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.

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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.

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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

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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,

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(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.

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
	121,359	7

(All Directors and Executive Officers of the Company as a group of ten (10) persons)

(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.

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".

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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.

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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.

[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.

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SALISBURY BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Three Sept 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.

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)	

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.

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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.

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($ 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

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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 S