expense for the nine months ended September 30, 2008 was $8,305,000, a decrease of $930,000 or 10.07% when compared to the same period in 2007.

Overall, net interest and dividend income (on a FTE basis) increased $1,518,000 or 13.72% to $12,580,000 for the period ended September 30, 2008 when compared to the same period in 2007.

Noninterest Income

Noninterest income, not including the write-downs and net gains on sales of available-for-sale securities, totaled $3,558,000 for the nine months ended September 30, 2008. This is an increase of $481,000 or 15.63% compared to noninterest income, not including gains on available-for-sale securities transactions, of $3,077,000 for the nine months ended September 30, 2007. Continuing growth of the Trust/Wealth Advisory Services Division has resulted in increased income of $176,000 or 11.67% to $1,684,000 for the period ended September 30, 2008 compared to income totaling $1,508,000 for the corresponding period in 2007. Write-downs on available-for-sale securities totaled $2,856,000 for the period ended September 30, 2008. As described previously, this is primarily the result of the U.S. Governments actions relating to Freddie Mac. Other income, which primarily consists of fees associated with transaction accounts, fees related to the origination and servicing of mortgage loans and gains related to the sale of mortgage loans, increased $305,000 or 19.44% to $1,874,000 for the nine months ended September 30, 2008 compared to $1,569,000 for the nine months ended September 30, 2007.

Noninterest Expense

Noninterest expense increased $1,157,000 or 11.54% for the first nine months of 2008 as compared to the same period in 2007. Although some increases in the described noninterest expenses in the table below are attributable to normal volumes of business, the increase also reflects additional staffing and the additional costs associated with the daily operation of our new Dover Plains, New York branch, which opened in August of 2007. The increase in professional fees is primarily attributable to the Trust and Wealth Advisory Services

Division working with Bradley Foster and Sargent, Inc., an independent investment advisory firm that assists in providing a broader scope of highly personalized professional investment services to clients. In addition, internal audit expense increased which is the result of additional services required due to compliance requirements of the Sarbanes-Oxley Act. The components of noninterest expense and the changes in the period were as follows (amounts in thousands):

10

	2008	2007	Change	% Change
Salaries and employee benefits	$ 6,225	$ 5,763	$ 462	8.01%
Occupancy expense	721	586	135	23.03
Equipment expense	650	584	66	11.30
Data processing	1,005	939	66	7.02
Insurance	148	121	27	22.31
Printing and stationery	201	216	(15)	(6.94)
Professional fees	651	500	151	30.20
Legal expense	282	167	115	68.86
Amortization of core deposit intangible	123	123	0	0
Other expense	1,176	1,026	150	14.61
Total noninterest expense	$ 11,182	$ 10,025	$ 1,157	11.54

Income Taxes

The income tax provision for the first nine months of 2008 totaled $883,000 in comparison to $638,000 for the same nine-month period in 2007. As mentioned previously, the Emergency Economic Stabilization Act (EESA) enacted in October 2008 will permit a fourth quarter tax benefit of $971,000 for the other-than-temporary impairment recorded in the quarter ended September 30, 2008.

Net Income

The Company's pre tax income, not including write-downs and gains on securities transactions, for the nine month period ended September 30, 2008 would have totaled $3,352,000. This is an increase of $136,000 or approximately 4.23% when compared to pre tax income, not including gains on securities transactions, for the period ended September 30, 2007 that totaled $3,216,000. Net income was $152,000 or $.09 per average share outstanding for the nine months ended September 30, 2008. Net income for the corresponding period in 2007 totaled $2,800,000 or $1.66 per average share outstanding.

THREE MONTHS ENDED SEPTEMBER 30, 2008
AS COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2007

Net Interest and Dividend Income

For the following discussion, net interest and dividend 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)

Three Months Ended September 30	2008	2007
Total Interest and Dividend Income (financial statements)	$ 6,712	$ 6,602
Tax Equivalent Adjustment	320	327
Total Interest and Dividend Income (on a FTE basis)	7,032	6,929
Total Interest (Expense)	(2,587)	(3,167)
Net Interest and Dividend Income-FTE	$ 4,445	$ 3,762

Total interest and dividend income on a FTE basis for the three months ended September 30, 2008 increased $103,000 or 1.49% compared to the same period in 2007. The increase was primarily attributable to an increase in earning assets. Interest expense on deposits decreased $602,000 or 28.85% for the quarter to $1,485,000 compared to $2,087,000 for the same quarter in 2007. This decrease is primarily the result of an economic environment of generally lower interest rates. The Bank's volume of Federal Home Loan Bank advances decreased during the three month period ended September 30, 2008 when compared to the corresponding period in 2007. Interest expense on these advances decreased $24,000 or 2.22% and totaled $1,056,000 for the three months ended September 30, 2008 compared to $1,080,000 for the corresponding period in 2007. Total interest expense for the three months ending

11

September 30, 2008 was $2,587,000 compared to total interest expense for the same period in 2007 of $3,167,000, a decrease of $580,000 or 18.31%. This decrease is a reflection of an economic environment of generally lower interest rates and a reduction of FHLB borrowings. Overall, net interest and dividend income (on a FTE basis) increased $683,000 or 18.16% to $4,445,000 for the three-month period ended September 30, 2008 when compared to the corresponding period in 2007.

Noninterest Income

Noninterest income not including write-downs on and net gains on sales of available-for-sale securities totaled $1,326,000 for the three months ended September 30, 2008 as compared to $1,018,000 for the three months ended September 30, 2007. This represents an increase of $308,000 or 30.26%. Income from the Trust/Wealth Advisory Services Division increased $68,000 or 14.32% to $543,000 for the third quarter of 2008. This is primarily the result of continued growth in assets under management. Other income which consists primarily of fees associated with transaction accounts, fees related to the origination and servicing of loans and a non recurring premium on the sale of the Bank's credit card portfolio of $183,000 totaled $783,000 for the third quarter of 2008. As previously mentioned, the write-down of Freddie Mac preferred stock following it being put into conservatorship by the U.S. Government, for the quarter ended September 30, 2008 was $2,856,000. Overall, a charge of $1,345,000 was recorded for noninterest income for the three month period ended September 30, 2008. This compares to noninterest income of $1,060,000 for the corresponding period in 2007.

Noninterest Expense

Noninterest expense totaled $3,835,000 for the three month period ended September 30, 2008 as compared to $3,401,000 for the same period in 2007, an increase of $434,000 or 12.76%. Although some increases in noninterest expense are attributable to normal volumes of business, much of the overall increase in the noninterest expense listed in the table below is primarily attributable to additional staffing, and expenses related to the establishment of a new branch in New York State, which commenced operations in August 2007. The components of noninterest expense and the changes in the period were as follows (amounts in thousands):

	2008	2007	Change	% Change
Salaries and employee benefits	$ 2,148	$ 1,931	$ 217	11.24%
Occupancy expense	258	206	52	25.24
Equipment expense	219	214	5	2.34
Data processing	310	301	9	2.99
Insurance	58	47	11	23.40
Printing and stationery	66	72	(6)	(8.33)
Professional fees	218	161	57	35.40
Legal expense	116	41	75	182.93
Amortization of core deposit intangible	41	41	0	0
Other expense	401	387	14	3.62
Total non-interest expense	$ 3,835	$ 3,401	$ 434	12.76

Income Taxes

The income tax provision for the three-month period ended September 30, 2008 totaled $337,000 in comparison to $177,000 for the same three month period in 2007. As mentioned previously, the EESA enactment in October 2008 will permit the Company to record a fourth quarter tax benefit of approximately $971,000 for the other-than-temporary impairment recorded in the quarter ended September 30, 2008.

Net Income

The Company's pre tax income, not including write-downs and gains on sales of securities, for the three month period ended September 30, 2008 would have totaled $1,096,000. This is an increase of $44,000 when compared to pre tax income, not including gains on securities transactions for the corresponding three month period ended September 30, 2007, that totaled $1,052,000. Overall, the Company reported a net loss totaling $1,912,000 or $1.13 per average share outstanding for the three months ended September

30, 2008. Net income for the corresponding period in 2007 totaled $917,000 or $0.54 per average share outstanding.

FINANCIAL CONDITION

Total assets at September 30, 2008 were $485,650,000, compared to $461,960,000 at December 31, 2007, an increase of 5.13%. The increase is primarily the result of an increase in earning assets during the period that were funded by growth in deposits.

Investment Securities

The make up of the investment portfolio is diversified among U.S. Government sponsored agencies, mortgage-backed securities and securities issued by states of the United States and political subdivisions of the states. The portfolio does not include securities collateralized by pools of sub-prime mortgages. During the nine months ended September 30, 2008, the investment portfolio, including Federal Home Loan Bank stock, decreased $2,751,000 or 1.80% to $149,873,000 from $152,624,000 at December 31, 2007.

Securities are classified in the portfolio as either securities available-for-sale or securities held-to-maturity. Almost all securities in the portfolio are classified as available-for-sale. The securities reported as available-for-sale are stated at fair value in the financial statements of the Company. Unrealized holding gains and losses on available-for-sale securities (accumulated other comprehensive income/loss) are not included in earnings, but are reported as a net amount (less expected tax) in a separate component of capital until realized. At September 30, 2008, the unrealized loss net of tax was $7,620,000. This compares to an unrealized loss net of tax of $2,273,000 at December 31, 2007. As previously discussed, the U.S. Government placing Freddie Mac into conservatorship necessitated the write-down of Freddie Mac preferred stock during the quarter. The amortized cost basis of the investment which was made in 2003 was $2,975,000. This represented approximately 1.8% of the total investment securities portfolio. Management deems the remaining securities in the portfolio that are currently in an unrealized loss position as not other than temporarily impaired. The securities reported as securities held-to-maturity are stated at amortized cost.

Lending

Net loans outstanding (not including loans held for sale) totaled $293,740,000 at September 30, 2008 compared to net loans outstanding (not including loans held for sale) of $268,191,000 at December 31, 2007. This is an increase in net loans of $25,549,000 or 9.53%. Competition for loans remains aggressive in the Bank's market area, however, new business development coupled with an increase in loan demand resulted in the increase.

13

The following table represents the composition of the loan portfolio comparing September 30, 2008 to December 31, 2007:

	September 30, 2008	December 31, 2007
	(amounts in thousands)	
Commercial, financial and agricultural	$ 19,239	$ 20,629
Real estate-construction and land development	35,690	28,928
Real estate-residential	174,250	158,600
Real estate-commercial	60,966	53,823
Consumer	5,935	8,005
Other	457	376
	296,537	270,361
Deferred costs, net	308	306
Unearned income	0	(1)
Allowance for loan losses	(3,105)	(2,475)
Net Loans	$ 293,740	$ 268,191

Provision and Allowance for Loan Losses

Credit risk is inherent in the business of extending loans. The Bank monitors the quality of the portfolio to ensure that loan quality will not be sacrificed for growth or otherwise compromise the Bank's objectives. Because of this risk associated with extending loans, the Bank maintains an allowance or reserve for loan and lease losses through charges to earnings. For the first nine-month period of 2008, the provision for loan losses was $690,000. There was no provision for loan losses in the comparable period in 2007.

The Bank evaluates the adequacy of the allowance no less frequently than on a quarterly 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 September 30, 2008. Such evaluations are based on assessments of credit quality and "risk rating" of loans by senior management, which is reviewed by the Bank's Loan Committee on a regular basis. 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 ("SFAS 114"). Impaired loans receive individual evaluation of the allowance necessary on a monthly basis. Loans to be considered for impairment are defined in the Bank's Loan Policy as commercial loans with balances outstanding of $100,000 or more and residential real estate mortgages with balances of $300,000 or more. Such loans are considered impaired when it is probable that the Bank will not be able to collect all principal and interest due according to the terms of the note.

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

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

The individual allowance for any impaired loan is based upon the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is

collateral dependent. Specifically identifiable and quantifiable losses are immediately charged off against the allowance.

In addition, a risk of loss factor is applied in evaluating categories of loans 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.

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 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.

Nonperforming loans, which include all loans that are on a nonaccrual status along with loans that are 90 days or more past due and still accruing, are closely monitored by management. At September 30, 2008, nonperforming loans totaled $1,591,000 or 0.54% of total loans outstanding of $296,537,000, which does not include loans held for sale. In addition, while currently performing and secured, the Company has concerns relating to the timely repayment of a loan in the amount of $3,400,000 which is the subject of litigation. (See Legal Proceedings.) The allowance for loan losses totaled $3,105,000 representing 195.16% of nonperforming loans. Nonperforming loans totaled $1,824,000 or 0.67% of total loans outstanding, (which does not include loans held for sale) of $270,361,000 at December 31, 2007. The allowance for loan losses totaled $2,475,000 at December 31, 2007 and represented 135.69% of nonperforming loans. A total of $95,000 of loans were charged off by the Bank during the nine months ended September 30, 2008. These charged-off loans consisted primarily of consumer loans. This compares to loans charged off during the nine-month period ended September 30, 2007 that totaled $72,000. A total of $36,000 of previously charged-off loans was recovered during the nine month period ended September 30, 2008. Recoveries for the same period in 2007 totaled $53,000. 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 or other factors. Additionally, future additions to the allowance may be necessary to maintain adequate coverage ratios. At September 30, 2008, the Bank had other real estate owned ("OREO") in the amount of $205,000.

Deposits

The Company offers a variety of deposit accounts with a range of interest rates and terms. The following table illustrates the composition of the Company's deposits at September 30, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
	(amounts in thousands)	
Demand	$ 69,198	$ 69,215
NOW	27,121	23,652
Money Market	60,578	56,210
Savings	69,724	52,616
Time	117,988	116,048
Total Deposits	$344,609	$317,741

Deposits constitute the principal funding source of the Company's assets.

15

Borrowings

The Company utilizes advances from the Federal Home Loan Bank as part of its operating strategy to supplement deposit growth and fund its asset growth, a strategy that is designed to increase interest income. These advances are made pursuant to various credit programs, each of which has its own interest rate and

range of maturities. At September 30, 2008, the Company had $86,490,000 in outstanding advances from the Federal Home Loan Bank compared to $95,011,000 at December 31, 2007. In addition, the Company began offering securities sold under agreements to repurchase as part of its operating strategy. At September 30, 2008 they totaled $12,370,000. Management expects that it will continue these strategies of supplementing deposit growth.

Off-Balance Sheet Arrangements

In the normal course of business, the Company enters into certain relationships characterized as lending related off-balance sheet arrangements. These lending commitments have various terms and are designed to accommodate the financial needs of consumers, businesses and other entities. Many of these loan commitments have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of these commitments are expected to expire without being funded, the total commitment amounts do not necessarily represent future liquidity requirements.

Loan commitments have credit risk essentially the same as that involved in extending loans to customers. They are subject to normal credit approval procedures and policies. Collateral is obtained based on management's assessment of the customer's credit. The accompanying table summarizes the Company's off balance sheet lending-related financial instruments by remaining maturity at September 30, 2008:

(amounts in thousands)

By remaining maturity	Less than 1 year	1-3 years	4-5 years	After 5 years
Off balance sheet lending-related Financial Instruments				
Residential real estate related	$ 2,196	$	$ 3	$ 28,059
Commercial related	3,650	5,502	77	14,973
Consumer related				1,302
Standby letters of credit	29			
Total	$ 5,875	$ 5,502	$ 80	$ 44,334

Interest Rate Risk

Interest rate risk is the most significant market risk affecting the Company. Interest rate risk is defined as an exposure to a movement in interest rates that could have an adverse effect on net interest income. Net interest income is sensitive to interest rate risk to the degree that interest-bearing liabilities mature or reprice on a different basis than earning assets. In an attempt to manage its exposure to changes in interest rates, the Bank's assets and liabilities are managed in accordance with policies established and reviewed by the Bank's Board of Directors. The Bank's Asset/Liability Management Committee monitors asset and deposit levels, developments and trends in interest rates, liquidity and capital. One of the primary financial objectives is to manage interest rate risk and control the sensitivity of earnings to changes in interest rates in order to prudently improve net interest income and manage the maturities and interest rate sensitivities of assets and liabilities.

To quantify the extent of these risks, both in its current position and in actions it might take in the future,

interest rate risk is monitored using gap analysis which identifies the differences between assets and liabilities which mature or reprice during specific time frames and model simulation which is used to "rate shock" the Company's assets and liability balances to measure how much of the Company's net interest income is "at risk" from sudden rate changes.

An interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time and the amount of interest-bearing liabilities maturing or repricing within that same period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. At September 30, 2008, the Company maintains a liability sensitive (negative gap) position. This would suggest that during a period of declining interest rates, the Company would be in a better position to increase net interest income. To the contrary, during a period of rising interest rates, a negative gap would result in a decrease in interest income. The level of interest rate risk at September 30, 2008 is within the limits approved by the Board of Directors.

Liquidity

Liquidity is the ability to raise funds on a timely basis at an acceptable cost in order to meet cash needs. Adequate liquidity is necessary to handle fluctuations in deposit levels, to provide for customers' credit needs, and to take advantage of investment opportunities as they are presented. The Company manages liquidity primarily with readily marketable investment securities, deposits and loan repayments. The Company's subsidiary, the Bank, is a member of the Federal Home Loan Bank of Boston. This enhances the liquidity position by providing a source of available borrowings. At September 30, 2008, the Company had approximately $55,791,000 in loan commitments outstanding. Management believes that the current level of liquidity is ample to meet the Company's needs for both the present and foreseeable future.

Capital

At September 30, 2008, the Company had $38,720,000 in shareholders' equity, a decrease of 15.02% when compared to December 31, 2007 shareholders' equity totaling $45,563,000. Several components contributed to the change since December 31, 2007. Earnings for the nine-month period ended September 30, 2008 totaled $152,000. Securities in the investment portfolio that are classified as available-for-sale are adjusted to fair value monthly and the unrealized losses or gains are not included in earnings, but are reported as a net amount (less expected tax) as a separate component of capital until realized. Market fluctuations of fair value of the securities portfolio for the period ending September 30, 2008 resulted in accumulated other comprehensive loss net of tax totaling $7,620,000. Changes in unrecognized pension plan expense per SFAS No. 158, resulted in accumulated other comprehensive loss net of tax of $1,024,000 for the nine month period ended September 30, 2008.

A review and analysis of securities determined that, as a result of the U.S. Government placing FHLMC (Freddie Mac) into conservatorship, the Company needed to take a write-down of Freddie Mac preferred stock during the quarter ended September 30, 2008. Earnings for the period were impacted by pre-tax charges of

$2,856,000. No other credit deterioration was revealed and the unrealized loss on securities available-for-sale is due to the current interest rate environment, and management deems the remaining securities to be not other than temporarily impaired. The Company has declared three quarterly dividends resulting in a decrease in capital of $1,890,000. The Company issued 840 new shares of common stock under the terms of the Director Stock Retainer Plan that resulted in an increase in capital of $28,000. Under current regulatory definitions, the Company and the Bank are considered to be "well capitalized" for capital adequacy purposes. As a result, the Bank pays lower federal deposit insurance premiums than those banks that are not "well capitalized." 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 September 30, 2008, the Company had a total risk based capital ratio of 13.15% compared to 15.00% at December 31, 2007. Maintaining strong capital is essential to Bank safety and soundness. However, the effective management of capital resources requires generating attractive returns on equity to build value for shareholders while maintaining appropriate levels of capital to fund growth, meet regulatory requirements and be consistent with prudent industry practices.

Impact of Inflation and Changing Prices

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

SALISBURY BANCORP, INC.

AUDITED CONSOLIDATED

FINANCIAL STATEMENTS

AND RELATED INFORMATION

EXTRACTED FROM THE FORM 10-K

FOR THE FISCAL YEAR ENDED

DECEMBER 31, 2007

[LETTERHEAD OF SHATSWELL, MacLEOD & COMPANY, P.C.]

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheets of Salisbury Bancorp, Inc. and Subsidiary as of December 31, 2007 and 2006 and the related consolidated statements of income, changes in shareholders' equity and cash flows of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Salisbury Bancorp, Inc. and Subsidiary as of December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ SHATSWELL, MacLEOD & COMPANY, P.C.

SHATSWELL, MacLEOD & COMPANY, P.C.

West Peabody, Massachusetts
February 21, 2008

1

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

ASSETS	2007
Cash and due from banks	$ 12,810,681
Interest-bearing demand deposits with other banks	726,623
Money market mutual funds	1,340,891
Federal Funds sold	300,000
Cash and cash equivalents	15,178,195
Investments in available-for-sale securities (at fair value)	147,377,154
Investments in held-to-maturity securities (fair values of $71,435 and $74,818 as of December 31, 2007 and 2006, respectively)	70,798
Federal Home Loan Bank stock, at cost	5,176,100
Loan held-for-sale	120,000
Loans, less allowance for loan losses of $2,474,893 and $2,474,118 as of December 31, 2007 and 2006, respectively	268,191,275
Investment in real estate	75,000
Premises and equipment	6,803,198
Goodwill	9,828,712
Core deposit intangible	1,329,283
Accrued interest receivable	2,538,607
Cash surrender value of life insurance policies	3,688,021
Other assets	1,584,055
Total assets	$ 461,960,398

LIABILITIES AND SHAREHOLDERS' EQUITY	2007
Deposits:	
Noninterest bearing	$ 69,214,697
Interest-bearing	248,526,572
Total deposits	317,741,269
Federal Home Loan Bank advances	95,011,155
Due to broker 0	1,579,611
Other liabilities	3,644,376
Total liabilities	416,396,800
Shareholders' equity:	
Common stock, par value $.10 per share; authorized 3,000,000 shares; issued and outstanding, 1,685,021 shares in 2007 and 1,684,181 shares in 2006	168,502
Paid-in capital	13,130,247
Retained earnings	35,583,443
Accumulated other comprehensive loss	(3,318,594)
Total shareholders' equity	45,563,598
Total liabilities and shareholders' equity	$ 461,960,398

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

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2007 and 2006

	2007	2006
Interest and dividend income:		
Interest and fees on loans	$ 17,968,801	$ 15,686,978
Interest on debt securities:		
Taxable	5,457,879	5,604,866
Tax-exempt	2,332,374	2,079,981
Dividends on equity securities	324,329	277,356
Other interest	68,762	80,412
Total interest and dividend income	26,152,145	23,729,593
Interest expense:		
Interest on deposits	8,200,214	6,885,893
Interest on Federal Home Loan Bank advances	4,232,221	3,573,052
Total interest expense	12,432,435	10,458,945
Net interest and dividend income	13,719,710	13,270,648
Benefit for loan losses	0	(87,488)
Net interest and dividend income after benefit for loan losses	13,719,710	13,358,136
Noninterest income:		
Trust department income	2,050,000	1,980,500
Loan commissions	22,131	117,298
Service charges on deposit accounts	743,901	707,431
Gain on sales of available-for-sale securities, net	294,984	517,326
Gain on sales of loans held-for-sale	316,736	357,628
Other income	1,036,911	902,394
Total noninterest income	4,464,663	4,582,577
Noninterest expense:		
Salaries and employee benefits	7,723,691	7,150,746
Occupancy expense	801,558	751,670
Equipment expense	819,474	786,637
Data processing	1,193,887	1,134,078
Insurance	163,024	154,562
Printing and stationery	280,172	239,617
Professional fees	931,352	706,100
Amortization of core deposit intangible	164,216	164,216

Other expense	1,436,945	1,157,534
Total noninterest expense	13,514,319	12,245,160
Income before income taxes	4,670,054	5,695,553
Income taxes	870,006	1,441,935
Net income	$ 3,800,048	$ 4,253,618
Earnings per common share	$ 2.26	$ 2.53

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

3

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 2007 and 2006

	Number of Shares Issued	Common Stock	Paid-in Capital	Reta Earn
Balance, December 31, 2005	1,683,341	$ 168,334	$13,068,045	$31,10
Comprehensive income:				
Net income				4,25
Other comprehensive income, net of tax effect				
Comprehensive income				
Adjustment to initially apply SFAS No. 158, net of tax effect				
Issuance of 840 shares for Directors' fees	840	84	31,836	
Dividends declared ($1.04 per share)				(1,75
Balance, December 31, 2006	1,684,181	168,418	13,099,881	33,60
Comprehensive income:				
Net income				3,80
Other comprehensive loss, net of tax effect				
Comprehensive income				
Issuance of 840 shares for Directors' fees	840	84	30,366	
Dividends declared ($1.08 per share)				(1,81
Balance, December 31, 2007	1,685,021	$ 168,502	$13,130,247	$35,58

Reclassification disclosure for the years ended December 31:

Unrealized holding (losses) gains on available-for-sale securities
Net unrealized holding (losses) gains on available-for-sale securities
Reclassification adjustment for net realized gains in net income

Income tax benefit (expense)

Unrealized holding (losses) gains on available-for-sale securities, net of tax

Comprehensive income - defined benefit pension plan
Income tax expense

Comprehensive income - defined benefit pension plan, net of tax

Other comprehensive (loss) income, net of tax

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

Net unrealized holding losses on available-for-sale securities, net of taxes
Unrecognized pension plan expense - SFAS No. 158, net of taxes

Accumulated other comprehensive loss

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

4

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

	2007	200
Cash flows from operating activities:		
Net income	$ 3,800,048	$ 4,25
Adjustments to reconcile net income to net cash provided by operating activities:		

Amortization of securities, net	75,014	3
Gain on sales of available-for-sale securities, net	(294,984)	(51
Benefit for loan losses	0	(8
Change in loans held-for-sale	184,000	(30
Change in deferred loan costs, net	(137,362)	(16
Change in unearned income on loans	(2,528)	(
Net decrease in mortgage servicing rights	110,515	7
Depreciation and amortization	565,267	53
Amortization of core deposit intangible	164,216	16
Amortization of fair value adjustment on loans	71,357	11
Accretion of fair value adjustments on deposits and borrowings	(130,203)	(13
Increase in interest receivable	(64,671)	(11
Deferred tax provision	34,785	39
Increase in prepaid expenses	(4,594)	(1,03
Increase in cash surrender value of insurance policies	(133,026)	(13
Decrease in income tax receivable	89,869	18
Decrease (increase) in other assets	90,673	(9
Increase (decrease) in accrued expenses	102,293	(24
Increase in interest payable	6,794	25
Increase (decrease) in other liabilities	216,509	(5
Issuance of shares for Directors' fees	30,450	3
Net cash provided by operating activities	4,774,422	3,16
Cash flows from investing activities:		
Redemption of Federal Home Loan Bank stock	0	86
Purchases of Federal Home Loan Bank stock	(512,400)	(11
Purchases of available-for-sale securities	(69,642,478)	(83,05
Proceeds from sales of available-for-sale securities	63,597,747	62,35
Proceeds from maturities of available-for-sale securities	12,170,270	14,00
Proceeds from maturities of held-to-maturity securities	4,102	7
Loan originations and principal collections, net	(11,448,576)	(36,14
Purchases of loans	(4,313,300)	(25
Recoveries of loans previously charged off	103,564	6
Capital expenditures	(1,396,923)	(20
Cash and cash equivalents acquired from New York Community Bank, net of expenses paid of $119,407	176,653	
Net cash used in investing activities	(11,261,341)	(42,40

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

5

SALISBURY BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

(continued)

	2007	2006
Cash flows from financing activities:		
Net increase (decrease) in demand deposits, NOW and savings accounts	8,467,718	(5,638,39
Net (decrease) increase in time deposits	(4,805,216)	31,957,48
Federal Home Loan Bank advances	21,000,000	25,000,00
Principal payments on Federal Home Loan Bank advances	(16,589,044)	(10,460,00
Net change in short-term Federal Home Loan Bank advances	3,637,000	1,668,00
Dividends paid	(1,802,527)	(1,734,27
Net cash provided by financing activities	9,907,931	40,792,80
Net increase in cash and cash equivalents	3,421,012	1,552,80
Cash and cash equivalents at beginning of year	11,757,183	10,204,37
Cash and cash equivalents at end of year	$ 15,178,195	$ 11,757,18
Supplemental disclosures:		
Interest paid	$ 12,559,418	$ 10,335,18
Income taxes paid	745,352	864,51
New York Community Bank Branch Acquisition:		
Cash and cash equivalents acquired	$ 296,060	
	296,060	
Deposits assumed	492,486	
Accrued interest payable assumed	3,574	
	496,060	
Net liabilities assumed	200,000	
Acquisition costs		
	119,407	
Goodwill	$ 319,407	

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

6

SALISBURY BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2007 and 2006

NOTE 1 - NATURE OF OPERATIONS

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

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

NOTE 2 - ACCOUNTING POLICIES

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

USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

BASIS OF PRESENTATION:

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

CASH AND CASH EQUIVALENTS:

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

Cash and due from banks as of December 31, 2007 and 2006 includes $650,000, which is subject to withdrawals and usage restrictions to satisfy the reserve requirements of the Federal Reserve Bank.

SECURITIES:

Investments in debt securities are adjusted for amortization of premiums

and accretion of discounts to approximate the interest method. Gains or losses on sales of investment securities are computed on a specific identification basis.

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

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

-- Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings but are reported as a net amount (less expected tax) in a separate component of capital until realized.

-- Trading securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses for trading securities are included in earnings. During the two years ended December 31, 2007 and 2006, the Company did not classify any securities as trading.

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

LOANS:

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

Interest on loans is recognized on a simple interest basis.

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

Cash receipts of interest income on impaired loans are credited to principal to the extent necessary to eliminate doubt as to the

collectibility of the net carrying amount of the loan. Some or all of the cash receipts of interest income on impaired loans is recognized as interest income if the remaining net carrying amount of the loan is deemed to be fully collectible. When recognition of interest income on an impaired loan on a cash basis is appropriate, the amount of income that is recognized is limited to that which would have been accrued on the net carrying amount of the

loan at the contractual interest rate. Any cash interest payments received in excess of the limit and not applied to reduce the net carrying amount of the loan are recorded as recoveries of charge-offs until the charge-offs are fully recovered.

ALLOWANCE FOR LOAN LOSSES:

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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

PREMISES AND EQUIPMENT:

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

the assets. Estimated lives are 3 to 99 years for buildings and 2 to 20 years for furniture and equipment.

OTHER REAL ESTATE OWNED AND IN-SUBSTANCE FORECLOSURES:

Other real estate owned includes properties acquired through foreclosure and properties classified as in-substance foreclosures in accordance with Statement of Financial Accounting Standards (SFAS) No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring." These

properties are carried at the lower of cost or estimated fair value less estimated costs to sell. Any write-down from cost to estimated fair value required at the time of foreclosure or classification as in-substance foreclosure is charged to the allowance for loan losses. Expenses incurred in connection with maintaining these assets and subsequent write-down are included in other expense.

In accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," the Bank classifies loans as in-substance repossessed or foreclosed if the Bank or its subsidiaries receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place. As of December 31, 2007 and December 31, 2006, the Company does not have any other real estate owned.

ADVERTISING:

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

INCOME TAXES:

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

FAIR VALUES OF FINANCIAL INSTRUMENTS:

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

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

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

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

Loans receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying

values. The fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

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

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

10

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

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

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

STOCK BASED COMPENSATION:

Bancorp has a stock-based plan to compensate non-employee directors for their services. This plan is more fully described in Note 14. Compensation cost for these services is reflected in net income in an amount equal to the fair value on the date of issuance of the shares of Bancorp common stock issued to the directors.

EARNINGS PER SHARE (EPS):

Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Weighted average common shares outstanding were 1,684,699 in 2007 and 1,683,893 in 2006. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted EPS is not presented because there were no common stock equivalents in the years ended December 31, 2007 and 2006.

RECENT ACCOUNTING PRONOUNCEMENTS:

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, "Accounting for Certain Hybrid Instruments" (SFAS No. 155), which permits, but does not require, fair value accounting for any hybrid

financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with SFAS 133. The statement also subjects beneficial interests issued by securitization vehicles to the requirements of SFAS No. 133. The statement is effective as of January 1, 2007. The adoption of SFAS No. 155 did not have an impact on the Company's financial condition and results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140" (SFAS No. 156). SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specific situations. Additionally, the servicing asset or servicing liability shall be initially measured at fair value; however, an entity may elect the "amortization method" or "fair value method" for subsequent balance sheet reporting periods. SFAS No. 156 is effective as of an entity's first fiscal year beginning after September 15, 2006. Early adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements,

11

for any period of that fiscal year. The adoption of this statement did not have a material impact on the Company's financial condition, results of operations or cash flows.

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

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP) and enhances disclosures about fair value measurements. SFAS No. 157 retains the exchange price notion and clarifies that the exchange price is the price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. SFAS No. 157 is effective for the Company's consolidated financial statements for the year beginning on January 1, 2008, with earlier adoption permitted. The Company does not expect the adoption of this statement to have a material impact on its financial condition and results of operations.

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

change in accounting principle through retrospective application to all periods. The Company does not expect the adoption of this statement to have a material impact on its financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115" (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective at the beginning of the Company's fiscal year beginning January 1, 2008, and early application may be elected in certain circumstances. The Company does not expect the adoption of this statement to have a material impact on its financial condition and results of operations.

12

NOTE 3 - INVESTMENTS IN SECURITIES

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

	Amortized Cost Basis	Gross Unrealized Gains
Available-for-sale securities:		
December 31, 2007:		
Equity securities	$ 3,031	$ 157,453
Preferred stock	2,975,000	0
Debt securities issued by the U.S. Treasury and other U. S. government corporations and agencies	47,224,654	4,492
Debt securities issued by states of the United States and political subdivisions of the states	58,707,327	11,409
Money market mutual funds	1,340,891	0
Mortgage-backed securities	41,910,517	99,631
	152,161,420	272,985
Money market mutual funds included in cash and cash equivalents	(1,340,891)	
	$ 150,820,529	$ 272,985
December 31, 2006:		
Equity securities	$ 3,031	$ 178,395
Preferred stock	2,975,000	0

Debt securities issued by the U.S. Treasury and other U. S. government corporations and agencies	55,323,358	23,343
Debt securities issued by states of the United States and political subdivisions of the states	44,891,148	379,553
Money market mutual funds	1,199,881	0
Mortgage-backed securities	55,103,530	191,698
	159,495,948	772,989
Money market mutual funds included in cash and cash equivalents	(1,199,881)	
	$ 158,296,067	$ 772,989
Held-to-maturity securities:		
December 31, 2007:		
Mortgage-backed securities	$ 70,798	$ 637
December 31, 2006:		
Mortgage-backed securities	$ 74,931	$ 0

13

The scheduled maturities of debt securities were as follows as of December 31, 2007:

	Available-For-Sale	Held-To-Mat
	Fair Value	Amortized Cost Basis
Due after one year through five years	$ 992,952	$ 0
Due after five years through ten years	21,988,592	0
Due after ten years	80,856,335	0
Mortgage-backed securities	41,553,521	70,798
	$145,391,400	$ 70,798

During 2007, proceeds from sales of available-for-sale securities amounted to $63,597,747. Gross realized gains and gross realized losses on those sales amounted to $305,726 and $10,742, respectively. During 2006, proceeds from sales of available-for-sale securities amounted to $62,356,620. Gross realized gains and gross realized losses on those sales amounted to $724,286 and $206,960, respectively. The tax provision applicable to these net realized gains amounted to $100,295 and $175,891 respectively.

There were no securities of issuers whose aggregate carrying amount exceeded 10% of shareholders' equity as of December 31, 2007.

Total carrying amounts of $55,203,368 and $55,251,654 of debt securities were

pledged to secure Federal Home Loan Bank advances, public deposits, treasury tax and loans and for other purposes as required by law as of December 31, 2007 and 2006, respectively.

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

	December 31, 2007			
	Less than 12 Months		12 Months or Long	
	Fair Value	Unrealized Losses	Fair Value	Unreal Loss
Preferred stock	$ 0	$ 0	$ 1,825,270	$ 1,14
Debt securities issued by the U.S. Treasury and other U. S. government corporations and agencies	8,963,668	20,009	33,518,205	35
Debt securities issued by states of the United States and political subdivisions of the states	46,754,407	1,684,443	1,314,923	5
Mortgage-backed securities	4,501,563	48,263	20,534,104	40
Total temporarily impaired securities	$60,219,638	$ 1,752,715	$57,192,502	$ 1,96

14

	December 31, 2006			
	Less than 12 Months		12 Months or Long	
	Fair Value	Unrealized Losses	Fair Value	Unreal Loss
Preferred stock	$ 0	$ 0	$ 2,512,100	$ 46
Debt securities issued by the U.S. Treasury and other U. S. government corporations and agencies	792,581	57,553	49,159,124	1,14
Debt securities issued by states of the United States and political subdivisions of the states	1,809,175	12,100	2,094,013	2
Mortgage-backed securities	13,486,446	54,270	27,940,134	82
Total temporarily impaired securities	$16,088,202	$ 123,923	$81,705,371	$ 2,45

Securities exhibiting unrealized losses are analyzed to determine that the impairments are not other-than-temporary and the following information is considered. U.S. Government securities are backed by the full faith and credit of the United States and therefore bear no credit risk. U.S. Government agency securities, which have a significant impact in financial markets, have minimal credit risk. Preferred stock securities are issued by the Federal Home Mortgage Corporation, a U.S. government sponsored or chartered enterprise. All investments maintain a credit rating of at least investment grade by one of the

nationally recognized rating agencies. Mortgage-backed securities are issued by federal government agencies or by private issuers with minimum security ratings of AAA. The unrealized losses in the above table are mainly attributable to changes in market interest rates. As Company management has the ability and intent to hold securities until anticipated recovery to cost basis occurs, no declines are deemed to be other than temporary.

NOTE 4 - LOANS

Loans consisted of the following as of December 31:

	2007	2006
Commercial, financial and agricultural	$ 20,629,467	$ 16,464,762
Real estate - construction and land development	28,927,954	21,169,024
Real estate - residential	158,599,546	145,394,844
Real estate - commercial	53,822,693	50,859,332
Consumer	8,004,931	8,815,789
Term federal funds	0	12,000,000
Other	376,257	69,367
	270,360,848	254,773,118
Deferred costs, net	305,935	168,573
Unearned income	(615)	(3,143)
Allowance for loan losses	(2,474,893)	(2,474,118)
Net loans	$ 268,191,275	$ 252,464,430

Certain directors and executive officers of the Company and companies in which they have significant ownership interest were customers of the Bank during 2007. Total loans to such persons and their companies amounted to $1,218,271 as of December 31, 2007. During 2007, principal advances of $487,004 were made and repayments totaled $334,057.

15

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

	2007	2006
Balance at beginning of period	$ 2,474,118	$ 2,626,170
Benefit for loan losses	0	(87,488)
Recoveries of loans previously charged off	103,564	67,054
Loans charged off	(102,789)	(131,618)
Balance at end of period	$ 2,474,893	$ 2,474,118

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

	2007	2006
Total nonaccrual loans	$ 1,007,890	$ 886,377
Accruing loans which are 90 days or more overdue	$ 816,581	$ 77,525

As of December 31, 2007 and 2006, and during the years ended, there were no loans that met the definition of an impaired loan in SFAS No. 114.

In 2007 and 2006, the Bank capitalized mortgage servicing rights totaling $59,882 and $147,353 respectively, and amortized $171,034 and $225,732 respectively. The balance of capitalized mortgage servicing rights included in other assets at December 31, 2007 and 2006 was $225,670 and $336,185, respectively.

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

	2007	2006
Balance, beginning of year	$ 1,451	$ 1,115
Additions	2,451	19,392
Reductions	(3,088)	(19,056)
Balance, end of year	$ 814	$ 1,451

The fair value of the mortgage servicing rights was $562,911 and $671,145 as of December 31, 2007 and 2006, respectively.

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage and other loans serviced for others was $48,696,731 and $49,117,195 at December 31, 2007 and 2006, respectively.

NOTE 5 - PREMISES AND EQUIPMENT

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

	2007	2006
Land	$ 775,844	$ 775,844
Buildings	6,281,851	5,721,601
Furniture and equipment	3,385,608	2,786,494
	10,443,303	9,283,939
Accumulated depreciation and amortization	(3,640,105)	(3,148,393)
	$ 6,803,198	$ 6,135,546

NOTE 6 - DEPOSITS

The aggregate amount of time deposit accounts in denominations of $100,000 or more as of December 31, 2007 and 2006 were $36,440,424 and $35,777,326 respectively.

The aggregate amount of brokered time deposits as of December 31, 2007 and 2006 was $14,681,000 and $19,538,000, respectively. Brokered time deposits are not included in time deposit accounts in denominations of $100,000 or more above.

For time deposits as of December 31, 2007, the scheduled maturities for years ended December 31, are as follows:

2008	$ 93,821,737
2009	10,670,809
2010	2,078,871
2011	7,987,502
2012	1,489,704
	$ 116,048,623

Certain directors and executive officers of the Company and companies in which they have a significant ownership interest were customers of the Bank during 2007. Total deposits of such persons and their companies amounted to $2,075,350 and $1,372,156 as of December 31, 2007 and 2006, respectively.

NOTE 7 - FEDERAL HOME LOAN BANK ADVANCES

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

Maturities of advances from the FHLB for the five fiscal years ending after December 31, 2007, and thereafter, are summarized as follows:

2008	$25,214,699
2009	1,320,213
2010	21,202,309
2011	10,794,029
2012	5,178,531
Thereafter	31,116,919
Fair value adjustment	184,455
	$95,011,155

As of December 31, 2007, the following advances from the FHLB were redeemable at par at the option of the FHLB:

MATURITY DATE	OPTIONAL REDEMPTION DATE	AMOUNT
4/27/2009	1/28/2008 and quarterly thereafter	$ 500,000
4/27/2009	1/28/2008 and quarterly thereafter	500,000
1/25/2010	1/25/2008 and quarterly thereafter	19,000,000
2/8/2010	2/7/2008 and quarterly thereafter	600,000
12/15/2010	3/17/2008 and quarterly thereafter	800,000
12/20/2010	3/20/2008 and quarterly thereafter	500,000
2/28/2011	2/26/2008 and quarterly thereafter	10,000,000
3/1/2011	3/3/2008 and quarterly thereafter	500,000
3/2/2012	3/3/2008 and quarterly thereafter	5,000,000

12/16/2013	3/17/2008 and quarterly thereafter	10,000,000
12/12/2016	3/12/2008 and quarterly thereafter	15,000,000
7/31/2017	1/31/2008 and quarterly thereafter	6,000,000

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

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

At December 31, 2007, the interest rates on FHLB advances ranged from 2.66 percent to 6.30 percent. At December 31, 2007, the weighted average interest rate on FHLB advances was 4.74 percent.

NOTE 8 - EMPLOYEE BENEFITS

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

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

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

	2007	2006
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 6,027,929	$ 5,495,706
Actuarial gain	(229,821)	(128,601)
Service cost	437,740	430,035
Interest cost	342,022	318,310
Benefits paid	(218,769)	(87,521)
Benefit obligation at end of year	6,359,101	6,027,929
Change in plan assets:		
Plan assets at estimated fair value at beginning of year	5,016,664	3,370,954
Actual return on plan assets	503,050	392,231
Contributions by employer	500,000	1,341,000
Benefits paid	(218,769)	(87,521)
Fair value of plan assets at end of year	5,800,945	5,016,664
Funded status and recognized liability included in the balance sheet	$ (558,156)	$(1,011,265)

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

	December 31,	
	2007	2006
Net loss	$1,583,889	$2,016,054
Prior service cost	910	1,803
	$1,584,799	$2,017,857

The accumulated benefit obligation for the plan was $4,602,777 and $4,179,551 at December 31, 2007 and 2006, respectively.

The discount rate used in determining the actuarial present value of the projected benefit obligation was 6.0% for 2007 and 2006. The rate of increase in future compensation levels was based on the following graded table for 2007 and 2006:

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

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

	2007	2006
Service cost	$ 437,740	$ 430,0
Interest cost on benefit obligation	342,022	318,3
Expected return on plan assets	(368,942)	(295,5
Amortization of prior service cost	893	8
Recognized net loss	68,236	89,1
Net periodic benefit cost	479,949	542,8
Other changes in plan assets and benefit obligations recognized in other comprehensive loss:		
Net actuarial gain	(363,929)	
Amortization of net loss	(68,236)	
Prior service cost	(893)	
Total recognized in other comprehensive loss	(433,058)	
Total recognized in net periodic cost and other comprehensive loss	$ 46,891	$ 542,8

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The estimated net loss and prior service cost that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the year ended December 31, 2008 are $56,833 and $893, respectively.

The discount rate used to determine the net periodic benefit cost was 6.00% for 2007 and 2006; and the expected return on plan assets was 7.50% for 2007 and 2006.

The graded table above was also used for the rate of compensation increase in determining the net periodic benefit cost in 2007 and 2006.

Pension expense is calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on pension plan assets of 7.50% for 2007. In developing the expected long-term rate of return assumption, asset class return expectations were evaluated as well as long-term inflation assumptions, and historical returns based on the current target asset allocations of 55% equity and 40% fixed income and 5% cash equivalents. The Bank regularly reviews the asset allocations and periodically rebalances investments when considered appropriate. While all future forecasting contains some level of estimation error, the Bank believes that 7.50% falls within a range of reasonable long-term rate of return expectations for pension plan assets. The Bank will continue to evaluate the actuarial assumptions, including expected rate of return, at least annually, and will adjust as necessary.

19

Plan Assets:

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

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

	December 31, 2007		Dece
Asset Category	Fair Value	Percent	Fair Valu
Equity securities	$3,407,281	58.7%	$2,537,99
U.S. Government treasury and agency securities	1,252,945	21.6	1,480,28
Corporate bonds	122,687	2.1	23,04
Mutual funds	296,365	5.1	200,50
Money market mutual funds	617,567	10.7	672,22
Certificates of deposit	104,100	1.8	102,61
Total	$5,800,945	100.0%	$5,016,66

There were no securities of the Bancorp and related parties included in plan assets as of December 31, 2007 and 2006.

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

2008	$ 87,000
2009	120,000
2010	205,000
2011	216,000
2012	1,980,000
2013 - 2017	2,978,000

The Bank expects to make a contribution of $500,000 in 2008.

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

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

The Bank's contribution expense for the 401(k) Plans in the years ended December 31, 2007 and 2006 amounted to approximately $100,000 and $93,000 respectively. Discretionary contributions vest in full after five years.

Fifteen of the Bank's officers have a change in control agreement ("agreement") with the Bank. The agreements provide that if, within twelve (12) months after a "change-in-control" has occurred, the officer's employment terminates or is reassigned under defined circumstances, then the Bank and/or its

20

successor shall pay the officer a lump sum amount equal to the officer's most recent aggregate base salary paid in the twelve (12) month period immediately preceding his or her termination or reassignment less amounts previously paid from the date of "change in control."

NOTE 9 - INCOME TAXES

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

	2007	2006
Current:		
Federal	$ 774,753	$ 990,839
State	60,468	54,678
	835,221	1,045,517
Deferred:		
Federal	24,785	217,852
State	0	0
Change in valuation allowance	10,000	178,566

	34,785	396,418
Total income tax expense	$ 870,006	$1,441,935

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

	2007	2006
	% of Income	%of Income
Federal income tax at statutory rate	34.0%	34.0%
Increase (decrease) in tax resulting from:		
Tax-exempt income and dividends received deduction	(19.1)	(13.6)
Other items	2.6	1.2
State tax, net of federal tax benefit	0.9	0.6
Change in valuation allowance	0.2	3.1
Effective tax rates	18.6%	25.3%

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

	2007	2006
Deferred tax assets:		
Allowance for loan losses	$ 618,527	$ 619,
Interest on non-performing loans	22,710	15,
Accrued deferred compensation	30,584	26,
Post-retirement benefits	22,440	22,
Other real estate owned property write-down	22,100	22,
Capital loss carry forward	398,191	398,
Mark to market purchase accounting adjustments	0	8,
Unrecognized pension expense - FASB No. 158	538,832	686,
Net unrealized holding loss on available-for-sale securities	1,170,748	613,
Gross deferred tax assets	2,824,132	2,411,
Valuation allowance	(270,166)	(260,
	2,553,966	2,151,

21

	2007	2006
Deferred tax liabilities:		
Deferred loan costs, net	(104,018)	(57,
Goodwill and core deposit intangible asset	(662,257)	(646,
Accelerated depreciation	(957,538)	(985,
Mark-to-market purchase accounting adjustments	(23,204)	
Mortgage servicing rights	(76,728)	(114,
Prepaid pension	(349,059)	(342,
Gross deferred tax liabilities	(2,172,804)	(2,145,

Net deferred tax asset	$ 381,162	$ 5,

As of December 31, 2007, the Company had no operating loss and tax credit carryovers for tax purposes.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

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

Commitments to purchase securities on a when issued basis totaled $1,410,241 at December 31, 2007.

NOTE 11 - FINANCIAL INSTRUMENTS

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to originate loans, standby letters of credit and unadvanced funds on loans. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2007 and 2006, the maximum potential amount of the Bank's obligation was $12,800 for financial and standby letters of credit. The Bank's outstanding letters of credit generally have a term of less than one year. If a letter of credit is

drawn upon, the Bank may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Bank may take possession of the collateral, if any, securing the line of credit.

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

	2007		2006
	Carrying Amount	Fair Value	Carrying Amount
Financial assets:			
Cash and cash equivalents	$ 15,178,195	$ 15,178,195	$ 11,757,183
Available-for-sale securities	147,377,154	147,377,154	156,492,547
Held-to-maturity securities	70,798	71,435	74,931
Federal Home Loan Bank stock	5,176,100	5,176,100	4,663,700
Loans held-for-sale	120,000	121,403	304,000
Loans, net	268,191,275	264,217,484	252,464,430
Accrued interest receivable	2,538,607	2,538,607	2,483,547
Financial liabilities:			
Deposits	$317,741,269	$318,498,739	$313,586,281
FHLB advances	95,011,155	95,183,700	87,093,402
Due to broker	0	0	1,579,611

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

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

	2007	2006
Commitments to originate loans	$ 9,002,416	$10,540,525
Standby letters of credit	12,800	12,800
Unadvanced portions of loans:		
Home equity	26,511,813	26,599,791
Commercial lines of credit	10,482,619	8,642,393
Construction	6,178,958	7,322,201
Consumer	7,129,237	6,928,313
	$59,317,843	$60,046,023

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

NOTE 12 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

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

collateralized by real estate located in northwestern Connecticut and nearby New York and Massachusetts towns.

NOTE 13 - REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2007 and 2006, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2007, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. The Company's and the Bank's actual capital amounts and ratios are also presented in the table.

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

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
			(Dollar amounts in thousand	
As of December 31, 2007:				
Total Capital (to Risk Weighted Assets)				
Consolidated	$39,545	15.00%	$21,087	>8.0% -
Salisbury Bank and Trust Company	38,683	14.69	21,069	>8.0 -
Tier 1 Capital (to Risk Weighted Assets)				
Consolidated	37,070	14.06	10,544	>4.0 -
Salisbury Bank and Trust Company	36,174	13.74	10,534	>4.0 -
Tier 1 Capital (to Average Assets)				

Consolidated	37,070	8.24	17,988	>4.0 -
Salisbury Bank and Trust Company	36,174	8.06	17,945	>4.0 -
As of December 31, 2006:				
Total Capital (to Risk Weighted Assets)				
Consolidated	$38,030	15.28%	$19,914	>8.0% -
Salisbury Bank and Trust Company	37,295	14.98	19,929	>8.0 -
Tier 1 Capital (to Risk Weighted Assets)				
Consolidated	35,555	14.28	9,957	>4.0 -
Salisbury Bank and Trust Company	34,785	13.97	9,964	>4.0 -

Tier 1 Capital (to Average Assets)				
Consolidated	35,555	8.43	16,879	>4.0 -
Salisbury Bank and Trust Company	34,785	8.26	16,848	>4.0 -

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

Under Connecticut law, the Bank may pay dividends only out of net profits. The Connecticut Banking Commissioner's approval is required for dividend payments which exceed the current year's net profits and retained net profits from the preceding two years. As of December 31, 2007, the Bank may declare dividends to Bancorp in an amount not to exceed $7,135,303.

NOTE 14 - DIRECTORS STOCK RETAINER PLAN

At the 2001 annual meeting the shareholders of Bancorp voted to approve the "Directors Stock Retainer Plan of Salisbury Bancorp, Inc." (the "Plan"). This Plan provides non-employee directors of the Company with shares of restricted stock of Bancorp as a component of their compensation for services as directors. The maximum number of shares of stock that may be issued pursuant to the Plan is 15,000. The first grant date under this Plan preceded the 2002 annual meeting of stockholders. Each director whose term of office begins with or continues after the date the Plan was approved by the stockholders is issued an "annual stock retainer" consisting of 120 shares of fully vested restricted common stock of Bancorp. In 2007 and 2006, 840 shares were issued under the Plan and the related compensation expense amounted to $30,450 and $31,920 respectively.

Note 15- ACQUISITION

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

Bank and New York Community Bank. Such branch was relocated to Dover Plains, New York and opened for business August 1, 2007.

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

NOTE 16 - GOODWILL AND INTANGIBLE ASSETS

The Company's assets as of December 31, 2007 and 2006 include goodwill of $2,357,884 relating to the purchase of a branch of a bank in 2001 and $7,151,421 of additional goodwill from the 2004 merger with Canaan National Bancorp, Inc. In 2007, the Company recorded $319,407 of additional goodwill from the purchase of a branch of a bank in Mt. Vernon, NY.

The Company evaluated its goodwill and intangible assets as of December 31, 2007 and 2006 and found no impairment.

25

A summary of acquired amortizing intangible assets is as follows:

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

	As of December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible-branch purchase	$ 888,606	$ 361,709	$ 526,897
Core deposit intangible-Canaan National merger	1,191,279	224,677	966,602
Total	$2,079,885	$ 586,386	$1,493,499

Amortization expense was $164,216 for the years ending December 31, 2007 and

2006. Amortization is being calculated on a straight-line basis.

Estimated amortization expense for each of the five years succeeding 2007 is as follows:

2008	$ 164,216
2009	164,216
2010	164,216
2011	164,216
2012	164,216
	$ 821,080

NOTE 17 - RECLASSIFICATION

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

NOTE 18 - PARENT COMPANY ONLY FINANCIAL STATEMENTS

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

SALISBURY BANCORP, INC.

(Parent Company Only)

BALANCE SHEETS

December 31, 2007 and 2006

ASSETS	2007	2006
Money market mutual funds	$ 1,340,891	$ 1,199,881
Cash in Salisbury Bank and Trust Company	6,316	2,494
Cash and cash equivalents	1,347,207	1,202,375
Investment in subsidiary	44,668,437	43,579,224
Other assets	2,910	5,469
Total assets	$46,018,554	$44,787,068
LIABILITIES AND SHAREHOLDERS' EQUITY		
Dividends payable	$ 454,956	$ 437,887
Total liabilities	454,956	437,887
Total shareholders' equity	45,563,598	44,349,181

Total liabilities and shareholders' equity	$46,018,554	$44,787,068

SALISBURY BANCORP, INC.

(Parent Company Only)

STATEMENTS OF INCOME

Years Ended December 31, 2007 and 2006

	2007	2006
Dividend income from subsidiary	$ 1,920,000	$ 1,800,0
Taxable interest on securities	48,487	34,4
	1,968,487	1,834,4
Legal expense	5,485	9,9
Supplies and printing	380	3,5
Other expense	51,181	37,5
	57,046	51,0
Income before income tax benefit and equity in undistributed net income of subsidiary	1,911,441	1,783,4
Income tax benefit	(2,909)	(5,4
Income before equity in undistributed net income of subsidiary	1,914,350	1,788,9
Equity in undistributed net income of subsidiary	1,885,698	2,464,7
Net income	$ 3,800,048	$ 4,253,6

SALISBURY BANCORP, INC.

(Parent Company Only)

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

	2007	2006

Cash flows from operating activities:		
Net income	$ 3,800,048	$ 4,253,6
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiary	(1,885,698)	(2,464,7
Decrease (increase) in taxes receivable	2,559	(3,8
Issuance of shares for Directors' fees	30,450	31,9
Net cash provided by operating activities	1,947,359	1,816,9
Cash flows from financing activities:		
Dividends paid	(1,802,527)	(1,734,2
Net cash used in financing activities	(1,802,527)	(1,734,2
Net increase in cash and cash equivalents	144,832	82,6
Cash and cash equivalents at beginning of year	1,202,375	1,119,7
Cash and cash equivalents at end of year	$ 1,347,207	$ 1,202,3

NOTE 19 - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Summarized quarterly financial data for 2007 and 2006 follows:

	(In thousands, except earnings per share) 2007 Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
Interest and dividend income	$ 6,437	$ 6,360	$ 6,602	$ 6,753
Interest expense	3,071	2,997	3,167	3,197
Net interest and dividend income	3,366	3,363	3,435	3,556
Provision for loan losses	0	0	0	0
Other income	1,124	1,115	1,060	1,165
Other expense	3,319	3,305	3,401	3,489
Income before income taxes	1,171	1,173	1,094	1,232
Income tax expense	237	224	177	232
Net income	$ 934	$ 949	$ 917	$ 1,000
Earnings per common share	$ .55	$ .56	$ .54	$ .59

28

(In thousands, except earnings per share)

	2006 Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
Interest and dividend income	$ 5,460	$ 5,789	$ 6,111	$ 6,369
Interest expense	2,167	2,531	2,754	3,007
Net interest and dividend income	3,293	3,258	3,357	3,362
Benefit for loan losses	0	0	0	(87)
Other income	1,026	1,001	1,213	1,344
Other expense	2,837	2,992	3,101	3,315
Income before income taxes	1,482	1,267	1,469	1,478
Income tax expense	335	261	309	537
Net income	$ 1,147	$ 1,006	$ 1,160	$ 941
Earnings per common share	$ .68	$ .60	$ .69	$ .56

29

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATION

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

Forward Looking Statements

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

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

(b) expectations for increased revenues and earnings for the Company and Bank

through growth resulting from acquisitions, attraction of new deposit and loan customers and the introduction of new products and services.

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

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

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

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

(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.

Critical Accounting Estimates

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

RESULTS OF OPERATION

Comparison of the Years Ended December 31, 2007 and 2006

Overview

The reported earnings for the Company totaled $3,800,000 in 2007, which yielded earnings per average share outstanding of $2.26. This compares to earnings of $4,254,000 or $2.53 per average share outstanding in 2006. The decrease in

earnings is primarily attributable to an increase in noninterest expense due to additional staff to support new marketing strategies, growth, and expansion into New York State. The Company's assets at December 31, 2007 totaled $461,960,000 compared to total assets of $450,340,000 at December 31, 2006. New business development efforts have resulted in the growth of net loans outstanding, which totaled $268,191,000 at December 31, 2007. This compares to net loans outstanding of $252,464,000 at December 31, 2006, and represents an increase of $15,727,000 or 6.23%. This growth was funded by an increase in deposits as well as an increase in advances from the Federal Home Loan Bank of Boston. Deposits at December 31, 2007 totaled $317,741,000 and compared to total deposits of $313,586,000 at December 31, 2006. Advances from the Federal Home Loan Bank totaled $95,011,000 at December 31, 2007, which compared to advances totaling $87,093,000 at December 31, 2006. The Bank continues to monitor the quality of the loan portfolio to ensure that loan quality will not be sacrificed for growth or otherwise compromise the Company's objectives. Nonperforming loans totaled $1,824,000 at December 31, 2007 as compared to nonperforming loans totaling $964,000 at December 31, 2006. While the level of nonperforming loans increased, such loans represent less than one percent (1%) of total loans outstanding. Accordingly, while the overall quality of the loan portfolio remains high, management continues to monitor the portfolio for trends in light of current economic conditions.

The Bank is "well capitalized". The Bank's risk-based capital ratios at December 31, 2007 were 13.74% for Tier 1 risk based capital and 14.69% for total risk based capital. The Bank's leverage ratio was 8.06% at December 31, 2007. This compares to a Tier 1 risk based capital ratio at December 31, 2006 of 13.97%, a total risk based capital ratio of 14.98% and a leverage ratio of 8.26%. As a result of the Company's financial performance, the Board of Directors increased total dividends declared on the Company's common stock to $1.08 per share in 2007. This compares to a $1.04 per share dividend declared in 2006.

Net Interest and Dividend Income

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

31

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

(dollars in thousands)	December 31, 2007	December 31, 2006
Interest and Dividend Income		

(financial statements)	$ 26,152	$ 23,730
Tax Equivalent Adjustment	1,202	1,072
Total Interest and Dividend Income (on an FTE basis)	27,354	24,802
Interest Expense	(12,432)	(10,459)
Net Interest and Dividend Income-FTE	$ 14,922	$ 14,343

The Company's 2007 total interest and dividend income on an FTE basis for the period ended December 31, 2007 increased $2,552,000 or 10.29% when compared to the same period in 2006. The increase is primarily attributable to an increase in earning assets as well an economic environment experiencing an increase in interest rates.

Interest expense on deposits in 2007 increased $1,314,000 or 19.09% to $8,200,000 compared to $6,886,000 for the corresponding period in 2006. The increase is primarily attributable to generally higher interest rates during the period as well as an increase in interest bearing deposits. Interest expense for Federal Home Loan Bank advances increased $659,000 to $4,232,000 in 2007 compared to $3,573,000 in 2006. The increase was the result of an increase in advances during the year. Competition remains aggressive and interest margins continue to be pressured, however, net interest and dividend income on an FTE basis increased $579,000 or 4.04% over 2006 and totaled $14,922,000 for the year ended December 31, 2007 and compared to net interest and dividend income on an FTE basis of $14,343,000 for the year ended December 31, 2006.

Volume and Rate Variance Analysis of Net Interest and Dividend Income
(Taxable equivalent basis)

(dollars in thousands)	2007 over 2006			2006 over	
	Volume	Rate	Total	Volume	Rate
Increase (decrease) in:					
Interest and dividend income on:					
Loans	$ 1,981	$ 301	$ 2,282	$ 1,335	$ 1,0
Taxable investment securities	(256)	156	(100)	(50)	8
Tax-exempt investment securities	489	(108)	381	(351)	(
Other interest earning	(1)	(10)	(11)	(26)	
Total interest and dividend income	$ 2,213	$ 339	$ 2,552	$ 908	$ 1,8

Interest expense on:					
NOW/Money Market deposits	$ 18	$ 24	$ 42	$ (34)	$ 6
Savings deposits	(24)	198	174	(81)	2
Time deposits	528	570	1,098	561	1,3
Borrowed funds	808	(149)	659	172	2

Total interest expense	$ 1,330	$ 643	$ 1,973	$ 618	$ 2,4
Net interest and dividend income	$ 883	$ (304)	$ 579	$ 290	$ (6

Net interest margin is net interest and dividend income expressed as a percentage of average earning assets. It is used to measure the difference between the average rate of interest and dividends earned on assets and the average rate of interest that must be paid to support those assets. To maintain its net interest margin, the Company must manage the relationship between interest earned and paid. The Company's 2007 net interest margin on an FTE basis was 3.54%. This compares to a net interest margin of 3.67% for 2006. The following table reflects average balances, interest earned or paid and rates for the two years ended December 31, 2007 and 2006. The average loan balances include non-accrual loans and loans currently past due 90 days and still accruing. Interest earned on loans also includes fees on loans such as late charges that are not deemed to be material. Interest earned on tax exempt securities in the table is presented on an FTE basis. A federal tax rate of 34% was used in performing these calculations. Actual tax exempt income earned in 2007 was $2,332,000 with a yield of 4.28%. Actual tax exempt income in 2006 totaled $2,080,000 with a yield of 4.41%.

33

YIELD ANALYSIS
Average Balances, Interest Earned/Paid and Rates

(dollars in thousands)	Years Ended December 31 2007			2006	
	AVERAGE BALANCE	INTEREST EARNED/ PAID	YIELD RATE	AVERAGE BALANCE	INTEREST EARNED/ PAID
ASSETS					
Interest-Earning Assets:					
Loans	$ 258,714	$17,969	6.95%	$ 229,704	$15,687
Taxable Securities	106,775	5,783	5.42%	111,635	5,883
Tax-Exempt Securities*	54,541	3,533	6.48%	47,215	3,152
Federal Funds	643	31	4.82%	1,154	56
Other Interest-Earning	1,071	38	3.55%	703	24
Total Interest-Earning Assets	421,744	27,354	6.49%	390,411	24,802
Allowance for Loan Losses	(2,467)			(2,603)	
Cash & Due From Banks	6,554			6,949	
Premises, Equipment	6,645			6,388	
Net unrealized loss on AFS Securities	(3,468)			(4,106)	
Other Assets	20,619			20,348	
Total Average Assets	$ 449,627			$ 417,387	

LIABILITIES AND SHAREHOLDERS' EQUITY					
Interest-Bearing Liabilities:					
NOW/Money Market Deposits	$ 80,180	1,854	2.31%	$ 79,356	1,812
Savings Deposits	47,063	814	1.73%	48,882	640
Time Deposits	119,052	5,532	4.65%	106,395	4,434
Borrowed Funds	87,649	4,232	4.83%	71,471	3,573
Total Interest-Bearing Liabilities	333,944	12,432	3.72%	306,104	10,459
Demand Deposits	66,304			65,151	
Other Liabilities	4,673			2,842	
Shareholders' Equity	44,706			43,290	
Total Liabilities and Shareholders' Equity	$ 449,627			$ 417,387	
Net Interest Income		$14,922			$14,343
Net Interest Spread			2.77%		
Net Interest Margin			3.54%		

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

Noninterest Income

Noninterest income totaled $4,465,000 for the year ended December 31, 2007 and compared to $4,583,000 for the year ended December 31, 2006. This is a decrease of $118,000 or 2.57%. Gains on sales of available-for-sale securities, net decreased $222,000 or 42.94%. This decrease is primarily the result of movement in market rates during the year, which limited opportunities to generate gains on sales of available-for-sale securities. Trust and investment services income increased $70,000 to $2,050,000 primarily as a result of the efforts of new business development, which has increased assets under management. Service charges on deposit accounts totaled $744,000 for 2007. This is an increase of $37,000 or 5.23% when compared to total service charges of $707,000 in 2006. The increase can be attributed to an increase in the number of deposit accounts. Mortgage refinancing remained active during 2007 resulting in revenues from gains on sales of loans that totaled $317,000, which compares to revenues totaling $358,000 for the corresponding period in 2006. Competition in the secondary mortgage market continues to be very aggressive. Other income during fiscal 2007 totaled $1,037,000. This compares to other income of $902,000 for 2006 and represents an increase of $135,000 or 14.97%. This category of income primarily consists of fees associated with transaction accounts and fees related to the origination and servicing of mortgage loans as well as gains reflecting the sale of mortgage loans.

Noninterest Expense

Overall, noninterest expense increased 10.36% for the year ended December 31, 2007 as compared to the corresponding period in 2006. Professional fees which are included in noninterest expenses increased $225,000 or 31.87%. This increase

is primarily attributable to the Company's trust and investment services division's working partnership with Bradley Foster and Sargent, Inc., an independent investment advisory firm which assists in providing a broader scope of highly personalized professional investment services to clients. In addition, internal audit expense increased, which is the result of additional services required due to compliance requirements of the Sarbanes-Oxley Act. Although some increases in the described noninterest expenses in the table below are attributable to normal volumes of business, the largest contribution to the increases in noninterest expense, including other expense, reflect non-recurring expenses associated with the Bank's entry into New York State. A branch office was established in Dover Plains, New York, which opened its doors for business on August 1, 2007.

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

	2007	2006	$ Change	% Change
Salaries and employee benefits	$ 7,724	$ 7,151	$ 573	8.01%
Occupancy expense	802	752	50	6.65
Equipment expense	819	787	32	4.07
Data processing	1,194	1,134	60	5.29
Insurance	163	154	9	5.84
Printing and stationery	280	240	40	16.67
Professional fees	931	706	225	31.87
Amortization of core deposit intangible	164	164	0	.00
Other expense	1,437	1,157	280	24.20
Total noninterest expense	$13,514	$12,245	$ 1,269	10.36

Income Taxes

In 2007, the Company's income tax provision totaled $870,000 which reflects an effective tax rate of 18.63%. This compares to an income tax provision of $1,442,000 and an effective tax rate of 25.32% for the same period in 2006. This decrease is primarily attributable to a decrease in taxable income.

35

Net Income

Overall, net income totaled $3,800,000 for the year ended December 31, 2007 and represents earnings per average share outstanding of $2.26. This compares to net income of $4,254,000 for the year ended December 31, 2006, which reflects earnings per average share outstanding of $2.53.

FINANCIAL CONDITION
Comparison of December 31, 2007 and 2006

Total assets at December 31, 2007 were $461,960,000 compared to $450,340,000 at December 31, 2006. This is an increase of 2.58%. The increase is primarily the result of an increase in earning assets that were funded by an increase in deposits and advances from the Federal Home Loan Bank of Boston.

Securities Portfolio

The Company manages the securities portfolio in accordance with the investment policy adopted by the Board of Directors. The primary objectives are to earn interest and dividend income, provide liquidity to meet cash flow needs and to manage interest rate risk and asset-quality diversifications to the Company's assets. The securities portfolio also acts as collateral for deposits of public agencies. As of December 31, 2007, the securities portfolio, including Federal Home Loan Bank of Boston stock, totaled $152,624,000. This represents a decrease of $8,607,000 or 5.34% over year-end 2006. This decrease reflects a change in asset mix as securities portfolio assets were used to fund the growth in loan demand during the year.

Securities are classified in the portfolio as either securities-available-for-sale or securities-held-to-maturity. Securities for which the Company has the ability and positive intent to hold until maturity are reported as held-to-maturity. These securities are carried at cost adjusted for amortization of premiums and accretion of discounts. Securities that are held for indefinite periods of time and which management intends to use as part of its asset/liability management strategy, or that may be sold in response to changes in interest rates, changes in prepayment risk, increases in capital requirements or other similar factors, are classified as available-for-sale. These securities are stated at fair value in the financial statements of the Company. Temporary differences between available-for-sale securities' amortized cost and fair market value (accumulated other comprehensive income or loss when net of tax) are not included in earnings, but are reported as a net amount (less expected tax) in a separate component of capital until realized. The cost basis of individual securities is written down to estimated fair value through a charge to earnings when decreases in value below amortized cost are considered to be other than temporary. At December 31, 2007, the unrealized holding losses on available-for-sale securities, net of taxes was $2,273,000. This compares to an unrealized loss net of taxes of $1,190,000 at December 31, 2006. The Company monitors the market value fluctuations of its securities portfolio on a monthly basis as well as associated credit ratings to determine potential impairment of a security.

Federal Funds Sold

Federal funds sold at December 31, 2007 totaled $300,000. Federal funds sold at December 31, 2006 totaled $1,000,000. This variance represents a normal operating range of funds for daily cash needs.

Lending

New business development during the year coupled with an increase in loan demand resulted in an increase in net loans outstanding to $268,191,000 at December 31, 2007, as compared to $252,464,000 at December 31, 2006. This is an increase of $15,727,000 or 6.23%. Although the largest dollar volumes of loan activity continue to be in the residential mortgage area, the Company offers a wide variety of loan types and terms along with competitive pricing to customers. At December 31, 2006, the portfolio also

36

included $12,000,000 in Term federal funds, which are short term loans to other financial institutions. The Company's credit function is designed to ensure adherence to prudent credit standards despite competition for loans in the

Company's market area.

The following table represents the composition of the loan portfolio comparing December 31, 2007 to December 31, 2006:

	December 31, 2007	December 31, 2006
	(amounts in thousands)	
Commercial, financial and agricultural	$ 20,629	$ 16,465
Real Estate-construction and land development	28,928	21,169
Real Estate-residential	158,600	145,395
Real Estate-commercial	53,823	50,859
Consumer	8,005	8,816
Term federal funds	0	12,000
Other	376	69
	270,361	254,773
Deferred costs, net	306	168
Unearned income	(1)	(3)
Allowance for loan losses	(2,475)	(2,474)
Net loans	$ 268,191	$ 252,464

Provisions and Allowance for Loan Losses

Total loans outstanding as of December 31, 2007 were $270,361,000 and compares to total loans outstanding of $254,773,000 at December 31, 2006. This growth can be attributed primarily to an increase in both residential and commercial real estate loan demand as well as the Bank's new business development program. Approximately 90% of the Company's loan portfolio continues to be real estate secured.

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

The Allowance for Loan and Lease Losses (ALLL) at December 31, 2007 totaled $2,475,000 representing 135.69% of nonperforming loans of $1,824,000 and .92% of total loans outstanding of $270,361,000. This compares to an ALLL of $2,474,000 which is 256.64% of nonperforming loans of $964,000 and .97% of total loans outstanding of $254,773,000 at December 31, 2006. A separate component that is evaluated is the Allowance for Off Balance Sheet Commitments, which totaled $34,000 as of December 31, 2007. The December 31, 2006 allowance for off balance sheet commitments was $36,000. A total of $103,000 in loans were charged-off during 2007 compared to $132,000 during 2006. Recoveries of previously charged-off loans totaled $104,000 during 2007 compared to $67,000 in recoveries for 2006. 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 ("SFAS 114"). Impaired loans receive individual evaluation of the allowance necessary on a monthly

basis. Loans to be considered for impairment are defined in the Company's Loan Policy as commercial loans with balances outstanding of $100,000 or more and residential real estate mortgages with balances of $300,000 or more. Such loans are considered impaired when it is probable that the Company will not be able to collect all principal and interest due according to the terms of the note.

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

1. Non-accrual status;

2. Loans over 90 days delinquent;

3. Troubled debt restructures consummated after December 31, 1994;

4. Loans classified as "doubtful", meaning that they have weaknesses, which make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

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

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

The credit card delinquency and loss history is separately 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 averages of net losses by loan types are examined as well as trends by type. The Bank's loan mix over the same period of time is also analyzed. A loan loss allocation is made for each type of loan multiplied by the loan mix percentage for each loan type to produce a weighted average factor.

While management estimates loan losses using the best available information, no assurances can be given that future additions to the allowance will not be necessary based on changes in economic and real estate market conditions, identification of additional problem loans or other factors. Additionally, despite the excellent overall quality of the loan portfolio and expectations of the Company to continue to grow its existing portfolio, future additions to the allowance may be necessary to maintain adequate reserve coverage. Overall, management is of the opinion that the ALLL is adequate as of December 31, 2007.

Deposits

The Company offers a variety of deposit accounts with a range of interest rates and terms. Deposits at year-end 2007 totaled $317,741,000 compared to $313,586,000 at year-end 2006. The Company continues its efforts to competitively price products and develop and maintain relationship banking with its customers. The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates

and the aggressive competition from nonbanking entities.

During 2007, there was a change in the mix of deposits. Demand, NOW and savings balances, which are lower cost core deposits, decreased and were replaced primarily by time deposits, which, as illustrated by the table below, results in a significant increase in interest expense.

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

(dollars in thousands)	Year ended December 31 2007		2006	
	Average Balance	Rate	Average Balance	Rate
Demand	$ 66,304		$ 65,151	
NOW	24,822	.26%	25,090	.26%
Money Market	55,358	3.23%	54,266	3.22%
Savings	47,063	1.73%	48,882	1.31%
Time	119,052	4.65%	106,395	4.17%
	$ 312,599	2.62%	$ 299,784	2.29%

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

(dollars in thousands)	December 31 2007	2006
Three months or less	$ 7,603	$12,045
Over three months through six months	17,429	8,946
Over six months through one year	15,114	24,791
Over one year	10,975	9,533
Total	$51,121	$55,315

Borrowings

As part of its operating strategy, the Company utilizes advances from the Federal Home Loan Bank to supplement deposit growth and fund its asset growth, a strategy that is designed to increase interest income. These advances are made pursuant to various credit programs, each of which has its own interest rate and range of maturities. At December 31, 2007, the Company had $95,011,000 in outstanding advances from the Federal Home Loan Bank compared to $87,093,000 at December 31, 2006. Management expects that it will continue this strategy of supplementing deposit growth with advances from Federal Home Loan Bank of Boston. (See Note 7 to the Financial Statements.)

Interest Rate Risk

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

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

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

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

39

(1) using the same balance sheet as the Bank had on the simulation date, and

(2) using a growing balance sheet based on recent growth patterns and strategies.

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

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

Liquidity

Liquidity is the ability to raise funds on a timely basis at an acceptable cost in order to meet cash needs. Adequate liquidity is necessary to handle fluctuation in deposit levels, to provide for customers' credit needs, and to take advantage of investment opportunities as they are presented. The Company manages liquidity primarily with readily marketable investment securities, deposits and loan repayments. The Company's subsidiary, the Bank, is a member of the Federal Home Loan Bank of Boston, which provides a source of available borrowings for liquidity.

At December 31, 2007, the Company had approximately $59,318,000 in loan commitments outstanding. Management believes that the current level of liquidity is ample to meet the Company's needs for both the present and foreseeable future.

Capital

At December 31, 2007, the Company had $45,564,000 in shareholders' equity compared to $44,349,000 at December 31, 2006. This represents an increase of $1,215,000 or 2.74%. Several components contributed to the change since December 2006. Earnings for the year totaled $3,800,000. Securities in the portfolio that are classified as available-for-sale are adjusted to fair value monthly and the unrealized losses or gains are not included in earnings, but are reported as a net amount (less expected tax) as a separate component of capital until realized. Market fluctuations of fair value of the securities portfolio during 2007 resulted in other comprehensive loss net of tax totaling $1,082,000. The initial application of SFAS No. 158, as described in Note 2 to the Financial Statements, resulted in other comprehensive income, net of tax of $286,000 in 2007. The Company declared dividends in 2007 resulting in a decrease in capital of $1,820,000. The Company issued 840 new shares of common stock under the terms of the Director Stock Retainer Plan during the second quarter of 2007, which resulted in an increase in capital of $30,000.

Under current regulatory definitions, the Bank is considered to be "well capitalized" for capital adequacy purposes. As a result, the Bank pays the lowest federal deposit insurance 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 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 year-end 2007, the Bank had a total risk-based capital ratio of 14.69% compared to 14.98% at December 31, 2006. Maintaining strong capital is essential to bank safety and soundness. However, the effective management of capital resources requires generating attractive returns on equity to build value for shareholders while maintaining appropriate levels of capital to fund growth, meet regulatory requirements and be consistent with prudent industry practices. Management believes that the capital ratios of the Company and Bank are adequate to continue to meet the foreseeable capital needs of the institution.

Impact of Inflation and Changing Prices

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

Off-Balance Sheet Arrangements

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. In the opinion of management, these off-balance sheet arrangements are not likely to have a material effect on the Company's financial condition, results of operations, or liquidity. (See Note 11 to the Financial Statements).

Statement of Management's Responsibility

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

Management's Report on Internal Control Over Financial Reporting

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

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, utilizing the framework established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2007 is effective.

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

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

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

/s/ John F. Perotti	/s/ Richard J. Cantele, Jr.	/s John F. Foley
John F. Perotti Chairman & CEO	Richard J. Cantele, Jr. President & COO	John F. Foley CFO, Treasurer & Secretary