

SALISBURY BANCORP INC  
Form S-4/A  
September 10, 2014

As filed with the Securities and Exchange Commission on September 9, 2014

Registration No. 333-197985

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Amendment No. 1 to

Form S-4

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

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**SALISBURY BANCORP, INC.**

*(Exact name of Registrant as specified in its charter)*

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**Connecticut**

*(State or other jurisdiction of incorporation or organization)*

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**6035**

*(Primary Standard Industrial Classification Code Number)*

**06-1514263**

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

**Salisbury Bancorp, Inc.**

**5 Bissell Street**

**P.O. Box 1868**

**Lakeville, CT 06039**

**860-435-9801**

*(Name, address and telephone of principal executive offices)*

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**Richard J. Cantele, Jr.**

**President and Chief Executive Officer**

**Salisbury Bancorp, Inc. and**

**Salisbury Bank and Trust Company**

**5 Bissell Street**

**Lakeville, CT 06039**

**860-435-9801**

*(Name, address, including zip code and telephone number, including area code, of agent for service)*

---

*with copies to:*

**J. J. Cranmore  
Jennifer DiBella  
Cranmore, FitzGerald & Meaney  
49 Wethersfield Avenue  
Hartford, CT 06114  
Telephone: 860-522-9100  
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**Robert A. Schwartz  
Windels Marx Lane & Mittendorf, LLP  
120 Albany Street Plaza  
New Brunswick, NJ 08901  
Telephone: 732-448-2548  
Facsimile: 732-846-8877**

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**Approximate date of commencement of the proposed sale of the securities to the public:** As soon as practicable after this Registration Statement becomes effective and upon completion of the merger described in the enclosed proxy statement/prospectus.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, as amended, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This document shall not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

**PRELIMINARY - SUBJECT TO COMPLETION - DATED September 9, 2014**

Joint Proxy Statement/Prospectus

**MERGER PROPOSED - YOUR VOTE IS VERY IMPORTANT**

Dear Shareholder:

On March 18, 2014, Salisbury Bancorp, Inc. (“SAL”), Salisbury Bank and Trust Company (“SBT”) and Riverside Bank (“Riverside”), entered into an Agreement and Plan of Merger (which we refer to as the “merger agreement”) that provides for the merger of Riverside into SBT (which we refer to as the “merger”). Based on financial results as of June 30, 2014, the combined institution would have approximately \$847 million in total assets, \$648 million in net loans, and \$705 million in total deposits. In addition, upon consummation of the merger, the combined institution will have thirteen (13) full service branch offices across Connecticut, Massachusetts, and New York.

In the merger, each share of Riverside common stock (except for specified shares of Riverside common stock held by Riverside) will be converted into the right to receive 1.35 shares of SAL common stock (which we refer to as the “exchange ratio”). Although the number of shares of SAL common stock that Riverside shareholders will receive is fixed, the market value of the merger consideration will fluctuate with the market price of SAL common stock and will not be known at the time Riverside shareholders vote on the merger. Based on the closing price of SAL’s common stock on the NASDAQ Capital Market on March 18, 2014, the last trading day before public announcement of the merger, the exchange ratio represented approximately \$36.32 in value for each share of Riverside common stock and on [\_\_\_\_\_, 2014], the latest practicable trading day before the date of this document, the exchange ratio represented approximately \$[\_\_\_\_\_] in value for each share of Riverside common stock. **We urge you to obtain current market quotations for SAL (trading symbol “SAL”).**

Based on the current number of shares of Riverside common stock outstanding and reserved for issuance under employee benefit plans, SAL expects to issue approximately 1.1 million shares of common stock to Riverside shareholders in the aggregate upon completion of the merger. The Riverside shareholders as a group will own approximately 37% of the combined institution following the merger.

Riverside and SAL will each hold a special meeting of its shareholders. Each company's shareholders will be asked to vote to approve matters related to the merger, as described in the attached joint proxy statement/prospectus. Approval of the merger agreement requires the affirmative vote of at least two-thirds outstanding shares of Riverside common stock.

The special meeting of Riverside shareholders will be held on October 29, 2014 at The Poughkeepsie Grand Hotel, 40 Civic Center Plaza, Poughkeepsie, New York, 12601 at 10:30 a.m. local time.

**Riverside's board of directors unanimously recommends a vote "FOR" the approval of the merger agreement and "FOR" the other matters to be considered at the Riverside special meeting.**

The special meeting of SAL shareholders will be held on October 29, 2014 at Hotchkiss School (Griswold Science Building, located off Route 41), 11 Interlaken Road, Lakeville, Connecticut 06039, at 4:00 p.m. local time.

**SAL's board of directors unanimously recommends a vote "FOR" the merger agreement, including the issuance of SAL common stock as merger consideration; "FOR" the approval of the amendment to its certificate of incorporation to increase its shares of authorized common stock and increase the number of directors; and "FOR" the other matters to be considered at the SAL special meeting.**

This joint proxy statement/prospectus describes the special meetings of Riverside and SAL, the merger, the documents related to the merger and other related matters. **Please carefully read this entire joint proxy statement/prospectus, including "Risk Factors," beginning on page 20, for a discussion of the risks relating to the proposed merger.** You also can obtain information about SAL from documents that it has filed with the Securities and Exchange Commission.

[SIGNATURE]	[SIGNATURE]
Richard J. Cantele, Jr.	John M. Davies
President and CEO	President and CEO
Salisbury Bancorp, Inc.	Riverside Bank

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in the merger or passed upon the adequacy or accuracy of this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.**

**The securities to be issued in the merger are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of either SAL or Riverside, and they are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.**

The date of this joint proxy statement/prospectus is [September \_\_, 2014], and it is first being mailed or otherwise delivered to the shareholders of SAL and Riverside on or about [September \_\_, 2014].

5 Bissell Street, P.O. Box 1868, Lakeville, CT 06039

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON**

**October 29, 2014**

To the Shareholders of Salisbury Bancorp, Inc.:

Salisbury Bancorp, Inc. will hold a special meeting of shareholders at 4:00 p.m. local time, on Wednesday, October 29, 2014, at Hotchkiss School (Griswold Science Building, located off Route 41), 11 Interlaken Road, Lakeville, Connecticut 06039 to consider and vote upon the following matters:

a proposal to approve the Agreement and Plan of Merger dated as of March 18, 2014, by and among Salisbury Bank and Trust Company, Salisbury Bancorp, Inc., and Riverside Bank, pursuant to which Riverside will merge with and into SBT and pursuant to which SAL will issue shares of SAL common stock as merger consideration, as more fully described in the attached joint proxy statement/prospectus (which we refer to as the “SAL merger proposal”);

a proposal to approve the amendment to SAL’s certificate of incorporation to increase SAL’s authorized common stock and to eliminate the minimum and maximum number of directors on the SAL board (which we refer to as the “SAL certificate of amendment proposal”);

a proposal to approve one or more adjournments of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting, or at any adjournment or postponement of that meeting, to adopt and approve the merger agreement (which we refer to as the “SAL adjournment proposal”); and

such other matters as may properly come before the special meeting or any adjournment or postponement of that meeting.

We have fixed the close of business on September 5, 2014 as the record date for the special meeting. Only SAL common shareholders of record at that time are entitled to notice of, and to vote at, the SAL special meeting, or any adjournment or postponement of the SAL special meeting. Approval of the SAL merger proposal and the SAL certificate of amendment proposal require the affirmative vote of at least a majority of the outstanding shares of SAL common stock. Approval of the SAL adjournment proposal also requires the affirmative vote of a majority of the shares present or represented at the special meeting and entitled to vote on the matter.

**SAL’s board of directors has unanimously adopted the merger agreement, has determined that the merger agreement and the transactions contemplated thereby, including the merger and the issuance of SAL common stock as merger consideration, are advisable and in the best interests of SAL and its shareholders, and unanimously recommends that SAL shareholders vote “FOR” the SAL merger proposal, “FOR” the SAL adjournment proposal, and “FOR” the SAL certificate of amendment proposal.**

**Your vote is very important. We cannot complete the merger unless SAL's common shareholders approve the SAL merger proposal and approve the amendment to SAL's certificate of incorporation to increase SAL's authorized common stock. If you fail to vote, mark "ABSTAIN" on your proxy or fail to instruct your bank or broker with respect to the SAL merger proposal, it will have the same effect as a vote "AGAINST" the proposal.**

**Regardless of whether you plan to attend the SAL special meeting, please vote as soon as possible. If you hold stock in your name as a shareholder of record of SAL, please complete, sign, date and return the accompanying proxy card in the enclosed postage-paid return envelope. If you hold your stock in "street name" through a bank or broker, please follow the instructions on the voting instruction card furnished by the record holder.**



The enclosed joint proxy statement/prospectus provides a detailed description of the special meeting, the merger, the documents related to the merger and other related matters. We urge you to read the joint proxy statement/prospectus, including any documents incorporated in the joint proxy statement/prospectus by reference, and its annexes carefully and in their entirety.

BY ORDER OF THE BOARD OF DIRECTORS,

Shelly L. Humeston

Secretary

Lakeville, Connecticut

September \_\_\_\_, 2014

11 Garden Street, Poughkeepsie, NY 12601

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON**

**October 29, 2014**

To the Shareholders of Riverside Bank:

Riverside Bank will hold a special meeting of shareholders at 10:30 a.m. local time, on Wednesday, October 29, 2014, at The Poughkeepsie Grand Hotel, 40 Civic Center Plaza, Poughkeepsie, New York, 12601 to consider and vote upon the following matters:

a proposal to approve the Agreement and Plan of Merger dated as of March 18, 2014, by and among Salisbury Bank and Trust Company, Salisbury Bancorp, Inc., and Riverside Bank, pursuant to which Riverside will merge with and into SBT, as more fully described in the attached joint proxy statement/prospectus (which we refer to as the “Riverside merger proposal”);

a proposal to adjourn the Riverside special meeting, if necessary or appropriate, to solicit additional proxies in favor of the Riverside merger proposal (which we refer to as the “Riverside adjournment proposal”);

- to transact such other business as may properly come before the meeting or any adjournment thereof.

We have fixed the close of business on September 5, 2014 as the record date for the special meeting. Only Riverside common shareholders of record at that time are entitled to notice of, and to vote at, the Riverside special meeting, or any adjournment or postponement of the Riverside special meeting.

**Riverside’s board of directors has adopted the merger agreement, has determined that the merger agreement and the transactions contemplated thereby, including the merger, are advisable and in the best interests of Riverside and its shareholders, and unanimously recommends a vote “FOR” the Riverside merger proposal, and “FOR” the Riverside adjournment proposal.**

**Your vote is very important. We cannot complete the merger unless Riverside’s common shareholders approve the merger agreement. If you fail to vote, mark “ABSTAIN” on your proxy or fail to instruct your bank or broker with respect to the Riverside merger proposal, it will have the same effect as a vote “AGAINST” the proposal.**

**Regardless of whether you plan to attend the Riverside special meeting, please vote as soon as possible. If you hold stock in your name as a shareholder of record of Riverside, please complete, sign, date and return the accompanying proxy card in the enclosed postage-paid return envelope. If you hold your stock in “street name” through a bank or broker, please follow the instructions on the voting instruction card furnished by the record holder.**

The enclosed joint proxy statement/prospectus provides a detailed description of the special meeting, the merger, the documents related to the merger and other related matters. We urge you to read the joint proxy statement/prospectus, including any documents incorporated in the joint proxy statement/prospectus by reference, and its annexes carefully and in their entirety.

BY ORDER OF THE BOARD OF DIRECTORS,

John M. Davies

President and Chief Executive Officer

Poughkeepsie, New York

September \_\_\_\_, 2014

## ADDITIONAL INFORMATION

The accompanying joint proxy statement/prospectus provides a detailed description of the merger, the merger agreement and related matters, as well as important business and financial information about Salisbury Bancorp, Inc. and Riverside Bank. We urge you to read the joint proxy statement/prospectus, including any documents incorporated by reference from other documents filed with or furnished to the SEC by SAL into the proxy statement/prospectus, and its appendices carefully and in their entirety. You can obtain any of the documents filed with or furnished to the SEC by SAL at no cost from the SEC's website at [www.sec.gov](http://www.sec.gov). You may also request copies of such documents at no cost by contacting the appropriate company at the address and telephone numbers provided below. If you have any questions concerning the merger, the other meeting matters or the proxy statement/prospectus, or need assistance voting your shares, please contact the appropriate company at the following address or telephone number listed below:

Riverside Bank	Salisbury Bancorp, Inc.
11 Garden Street	5 Bissell Street
Poughkeepsie, NY 12601	P.O. Box 1868
Attn: John M. Davies, President and CEO	Lakeville, CT 06038
Telephone: 845-454-5511	Attn: Shelly L. Humeston, Secretary
	Telephone: 860-435-9801

**Please do not send your stock certificates at this time. Riverside shareholders will be sent separate instructions regarding the surrender of their stock certificates.**

You should rely only on the information contained in, or incorporated by reference into, this document. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this document. This document is dated [\_\_\_\_\_], 2014, and you should assume that the information in this document is accurate only as of such date. You should assume that the information incorporated by reference into this document is accurate as of the date of such document. Neither the mailing of this document to Riverside shareholders or SAL shareholders, nor the issuance by SAL of shares of SAL common stock in connection with the merger, will create any implication to the contrary.

**This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction. Except where the context otherwise indicates, information contained in this document regarding Riverside has been provided by Riverside and information contained in this document regarding SAL has been provided by SAL.**

See “Where You Can Find More Information” for more details.

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## QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETINGS

*The following questions and answers are intended to address briefly some commonly asked questions regarding the merger and the SAL and Riverside special meetings. These questions and answers may not address all questions that may be important to you as a shareholder. To better understand these matters, and for a description of the legal terms governing the merger, you should carefully read this entire joint proxy statement/prospectus, including the appendices, as well as the documents that have been incorporated by reference in this joint proxy statement/prospectus. See “Where You Can Find More Information”.*

*Unless otherwise required by context, references in this joint proxy statement/prospectus to “SAL” refer to Salisbury Bancorp, Inc., references to “SBT” refer to Salisbury Bank and Trust Company, and references made to “Riverside” refer to Riverside Bank.*

**Q:** Why am I receiving this joint proxy statement/prospectus?

SAL and Riverside have signed an agreement and plan of merger that is described in this joint proxy statement/prospectus pursuant to which Riverside will merge with and into SBT with SBT being the surviving bank. A copy of the merger agreement is attached to this joint proxy statement/prospectus as Appendix A. In order to complete the merger, Riverside shareholders must vote to approve the merger agreement and SAL shareholders must vote to approve the merger agreement, including the issuance of SAL common stock as merger consideration, and to amend SAL’s certificate of incorporation to increase its shares of authorized common stock and to eliminate the minimum and maximum number of directors on the SAL board, and to provide that the number of directors shall be fixed from time to time by the board of directors. A copy of the certificate of amendment to the SAL certificate of incorporation is attached as Appendix E hereto. Riverside and SAL will each hold a special meeting of their respective shareholders to obtain such approvals. This joint proxy statement/prospectus contains important information about the merger, the merger agreement, the special meetings of Riverside and SAL shareholders, and A: other related matters, and you should read it carefully. The enclosed voting materials for the special meetings allow you to vote your shares of Riverside or SAL common stock without attending the special meeting in person.

We are delivering this joint proxy statement/prospectus to you as both a proxy statement of Riverside, a proxy statement of SAL, and a prospectus of SAL. It is a proxy statement because the board of directors of Riverside is soliciting proxies from its shareholders to vote on the approval of the merger agreement, including the issuance of shares of SAL common stock as merger consideration at a special meeting of shareholders, and your proxy will be used at the special meeting or at any adjournment or postponement of the special meeting. In addition, the board of directors of SAL is soliciting proxies from its shareholders to vote on the amendment to SAL’s certificate of incorporation to increase shares of authorized SAL common stock and to increase its number of directors contingent upon the merger. It is also a prospectus because SAL will issue SAL common stock to Riverside shareholders as consideration in the merger, and this prospectus contains information about that common stock.

**Q:** What will I receive in the merger?

**A:** *Riverside Shareholders.* If the merger agreement is approved and the merger is subsequently completed, Riverside shareholders will be entitled to receive 1.35 shares of SAL common stock for each outstanding share of Riverside

common stock (other than stock held by Riverside or SAL) held at the time of the merger.

The value of the stock consideration is dependent upon the value of SAL common stock and therefore will fluctuate with the market price of SAL common stock. Accordingly, any change in the price of SAL common stock prior to the merger will affect the market value of the stock consideration that Riverside shareholders will receive as a result of the merger.

*SAL Shareholders.* SAL shareholders will continue to hold their existing shares, which will not change as a result of the merger.

Q: What am I being asked to vote on?

A: Riverside shareholders are being asked to vote on the following proposals:

- to approve the merger agreement by and among SBT, SAL and Riverside; and
- to approve one or more adjournments of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes to approve the merger agreement at the time of the special meeting

SAL shareholders are being asked to vote on the following proposals:

- to approve the merger agreement by and among SBT, SAL and Riverside and to approve the issuance of shares of SAL common stock as merger consideration;
- to approve the amendment to SAL's certificate of incorporation to increase SAL's authorized common stock and to eliminate the minimum and maximum number of directors on the SAL board;
- to approve one or more adjournments of the special meeting, if necessary, to permit further solicitation of proxies
- if there are not sufficient votes at the time of the special meeting, or at any adjournment or postponement of that meeting, to adopt and approve the merger agreement; and
- such other matters as may properly come before the special meeting or any adjournment or postponement of that meeting.

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What will  
Q: happen in the  
merger?

In the proposed  
merger,  
Riverside will  
merge with and  
into Salisbury  
Bank and Trust  
A: Company, with  
Salisbury Bank  
and Trust  
Company being  
the surviving  
entity.

Will Riverside  
shareholders  
receive any  
fractional shares  
Q: of SAL common  
stock as part of  
the merger  
consideration?

A: No. SAL will  
not issue any  
fractional shares  
of SAL common  
stock in the  
merger. Instead,  
SAL will pay  
you the cash  
value of a  
fractional share  
measured by the  
average of the  
daily closing  
prices of SAL  
common stock  
on The  
NASDAQ  
Capital Market,  
or NASDAQ, for  
the five  
consecutive  
trading days  
ending on the

third business day immediately prior to the closing date, rounded to the nearest whole cent.

What will happen to my Q: shares of SAL common stock in the merger?

Nothing. Each share of SAL common stock outstanding will A: remain outstanding as a share of SAL common stock.

What are the Q: conditions to completion of the merger?

A: The obligations of SAL and Riverside to complete the merger are subject to the satisfaction or waiver of certain closing conditions contained in the merger agreement, including, but not limited to, the receipt of required regulatory approvals, legal opinions delivered by tax counsel to SAL and Riverside,

respectively, and  
approval of the  
merger  
agreement by  
Riverside  
shareholders and  
approval of the  
stock issuance by  
SAL  
shareholders to  
Riverside  
shareholders.

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When do you  
Q: expect the merger  
to be completed?

We will complete  
the merger when  
all of the  
conditions to  
completion  
contained in the  
merger agreement  
are satisfied or  
waived, including  
obtaining  
customary  
regulatory  
approvals and the  
approval of the  
merger agreement  
by Riverside  
shareholders at its  
special meeting  
and the approval of  
an increase in

A: SAL's authorized  
common stock and  
the issuance of  
SAL common  
stock as merger  
consideration by  
SAL shareholders  
at its special  
meeting. While we  
expect the merger  
to be completed in  
the fourth quarter  
of 2014, because  
fulfillment of some  
of the conditions to  
completion of the  
merger is not  
entirely within our  
control, we cannot  
assure you of the  
actual timing.

Q: What shareholder  
approvals are  
required to

complete the merger?

The merger cannot be completed unless two-thirds of the shares of Riverside common stock outstanding and entitled to vote at the company's special meeting approve the merger agreement and a majority of the shares of SAL

A: common stock outstanding and entitled to vote at SAL's special meeting approve the merger agreement, the issuance of SAL common stock as merger consideration and the amendment of SAL's certificate of incorporation.

Q: Are there any shareholders already committed to voting in favor of the merger agreement?

A: Yes. Each of the executive officers, directors and director nominees of Riverside individually have entered into an agreement with SAL to vote their shares of Riverside common stock in favor of the merger agreement and

against any competing proposal. These shareholders held approximately 52.3% of Riverside's outstanding common stock as of the date the merger agreement and voting agreements were executed and held 52.3% as of the record date for the special meeting of Riverside shareholders.

When and where  
Q: are the special meetings?

A: The special meeting of shareholders of Riverside will be held at The Poughkeepsie Grand Hotel, 40 Civic Center Plaza, Poughkeepsie, New York 12601 on October 29, 2014, at 10:30 a.m., local time.

The special meeting of shareholders of SAL will be held at Hotchkiss School (Griswold Science Building, located off Route 41), 11 Interlaken Road, Lakeville, Connecticut 06039 on October 29, 2014, at 4:00 p.m.,



local time.

Who is entitled to  
Q: vote at the special  
meetings?

You are entitled to  
receive notice of  
and to vote at the  
Riverside special  
meeting if you  
owned Riverside  
common stock at  
the close of  
business on  
September 5, 2014,  
which is the record  
date for the special  
meeting of  
Riverside  
shareholders. You  
will be entitled to  
one vote for each  
share of Riverside  
common stock that  
you owned as of  
the record date.

A:

You are entitled to  
receive notice of  
and to vote at the  
SAL special  
meeting if you  
owned SAL  
common stock at  
the close of  
business on  
September 5, 2014,  
which is the record  
date for the special  
meeting of SAL  
shareholders. You  
will be entitled to  
one vote for each  
share of SAL  
common stock that  
you owned as of  
the record date.

Q: What constitutes a  
quorum for the

special meetings?

The quorum requirement for both the Riverside and SAL special meetings are the presence in person or by proxy of a majority of the total number of outstanding shares of common stock entitled to vote. Abstentions will be included in determining the

A: number of shares present for determining the presence of a quorum. Broker non-votes will be counted for this purpose only if the beneficial owner of such shares has instructed the bank or broker how to vote with respect to at least one matter before the meeting.

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How does the board  
of directors of  
Q: Riverside recommend  
I vote?

After careful  
consideration,  
Riverside's board of  
directors unanimously  
recommends that  
Riverside  
A: shareholders vote  
"FOR" approval of the  
Riverside merger  
proposal and "FOR" the  
Riverside  
adjournment  
proposal, if  
necessary.

How does the board  
Q: of directors of SAL  
recommend I vote?

After careful  
consideration, SAL's  
board of directors  
unanimously  
recommends that  
SAL shareholders  
vote "FOR" approval of  
A: the SAL merger  
proposal; "FOR"  
approval of the SAL  
certificate of  
amendment proposal;  
and "FOR" the SAL  
adjournment  
proposal, if necessary.

Are there any risks  
that I should consider  
Q: in deciding whether to  
vote for the approval  
of the merger  
agreement?

A: Yes. You should read  
and carefully consider

the risk factors set forth in the section in this joint proxy statement/prospectus entitled "Risk Factors" beginning on page 20 as well as the other information contained in or incorporated by reference into this joint proxy statement/prospectus, including the matters addressed in the section of this joint proxy statement/prospectus titled "Cautionary Note Concerning Forward-Looking Statements" on page 19.

Q: What do I need to do now?

A: You should carefully read and consider the information contained and incorporated by reference in this joint proxy statement/prospectus, including its appendices. It contains important information about the merger, the merger agreement, SAL and Riverside. After you have read and considered this information, you should complete and sign your proxy card and return it in the enclosed postage-paid return envelope as soon as possible so that your shares will be represented and

voted at the appropriate special meeting.

If my shares are held in "street name" by my broker, bank or other nominee, will my

Q: broker, bank or other nominee automatically vote my shares for me?

No. Your broker, bank or other nominee will not vote your shares unless you provide instructions to your broker, bank or other nominee on how to vote. You should

A: instruct your broker, bank or other nominee to vote your shares by following the instructions provided by the broker, bank or nominee with this joint proxy statement/prospectus.

How will my shares

Q: be represented at the special meeting?

A: At the appropriate special meeting, the proxies named in your proxy card will vote your shares in the manner you requested if you properly signed and submitted your proxy. If you sign your proxy card and return it without indicating how you would like to vote your shares, your

proxy will be voted as the board of directors recommends, which for Riverside, is (1) “FOR” the approval of the Riverside merger proposal and (2) “FOR” the approval of the Riverside adjournment proposal; and for SAL is “FOR” the approval of the SAL merger proposal; “FOR” approval of the SAL certificate of amendment proposal; and “FOR” the SAL adjournment proposal, if necessary.

What if I fail to submit my proxy card  
Q: or to instruct my broker, bank or other nominee?

If you fail to properly submit your proxy card or to instruct your broker, bank or other nominee to vote  
A: your shares of common stock and you do not attend the special meeting and vote your shares in person, your shares will not be voted.

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Q: Can I attend the special meeting and vote my shares in person?

A: Yes. Although the boards of directors request that you return the proxy card accompanying this joint proxy statement/prospectus, all shareholders are invited to attend the respective special meetings. For Riverside, shareholders of record on September 5, 2014, can vote in person at the special meeting. For SAL, shareholders of record on September 5, 2014, can vote in person at the special meeting. If your shares are held by a broker, bank or other nominee, then you are not the shareholder of record and you must bring to the appropriate special meeting appropriate documentation from your broker, bank or other nominee to enable you to vote at such special meeting.

Q: Can I change my vote after I have mailed my signed proxy card?

A: Riverside shareholders:

Yes. You can change your vote at any time after you have submitted your proxy card and before your proxy is voted at the special meeting.

- you may deliver a written notice bearing a date later than the date of your proxy card to Riverside's CEO at the address listed below, stating that you revoke your proxy;
- you may submit a new signed proxy card bearing a later date (any earlier proxies will be revoked automatically);
- or
- you may attend the special meeting and vote in person, although attendance at the special meeting will not, by itself, revoke a proxy.

You should send any notice of revocation or your completed new proxy card, as the case may be, to Riverside at the following address:

Riverside Bank  
11 Garden Street  
Poughkeepsie, NY 12601  
Attn: John M. Davies, President and CEO

If you have instructed a bank, broker or other nominee to vote your shares, you must follow the directions you receive from your bank, broker or other nominee to change your voting instructions.

SAL shareholders:

Yes. You can change your vote at any time after you have submitted your proxy card and before your proxy is voted at the special meeting.

- you may deliver a written notice bearing a date later than the date of your proxy card to SAL's Secretary at the address listed below, stating that you revoke your proxy;
- you may submit a new signed proxy card bearing a later date (any earlier proxies will be revoked automatically);
- or
- you may attend the special meeting and vote in person, although attendance at the special meeting will not, by itself, revoke a proxy.

You should send any notice of revocation or your completed new proxy card, as the case may be, to SAL at the following address:

Salisbury Bancorp, Inc.  
5 Bissell Street  
P.O. Box 1868  
Lakeville, CT 06038  
Attn: Shelly L. Humeston, Secretary

If you have instructed a bank, broker or other nominee to vote your shares, you must follow the directions you receive from your bank, broker or other nominee to change your voting instructions.

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What happens if I  
sell my Riverside  
Q: shares after the  
record date but  
before the special  
meeting?

The record date of  
the special meeting is  
earlier than the date  
of the special  
meeting and the date  
that the merger is  
expected to be  
completed. If you  
sell or otherwise  
transfer your shares  
after the record date  
but before the date of  
the special meeting,  
you will retain your  
right to vote at the  
special meeting  
A: (provided that such  
shares remain  
outstanding on the  
date of the special  
meeting), but you  
will not have the  
right to receive the  
merger consideration  
to be received by  
Riverside  
shareholders in the  
merger. In order to  
receive the merger  
consideration, you  
must hold your  
shares through  
completion of the  
merger.

What do I do if I  
receive more than  
Q: one proxy  
statement/prospectus  
or set of voting  
instructions?

If you hold shares directly as a record holder and also in “street name” or otherwise through a nominee, you may receive more than one proxy statement/prospectus

A: and/or set of voting instructions relating to the special meeting. These should each be voted and/or returned separately in order to ensure that all of your shares are voted.

Should I send in my  
Q: stock certificates of Riverside now?

No. Riverside shareholders will receive a letter of transmittal and instructions for surrendering of their stock certificates. In

A: the meantime, you should retain your stock certificates because they are still valid. Please do not send in your stock certificates with your proxy card.

Where can I find  
Q: more information about SAL and Riverside?

A: You can find more information about SBT, SAL and Riverside from the various sources described under

“Where You Can Find  
More Information”  
beginning on page  
131.

Q: Whom can I call with  
questions?

You may contact  
SAL or Riverside at  
the telephone  
numbers listed under  
“Where You Can Find  
A: More Information” on  
page 131. In each  
case, please ask to  
speak with the  
persons identified in  
that section.

## SUMMARY

*The following is a summary of information located elsewhere in this document. It does not contain all of the information that is important to you. Before you vote, you should give careful consideration to all of the information contained in this document and the information incorporated into this document by reference to fully understand the merger. See “Where You Can Find More Information” on page 131. Each item in this summary refers to the page where that subject is discussed in more detail.*

### **The Companies (Page 24)**

#### ***Salisbury Bancorp, Inc.***

SAL is a Connecticut corporation that owns all of the outstanding shares of common stock of SBT. At June 30, 2014, SAL had on a consolidated basis, assets of \$621 million, deposits of \$507 million, and shareholders' equity of approximately \$75 million. SAL's stock is traded on the NASDAQ Capital Market under the symbol "SAL". SBT, which is headquartered in Lakeville, CT, is a nine (9) branch community bank serving Litchfield County, Connecticut, Dutchess County, New York, and Berkshire County, Massachusetts. SBT offers a full range of deposit, loan and related banking and financial products and services to retail and commercial customers.

#### ***Riverside Bank***

Riverside is a New York State chartered commercial bank headquartered in Poughkeepsie, New York. Riverside provides a full range of banking products and services through its main office in Poughkeepsie and three branch offices located in Red Oaks Mill, Fishkill and Newburgh, New York. Riverside's primary business focus is serving the banking needs of small and medium sized businesses. Riverside focuses almost exclusively on commercial lending. At June 30, 2014, Riverside had assets of approximately \$224 million and deposits of approximately \$197 million.

The Special Meeting of Shareholders of Riverside

#### ***Date, Time and Place of the Special Meeting (Page 25)***

Riverside will hold its special meeting of shareholders at The Poughkeepsie Grand Hotel, 40 Civic Center Plaza, Poughkeepsie, New York 12601 on October 29, 2014, at 10:30 a.m., local time.

***Actions to be Taken at the Riverside Special Meeting (Page 25)***

At the Riverside special meeting Riverside shareholders will be asked to approve the merger agreement and, if necessary, approve one or more adjournments of the special meeting.

***Recommendation of Riverside Board of Directors (Page 25)***

The Riverside board of directors has determined that the merger and the transactions contemplated by the merger agreement are advisable and in the best interests of Riverside and its shareholders, and the directors in attendance at the March 18, 2014 board meeting voted unanimously to adopt the merger agreement. Riverside's board of directors unanimously recommends that Riverside shareholders vote "**FOR**" approval of the merger agreement and "**FOR**" approval of the proposal to adjourn the special meeting.

Riverside's board of directors believes that the merger will provide value to its shareholders, customers and employees and strengthen the ability of the combined institution to support the communities in which it will operate. For additional factors considered by Riverside's board of directors in reaching its decision to adopt the merger agreement, see "The Merger - Riverside's Reasons for the Merger."

***Record Date; Outstanding Shares; Shares Entitled to Vote (Page 25)***

Only holders of record of Riverside common stock at the close of business on the record date of September 5, 2014, are entitled to notice of and to vote at the special meeting. As of the record date, there were 741,876 shares of Riverside common stock outstanding, held of record by approximately 329 shareholders.

***Quorum; Vote Required (Page 25)***

A quorum of Riverside shareholders is necessary to hold a valid meeting. If the holders of at least a majority of the total number of the outstanding shares of Riverside common stock entitled to vote are represented in person or by proxy at the special meeting, a quorum will exist. Riverside will include proxies marked as abstentions and broker non-votes in determining the presence of a quorum at the special meeting.

The affirmative vote of the holders of at least two-thirds of the shares of Riverside common stock outstanding and entitled to vote is required to approve the merger agreement. The affirmative vote of the holders of at least a majority of the shares present and entitled to vote at the special meeting is required to approve the proposal to adjourn the special meeting.

***Share Ownership of Management; Voting Agreements (Page 26)***

As of the record date, the directors and executive officers of Riverside and their affiliates collectively owned 303,045 shares of Riverside common stock, or approximately 39.52% of Riverside's outstanding shares. Each Riverside director and executive officer has entered into a voting agreement with SAL, which requires each person to vote all of the shares of Riverside common stock beneficially owned by him or her "FOR" approval of the merger agreement and the other proposals described in the notice for the special meeting. None of the directors or executive officers were paid any additional consideration in connection with the execution of the voting agreement.

***Proxies, Voting and Revocation (Page 26)***

The Riverside board of directors requests that you return the proxy card accompanying this document for use at the special meeting. Please complete, date and sign the proxy card and promptly return it in the enclosed pre-paid envelope. All properly signed proxies received prior to the special meeting and not revoked before the vote at the special meeting will be voted at the special meeting according to the instructions indicated on the proxies or, if no instructions are given, to approve the merger agreement.

You may revoke your proxy at any time by taking any of the following actions before your proxy is voted at the special meeting:

• delivering a written notice bearing a date later than the date of your proxy card to the President and CEO of Riverside, stating that you revoke your proxy;

signing and delivering to the CEO of Riverside a new proxy card relating to the same shares and bearing a later date;  
or  
attending the special meeting and voting in person, although attendance at the special meeting will not, by itself, revoke a proxy.

The Special Meeting of Shareholders of SAL

***Date, Time and Place of the SAL Special Meeting (Page 29)***

SAL will hold its special meeting of shareholders at Hotchkiss School (Griswold Science Building, located off Route 41), 11 Interlaken Road, Lakeville, Connecticut 06039 on October 29, 2014, at 4:00 p.m., local time.

***Actions to be Taken at the Special Meeting (Page 29)***

At the SAL special meeting SAL shareholders will be asked to vote to approve the merger agreement including issuance of shares as merger consideration, to approve the amendment to the certificate of incorporation to increase SAL's authorized stock and to eliminate the minimum and maximum number of directors on the SAL board and provide that the number of directors shall be fixed from time to time by the board of directors, and, if necessary, to approve one or more adjournments of the special meeting.

***Recommendation of SAL Board of Directors (Page 29)***

The SAL board of directors has determined that the merger, the merger agreement and the transactions contemplated thereby are advisable and in the best interests of SAL and its shareholders and has unanimously adopted the merger agreement. SAL's board of directors unanimously recommends that SAL shareholders vote "FOR" approval of the SAL merger proposal, "FOR" approval of the SAL certificate of amendment proposal, "FOR" approval of the proposal to issue SAL common stock, and "FOR" approval of the SAL adjournment proposal.

SAL's board of directors believes that Riverside's business and operations complement those of SAL and that the transaction will enhance SAL's franchise and create value for its shareholders, customers and employees. For additional factors considered by SAL's board of directors in reaching its decision to adopt the merger agreement, see "The Merger - SAL's Reasons for the Merger."

***Record Date; Outstanding Shares; Shares Entitled to Vote (Page 29)***

Only holders of record of SAL common stock at the close of business on the record date of September 5, 2014, are entitled to notice of and to vote at the special meeting. As of the record date, there were 1,713,281 shares of SAL common stock outstanding, held of record by approximately 1,739 shareholders.

***Quorum; Vote Required (Page 29)***

A quorum of SAL shareholders is necessary to hold a valid meeting. If the holders of at least a majority of the total number of the outstanding shares of SAL common stock entitled to vote are represented in person or by proxy at the special meeting, a quorum will exist. SAL will include proxies marked as abstentions and broker non-votes in determining the presence of a quorum at the special meeting.

The affirmative vote of the holders of at least a majority of the shares of SAL common stock outstanding and entitled to vote is required to approve the SAL merger proposal, the SAL certificate of amendment proposal, and the SAL adjournment proposal, if necessary.

***Share Ownership of Management (Page 30)***

As of the record date, the directors and executive officers of SAL and their affiliates collectively owned 127,240 shares of SAL common stock, or approximately 7.43% of SAL's outstanding shares.

***Proxies, Voting and Revocation (Page 30)***

SAL's board of directors requests that you return the proxy card accompanying this document for use at the special meeting. Please complete, date and sign the proxy card and promptly return it in the enclosed pre-paid envelope. All



properly signed proxies received prior to the special meeting and not revoked before the vote at the special meeting will be voted at the special meeting according to the instructions indicated on the proxies or, if no instructions are given, to approve the merger agreement.

You may revoke your proxy at any time by taking any of the following actions before your proxy is voted at the special meeting:

- delivering a written notice bearing a date later than the date of your proxy card to the Secretary of SAL, stating that you revoke your proxy;
- signing and delivering to the Secretary of SAL a new proxy card relating to the same shares and bearing a later date; or
- attending the special meeting and voting in person, although attendance at the special meeting will not, by itself, revoke a proxy.

#### The Merger and the Merger Agreement

*The proposed merger is of Riverside with and into SBT, with SBT as the surviving institution in the merger. The merger agreement is attached to this joint proxy statement/prospectus as Appendix A. Please carefully read the merger agreement as it is the legal document that governs the merger.*

#### **Structure of the Merger (Page 71)**

Subject to the terms and conditions of the merger agreement, and in accordance with Connecticut Banking Law, at the completion of the merger, Riverside will merge with and into SBT. SBT will be the surviving institution in the merger and will continue its corporate existence under the laws of the State of Connecticut. Upon completion of the merger, the separate corporate existence of Riverside will terminate.

***Consideration to be Received in the Merger (Page 71)***

Upon completion of the merger, each outstanding share of Riverside common stock (other than any Riverside stock held by Riverside, which will be cancelled) will be converted into the right to receive 1.35 shares of SAL common stock.

No fractional shares of SAL common stock will be issued to any holder of Riverside common stock upon completion of the merger. For each fractional share that would otherwise be issued, SAL will pay each shareholder cash (without interest) in an amount equal to the fractional share interest to which such shareholder would otherwise be entitled multiplied by the average of the daily closing prices of SAL common stock during the regular session of SAL common stock on NASDAQ for the five consecutive trading days ending on the third business day immediately prior to the closing date, rounded to the nearest whole cent.

***Treatment of Riverside's Stock Options (Page 72)***

At the effective time of the merger, SAL will assume each validly issued stock option granted under Riverside's stock option plan, whether vested or unvested, and which has not been previously exercised or cancelled, subject to adjustment such that options granted under Riverside's stock option plan will be exercisable for shares of SAL common stock. Of the 41,000 options granted in 2013, 21,000 options will not be assumed by SAL, and will be terminated by Riverside prior to the effective time.

***Opinion of Keefe, Bruyette & Woods, Inc., Financial Advisor to Riverside (Page 39)***

On March 18, 2014, Riverside's financial advisor, Keefe, Bruyette & Woods, Inc. ("KBW"), rendered to the Riverside board of directors its opinion as to the fairness, from a financial point of view and as of the date of the opinion, of the exchange ratio in the proposed merger. The full text of KBW's written opinion, which sets forth the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by KBW, is included as Appendix C to this joint proxy statement/prospectus. Riverside shareholders are urged to read the opinion in its entirety. KBW's opinion speaks only as of the date of the opinion. **The opinion was directed to the Riverside board of directors (in its capacity as such) in its consideration of the financial terms of the merger and addressed only the fairness, from a financial point of view, of the exchange ratio to the holders of Riverside common stock. It did not address the underlying business decision of Riverside to engage in the merger and does not constitute a recommendation to any Riverside shareholder as to how to vote in connection with the merger or any other matter.**

***Opinion of Sterne, Agee & Leach, Financial Advisor to SAL (Page 51)***

On March 18, 2014, Sterne, Agee & Leach (“Sterne Agee”) rendered to the SAL board of directors its opinion that, as of such date, the consideration to be paid to the Riverside shareholders by SAL in the merger was fair, from a financial point of view, to SAL shareholders. The full text of Sterne Agee’s written opinion, which sets forth the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sterne Agee, is included as Appendix D to this joint proxy statement/prospectus. SAL shareholders are urged to read the opinion in its entirety. The description of the opinion set forth herein is qualified in its entirety by reference to the full text of such opinion. **Sterne Agee’s opinion speaks only as of the date of the opinion. The opinion is directed to the SAL board of directors and addresses only the fairness, from a financial point of view, of the merger consideration to be paid to the holders of SAL common stock. It does not address the underlying business decision to proceed with the merger and does not constitute a recommendation to any SAL shareholder as to how the shareholder should vote at the SAL special meeting.**

*Interests of Riverside’s Directors and Executive Officers in the Merger (Page 59)*

Riverside’s executive officers and directors may have financial interests in the merger that are different from, or in addition to, the interests of Riverside shareholders. These interests include continued indemnification and insurance coverage by SAL after the merger for acts or omissions occurring before the merger, severance payments due certain executive officers in connection with the merger under pre-existing employment agreements, the entry into employment agreements with SAL and two (2) executive officers of Riverside, the appointment of five (5) individuals to the board of directors of both SAL and SBT following the effective date of the merger and the invitation of those Riverside directors who will not join the SAL or SBT boards of directors to serve on an advisory board of SAL and the assumption of outstanding Riverside stock options by SAL. Riverside’s board of directors was aware of these interests and considered them in its decision to approve the merger agreement.

***SAL and Salisbury Bank and Trust Company Management and Boards of Directors After the Merger (Page 107)***

SBT has agreed to appoint John M. Davies, the current Chief Executive Officer and President of Riverside to the position of President of the New York Region of SBT and to appoint Todd Rubino, the current Executive Vice President and Senior Lending Officer of Riverside, to be the Vice President, Senior Lender of the New York Region pursuant to employment agreements to be effective upon consummation of the merger. In addition, SAL has agreed to appoint five (5) representatives of Riverside, Rudolph P. Russo, Charles M. Andola, George E. Banta, Michael D. Gordon and P. Diane Hoe, to the board of directors of SAL effective immediately following the effective date of the merger.

***No Solicitation of Alternative Transactions (Page 76)***

While the merger agreement is in effect, Riverside has agreed not to initiate, solicit, encourage or knowingly facilitate the submission of any proposals from third parties regarding acquiring Riverside or its businesses. In addition, Riverside has agreed not to engage in discussions or negotiations with or provide confidential information to a third party regarding acquiring Riverside or its businesses. However, if Riverside receives an acquisition proposal from a third party that did not result from solicitation in violation of its obligations under the merger agreement prior to the date of the special meeting of Riverside shareholders, Riverside may participate in discussions with, or provide confidential information to, such third party if, among other steps, Riverside's board of directors concludes in good faith that the failure to take such actions would result in a violation of its fiduciary duties under applicable law.

***Conditions to Completion of the Merger (Page 78)***

As more fully described in this joint proxy statement/prospectus and the merger agreement, the completion of the merger depends on a number of mutual conditions being satisfied or waived, including approval of the merger agreement by Riverside and SAL shareholders, approval of an amendment to the SAL certificate of incorporation, approval of the issuance of SAL shares as merger consideration by the SAL shareholders, and receipt of required regulatory approvals.

***Termination of the Merger Agreement (Page 80)***

The merger agreement specifies a number of situations when SAL and Riverside may terminate the merger agreement. For example, the merger agreement may be terminated at any time prior to the effective time by mutual consent and by either party under specified circumstances, including if the merger is not consummated by December 31, 2014, unless the delay is due to a material breach of the merger agreement by the party seeking to terminate the merger agreement.

***Termination Fee and Termination Expenses (Page 80)***

Riverside has agreed to pay to SAL a termination fee of \$1,200,000 plus certain termination expenses of up to \$500,000, if the merger agreement is terminated under certain circumstances as specified in “The Merger Agreement - Termination Fee and Termination Expense” beginning on page 80.

***Waiver or Amendment of Merger Agreement Provisions (Page 81)***

At any time prior to the completion of the merger, a provision of the merger agreement may be waived by the party intended to benefit by the provision, or may be amended or modified by a written action taken or authorized by the parties’ respective boards of directors. However, after the approval of the merger agreement by the Riverside shareholders, no amendment will be made which by law requires further approval by Riverside shareholders without such further approval.

***Material U.S. Federal Income Tax Consequences of the Merger (Page 65)***

The merger is intended to qualify for U.S. federal income tax purposes as a “reorganization” within the meaning of Section 368(a) of the Code and counsel for each of SAL and Riverside has provided an opinion to that effect. Such opinions have been filed as exhibits to the registration statement of which this joint proxy statement/prospectus is a part. Accordingly, Riverside shareholders generally will not recognize any gain or loss on the conversion of shares of Riverside common stock solely into shares of SAL common stock. However, a Riverside shareholder generally will be subject to tax on cash received in lieu of any fractional share of SAL common stock that a Riverside shareholder would otherwise be entitled to receive.

**Tax matters are very complicated and your tax consequences will depend on your individual situation. You should consult your tax advisor for a full explanation of the tax consequences of the merger to you.**

***Regulatory Approvals Required for the Merger (Page 67)***

To complete the merger, SBT and Riverside need the prior approval of the Federal Deposit Insurance Corporation (“FDIC”) and the Connecticut Department of Banking (“CT DOB”). In addition, SAL must receive a waiver from the Federal Reserve Bank of Boston (“FRB”). The United States Department of Justice (the “DOJ”) is able to provide input into the approval process of federal banking agencies to challenge the approval on antitrust grounds. Prior to the date of the Riverside and SAL special meetings, SBT and Riverside will have filed all necessary applications and notices with regulators. Approval by the FDIC and CT DOB and the issuance of a waiver by the FRB is required prior to the merger of Riverside into SBT. SAL and Riverside cannot predict, however, whether or when the required regulatory approval will be obtained or whether any such approval and waiver will impose any burdensome condition upon SAL.

***Accounting Treatment of the Merger (Page 67)***

The merger will be accounted for using the purchase method of accounting with SBT treated as the acquiror. Under this method of accounting, Riverside’s assets and liabilities will be recorded by SBT at their respective fair values as of the closing date of the merger and added to those of SBT. Any excess of purchase price over the net fair values of Riverside’s assets and liabilities will be recorded as goodwill. Any excess of the fair value of Riverside’s net assets over the purchase price will be recognized in earnings by SBT on the closing date of the merger.

***Dissenters’ Rights (Page 68)***

Under New York law, holders of Riverside common stock have the right to dissent from, and obtain payment of the fair value of their shares of Riverside common stock in connection with, the merger. To perfect such dissenters' rights, a Riverside shareholder must not vote for the approval of the merger agreement and must strictly comply with all of the procedures required under the New York law. These procedures are described more fully beginning on page 68.

The relevant provisions of the New York law are included as Appendix B to this joint proxy statement/prospectus.

***Listing of SAL Common Stock to be Issued in the Merger (Page 70)***

SAL's common stock is quoted on the NASDAQ Capital Market under the trading symbol "SAL." The SAL shares to be issued to the shareholders of Riverside will also be included for quotation on the NASDAQ Capital Market.

***Comparison of Shareholders' Rights (Page 122)***

As a result of the merger, some or all of the holders of Riverside common stock will become holders of SAL common stock. Following the merger, Riverside shareholders will have different rights as shareholders of SAL than as shareholders of Riverside due to the different provisions of the governing documents of SAL and Riverside and differences between the New York Law, which governs the rights of Riverside shareholders, and the Connecticut Business Corporation Act, which governs the rights of SAL shareholders. For additional information regarding the different rights as shareholders of SAL than as shareholders of Riverside, see "Comparison of Shareholders' Rights" beginning on page 122.

## UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information gives effect to the merger of SAL and Riverside based on the assumptions set forth below. The unaudited pro forma condensed combined financial information reflects the impact of the merger on the combined balance sheets and on the combined statements of income under the acquisition method of accounting under generally accepted accounting principles with SAL treated as the acquirer. Under the acquisition method of accounting, Riverside's assets and liabilities are recorded by SAL at their estimated fair values as of the date that the merger is completed. However, no pro forma adjustments have been included that reflect potential effects of cost savings or synergies that may be obtained by combining the operations of SAL and Riverside, or the costs of combining the companies and their operations.

The unaudited pro forma condensed combined balance sheet as of June 30, 2014 assumes the merger was completed on that date. The unaudited pro forma condensed combined statements of income for the year ended December 31, 2013 assume the merger was completed on January 1, 2013.

The unaudited pro forma information is provided for informational purposes only. The pro forma financial information presented is not necessarily indicative of the actual results that would have been achieved had the merger been consummated on the dates or at the beginning of the periods presented, and is not necessarily indicative of future results. The unaudited pro forma financial information should be read in conjunction with the historical consolidated financial statements and related notes of SAL, which are incorporated into this document by reference, and the historical consolidated financial statements and related notes of Riverside, which are included in this document.

The following unaudited pro forma condensed combined balance sheet as of June 30, 2014 combines the June 30, 2014 balance sheets of SAL and Riverside assuming the merger was completed on June 30, 2014.

**Unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2014**

	Salisbury Bancorp, Inc.	Riverside Bank	Adjustments	Unaudited Pro Forma
	(in thousands)			
Cash and cash equivalents and certificates of deposit	\$34,908	\$8,557	\$ (1,980 )	( 1 ) \$41,485
Securities available for sale, at fair value	88,456	16,548	(138 )	( 2 ) 104,866
Loans, net and loans held for sale	456,627	191,949	(869 )	( 3 ) 647,707
Premises and equipment, net	13,013	1,122	(129 )	( 4 ) 14,006
Goodwill	9,829	—	5,112	( 5 ) 14,941
Identifiable intangible assets	946	—	1,574	( 6 ) 2,520
Cash surrender value of life insurance policies	7,641	4,322	—	11,963



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Other assets	10,056	1,573	631	(7 )	12,260
Total assets	\$621,476	\$224,071	\$ 4,201		\$849,748
Deposits	\$507,361	\$196,892	\$ 720	(8 )	\$704,973
Borrowings	34,388	—	—		34,388
Other liabilities	4,727	1,027	535	(9 )	6,289
Shareholders' equity	75,000	26,152	2,946	(10)	104,098
Total liabilities and shareholders' equity	\$621,476	\$224,071	\$ 4,201		\$849,748
Common Shares	1,712	742	999	(11)	2,711

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(1) Cash component of transaction, which includes transaction expenses and costs.

(2) Acquisition accounting fair value adjustment on securities portfolio.

(3) Calculated to reflect fair value adjustments on loans of (\$3,729), net of eliminated Riverside allowance for loan losses of \$2,860.

(4) Acquisition accounting fair value adjustment on bank premises. Purchase discount is accreted over a 15-year period.

Calculated as the fair value of consideration paid in the acquisition of Riverside, less amounts allocated to the fair

(5) value of identifiable assets acquired and liabilities assumed. The purchase price, purchase price allocation, and financing of the transaction are as follows:

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Calculated to reflect the recognition of the estimated fair value of core deposit intangible, or CDI. The estimated intangibles represent the estimated future economic benefit resulting from the acquired customer balances and relationships. These values were derived from similar transactions. The final values will be determined based upon independent appraisals at the date of acquisition.

(6) Calculated to reflect estimated deferred income tax assets of \$631 arising from the purchase and fair value adjustments of assets and liabilities.

(7) Calculated to reflect fair value adjustments on deposits at current market rates.

(8) Calculated to reflect estimated deferred tax liabilities of \$535 arising from the core deposit intangible.

(9) Calculated to reflect the elimination of Riverside shareholders' equity as part of the acquisition accounting adjustments and represents the conversion of 100% of Riverside shares into SAL shares at an exchange ratio of 1.35 of SAL shares (assuming a stock price of \$30.01).

(10) Reflects newly issued SAL shares.

Purchase Price for Riverside paid as:

Conversion of 100% of Riverside's outstanding shares of common stock and in the money options into 1.35 shares of SAL stock (based upon the closing SAL's stock price of \$30.01 at June 30, 2014)	\$30,648
Allocated to:	
Historical net book value of Riverside assets and liabilities	\$26,152
Adjustment to Riverside equity resulting from transaction related to expenses attributable to Riverside and SAL	\$(430 )
Adjustments to step-up assets and liabilities to fair value:	
Securities available for sale	\$(138 )
Loans, net	\$(869 )
Premises and equipment	\$(129 )
Other assets (Net tax deferred asset)	\$96
Deposits	\$(720 )
Core deposit intangible	\$1,574
Excess purchase price over fair value of identifiable assets and liabilities (goodwill)	\$5,112

The following unaudited pro forma condensed combined statement of income for the six months ended June 30, 2014 combines the statements of income of SAL and Riverside assuming the merger was completed on January 1, 2014.

### Unaudited Pro Forma Condensed Combined Statement of Income for the

#### Six Months Ended June 30, 2014

	Salisbury Bancorp, Inc.	Riverside Bank	Adjustments	Unaudited Pro Forma
	(in thousands, except per share data)			
Interest and dividend income:				
Interest and fees on loans	\$9,327	\$4,813	\$ 199	(1) \$14,339
Interest and dividends on securities	1,623	91	—	1,714
Interest on cash equivalents and certificates of deposit	45	—	—	45
Total interest and dividend income	10,995	2,435	199	16,098
Interest expense:				
Interest on deposits	700	541	(35 )	(2) 1,206
Interest on borrowed funds	615	—	—	615
Total interest expense	1,315	541	(35 )	1,821
Net interest and dividend income	9,680	4,363	234	14,277
Provision for loan losses	651	420	—	1,071
Net interest and dividend income, after provision for loan losses	9,029	3,943	234	13,206
Non-interest income:				
Service charges on deposits	1,168	95	—	1,263
Income from fiduciary activities	1,718	—	—	1,718
Net gain on sales of securities	—	2	—	2
Net increase in cash surrender value of bank-owned life insurance	113	—	—	113
Other operating income	121	256	—	377
Total non-interest income	3,120	353	—	3,473
Non-interest expenses:				
Salaries and employee benefits	5,275	1,685	—	6,960
Occupancy and equipment expenses	1,374	325	4	(3) 1,703
Deposit insurance expense	221	63	—	284
Other operating expense	3,308	757	185	(4) 4,250
Total non-interest expenses	10,178	2,830	189	13,197
Income before income taxes	1,971	1,466	45	3,482
Provision for income taxes	454	532	15	(5) 1,001
Net income	\$1,517	\$934	\$ 30	\$2,481
Net income available to common shareholders	\$1,431	\$934	\$ 30	\$2,395

Weighted-average shares outstanding:

Basic	1,712	999	(6)	—	2,711
Diluted	1,712	1,000	(6)	20	2,732

Earnings per share

Basic	\$0.83	\$0.93		\$0.88
Diluted	\$0.83	\$0.93		\$0.88

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- Amount represents accretion of loan discount of approximately \$1.2 million, over an estimated weighted average
- (1) life of 3.4 years. \$0.77 million is the portion of the fair value adjustment on loans which is due to changes in the interest rate environment and not the portion that reflects the credit quality fair value adjustment on the loans.
  - (2) Amount represents amortization of deposit fair value adjustment of \$0.72 million, over the estimated life of the deposits.
  - (3) Amounts represents amortization of fair value adjustment on fixed assets over estimated life of 15 years.
  - (4) Amount represents CDI amortization of \$1.6 million over an estimated life of 10 years using an accelerated method based on anticipated life of deposits.
  - (5) Amount represents a change in taxes from adjustments at an assumed tax rate of 34%.
  - (6) Weighted-average shares outstanding used in the computation of Riverside earnings per share reflect the conversion of such shares into SAL shares at an exchange ratio of 1.35 SAL shares.

The following unaudited pro forma condensed combined statement of income for the year ended December 31, 2013 combines the statements of income of SAL and Riverside assuming the merger was completed on January 1, 2013.

### Unaudited Pro Forma Condensed Combined Statement of Income for the

#### Year Ended December 31, 2013

	Salisbury Bancorp, Inc.	Riverside Bank	Adjustments	Unaudited Pro Forma
	(in thousands, except per share data)			
Interest and dividend income:				
Interest and fees on loans	\$17,978	\$9,686	\$ 235	(1) \$27,899
Interest and dividends on securities	3,705	143	—	3,848
Interest on cash equivalents and certificates of deposit	67	1	—	68
Total interest and dividend income	21,750	9,830	235	31,815
Interest expense:				
Interest on deposits	1,813	1,263	(75 )	(2) 3,001
Interest on borrowed funds	1,249	—	—	1,249
Total interest expense	3,062	1,263	(75 )	4,250
Net interest and dividend income	18,688	8,567	310	27,565
Provision for loan losses	1,066	820	—	1,886
Net interest and dividend income, after provision for loan losses	17,622	7,747	310	25,679
Non-interest income:				
Service charges on deposits	2,298	547	—	2,845
Income from fiduciary activities	3,074	—	—	3,074
Net gain on sales of securities	—	—	—	—
Net increase in cash surrender value of bank-owned life insurance	234	117	—	351
Other operating income	699	164	—	863
Total non-interest income	6,305	828	—	7,133
Non-interest expenses:				
Salaries and employee benefits	10,271	3,524	—	13,795
Occupancy and equipment expenses	2,398	696	9	(3) 3,103
Deposit insurance expense	470	142	—	612
Other operating expense	5,796	1,338	360	(4) 7,494
Total non-interest expenses	18,935	5,700	369	25,004
Income before income taxes	4,992	2,875	(59 )	7,808
Provision (benefit) for income taxes	909	1,069	(21 )	(5) 1,957
Net income	\$4,083	\$1,806	\$ (38 )	\$5,851
Net income available to common shareholders	\$3,922	\$1,806	\$ (38 )	\$5,690

Weighted-average shares outstanding:

Basic	1,691	999	—	2,690
Diluted	1,691	1,000	14	2,705

Earnings per share

Basic	\$2.30	\$1.81	\$2.12
Diluted	\$2.30	\$1.81	\$2.10

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- Amount represents accretion of loan discount of approximately \$1.2 million, over an estimated weighted average
- (1) life of 3.4 years. \$0.77 million is the portion of the fair value adjustment on loans which is due to changes in the interest rate environment and not the portion that reflects the credit quality fair value adjustment on the loans.
  - (2) Amount represents amortization of deposit fair value adjustment of \$0.72 million, over the estimated life of the deposits.
  - (3) Amount represents amortization of fair value adjustment on fixed assets over estimated life of 15 years
  - (4) Amount represents CDI amortization of \$1.9 million over an estimated life of 10 years using an accelerated method based on anticipated life of deposits.
    - (5) Amount represents a change in taxes from adjustments at an assumed tax rate of 34.0%.
  - (6) Weighted-average shares outstanding used in the computation of Riverside earnings per share reflect the conversion of such shares into SAL shares at an exchange ratio of 1.35 SAL shares.



CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This joint proxy statement/prospectus, including information included or incorporated by reference in this joint proxy statement/prospectus, may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements about the benefits of the merger between SAL and Riverside, including future financial and operating results and performance; statements about SAL and Riverside's plans, objectives, expectations and intentions with respect to future operations, products and services; and other statements identified by words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "will," "should," "may" or words of similar meaning. These forward-looking statements are based upon the current beliefs and expectations of SAL and Riverside's management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and generally beyond the control of SAL and Riverside. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Actual results may differ materially from the anticipated results discussed in these forward-looking statements.

In addition to the items discussed under "Risk Factors" elsewhere in this joint proxy statement/prospectus, the following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- difficulties related to the consummation of the merger and the integration of the businesses of SBT and Riverside;
  - the level and timeliness of realization, if any, of expected cost savings from the merger;
    - lower than expected revenues following the merger;
  - difficulties in obtaining required shareholder and regulatory approvals for the merger;
  - limitations imposed by the merger agreement on Riverside's ability to pursue alternatives to the merger;
- local, regional, national and international economic conditions and the impact they may have on SBT or Riverside and their customers;
  - continued volatility and disruption in national and international financial markets;
  - changes in the level of non-performing assets and charge-offs;
- changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;
- adverse conditions in the securities markets that lead to impairment in the value of securities in SAL's or Riverside's investment portfolio;
  - inflation, interest rate, securities market and monetary fluctuations;
- the timely development and acceptance of new products and services and perceived overall value of these products and services by users;
  - changes in consumer spending, borrowings and savings habits;
    - technological changes;
  - the ability to increase market share and control expenses;
- changes in the competitive environment among banks, financial holding companies and other financial service providers;
- the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which SBT, SAL and Riverside must comply;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting

standard setters;

• the costs and effects of legal and regulatory developments including the resolution of legal proceedings or regulatory or other governmental inquiries and the results of regulatory examinations or reviews;

• a possible change in SAL's ability to pay dividends in the future in accordance with past practice, due to dependence on SBT's earnings and certain legal and regulatory restrictions; and

- SAL's and Riverside's success at managing the risks involved in the foregoing items.

You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this joint proxy statement/prospectus or the date of any document incorporated by reference in this joint proxy statement/prospectus. All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this joint proxy statement/prospectus and attributable to SAL and Riverside or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, SAL and Riverside undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this joint proxy statement/prospectus or to reflect the occurrence of unanticipated events.

## RISK FACTORS

*In addition to the other information included in this joint proxy statement/prospectus (including the matters addressed in “Cautionary Note Concerning Forward-Looking Statements”) and incorporated by reference into this document, you should carefully consider the matters described below in determining how to vote for the proposal presented in this joint proxy statement/prospectus. Any of these risks could have an adverse effect on SAL’s business, financial condition, results of operations or prospects, which could in turn affect the price of its shares.*

### **The value of the merger consideration will vary with changes in SAL’s stock price.**

Upon completion of the merger, all of the outstanding shares of Riverside common stock will be converted into shares of SAL common stock. The ratio at which the shares will be converted is fixed at 1.35 shares of SAL common stock for each share of Riverside common stock. Any change in the price of SAL common stock will affect the aggregate value Riverside shareholders will receive in the merger. Stock price changes may result from a variety of factors that are beyond the control of SAL and Riverside, including changes in businesses, operations and prospects, regulatory considerations, and general market and economic conditions. Accordingly, at the time of the special meeting, you will not know the exact value of the stock consideration to be received by Riverside shareholders in the merger. In addition, there will be a time period between the completion of the merger and the time at which former Riverside shareholders actually receive their shares of SAL common stock. Until shares are received, former Riverside shareholders may not be able to sell their SAL shares in the open market and, therefore, will not be able to avoid losses resulting from any decrease, or secure gains resulting from any increase, in the trading price of SAL common stock during this period.

### **The merger agreement may be terminated in accordance with its terms and the merger may not be completed.**

The merger agreement is subject to a number of conditions which must be fulfilled in order to complete the merger. Those conditions include:

- approval of the merger agreement by Riverside and SAL shareholders;
- approval by SAL shareholders of an amendment to SAL’s certificate of incorporation to increase SAL’s authorized stock and eliminate the minimum and maximum number of directors on its board and the issuance of SAL common stock as merger consideration pursuant to the merger agreement;
- the receipt of required regulatory approvals;
- absence of orders prohibiting the completion of the merger;
- effectiveness of the registration statement of which this joint proxy statement/prospectus is a part;
- the continued accuracy of the representations and warranties by both parties and the performance by both parties of their covenants and agreements; and
- the receipt by both parties of tax opinions from their respective counsels.

If these conditions are not satisfied or waived (to the extent legally waivable), we will not be able to consummate the merger and the merger agreement will be terminated. In addition, under the merger agreement, each of SAL and Riverside have the right to terminate the merger agreement under certain circumstances. We can give you no assurance that the merger will actually be completed.

**The need for regulatory approvals may delay the date of completion of the merger or may diminish the benefits of the merger.**

SBT, SAL and Riverside are required to obtain the approvals or nonobjections of bank regulatory agencies prior to completing the merger. Satisfying any requirements of these regulatory agencies may delay the date of completion of the merger. In addition, it is possible that, among other things, restrictions on the combined operations of the two companies, including divestitures, may be sought by governmental agencies as a condition to obtaining the required regulatory approvals. Any regulatory restriction may diminish the benefits of the merger to Riverside and SAL. SAL is not required to complete the merger if a governmental agency, as part of its authorization or approval, imposes any condition, restriction or requirement upon SAL that SAL reasonably determines in good faith would individually or in the aggregate, materially reduce the benefits of the merger to such a degree that SAL would not have entered into the merger agreement had such a condition, restriction or requirement been known at the time the merger agreement was entered into.

**If the merger is not completed, Riverside and SAL will have incurred substantial expenses without their respective shareholders realizing the expected benefits.**

Riverside and SAL have each incurred substantial expenses in connection with the transactions described in this joint proxy statement/prospectus. If the merger is not completed, Riverside expects that it will have incurred approximately \$430,000 (after tax) in merger-related expenses and SAL expects that it will have incurred approximately \$1,550,000 (after tax) in merger-related expenses. These expenses would likely have a material adverse impact on the operating results of Riverside and SAL, respectively, because they would not have realized the expected benefits of the merger. There can be no assurance that the merger will be completed.

**Riverside and SAL will be subject to business uncertainties and contractual restrictions while the merger is pending.**

Uncertainty about the effect of the merger on employees, suppliers and customers may have an adverse effect on Riverside or SAL. These uncertainties may impair Riverside's or SAL's ability to attract, retain and motivate key personnel until the merger is completed, and could cause customers, suppliers and others who deal with Riverside to seek to change existing business relationships with Riverside or SAL. Riverside or SAL employee retention and recruitment may be particularly challenging prior to the effective time of the merger, as employees and prospective employees may experience uncertainty about their future roles with the combined company.

The pursuit of the merger and the preparation for the integration may place a significant burden on management and internal resources. Any significant diversion of management attention away from ongoing business and any difficulties encountered in the transition and integration process could affect the financial results of Riverside or SAL and, following the merger, the combined company. In addition, the merger agreement requires that Riverside and SAL operate in the ordinary course of business consistent with past practice and restricts Riverside or SAL from taking certain actions prior to the effective time of the merger or termination of the merger agreement. This may limit the ability of Riverside or SAL to engage in new lines of business or take advantage of other business opportunities while the merger is pending.

**The merger agreement limits Riverside's ability to pursue alternatives to the merger.**

The merger agreement contains terms and conditions that make it more difficult for Riverside to sell its business to a party other than SAL. Riverside has agreed to take action necessary to convene and to hold a meeting of shareholders of Riverside to consider and vote upon the approval of the merger agreement and the merger as promptly as practicable following the execution of the merger agreement. Subject to certain limited exceptions, Riverside's board of directors is required to recommend such approval.

SAL required Riverside to agree to these provisions as a condition to SAL's willingness to enter into the merger agreement. However, these provisions might discourage a third party that might have an interest in acquiring all or a significant part of Riverside from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share price than the current proposed merger consideration, and the termination fee might result in a potential competing acquirer proposing to pay a lower per share price to acquire Riverside than it might otherwise have proposed to pay.

**SAL may fail to realize the anticipated benefits of the merger.**

The success of the merger will depend, in part, on the combined company's ability to realize the anticipated benefits from combining the businesses of SAL and Riverside. However, to realize these anticipated benefits, the businesses of SBT and Riverside must be successfully combined. If the combined company is not able to achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected.

SAL and Riverside have operated and, until the completion of the merger, will continue to operate independently. It is possible that the integration process could result in the loss of key employees, as well as the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies, any or all of which could adversely affect SAL's ability to maintain relationships with clients, customers, depositors and employees after the merger or to achieve the anticipated benefits of the merger. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on each of SAL and Riverside.

**Riverside's executive officers and directors have interests in the merger that are different from the interests of the Riverside shareholders.**

Riverside executive officers negotiated the merger agreement with SBT and SAL, and the board of directors approved the agreement and is recommending that Riverside shareholders who are entitled to vote, vote for the merger agreement. In considering these facts and the other information contained in this joint proxy statement/prospectus, you should be aware that Riverside's executive officers and directors have interests in the merger in addition to the interests that they share with the Riverside shareholders. These interests include continued indemnification and insurance coverage by SAL after the merger for acts or omissions occurring before the merger, severance payments due certain executive officers in connection with the merger under pre-existing employment contracts, the continuation of employment and employment agreements with SBT for two officers following the effective date of the merger, the assumption of certain Riverside stock options by SAL, and the invitation of five other Riverside directors to serve on the boards of SBT and SAL. In addition, those non-officer Riverside directors who will not join the SAL board will be asked to serve on an advisory board of SAL. For a detailed discussion of these interests, see the section in this joint proxy statement/prospectus titled "Interests of Riverside's Directors and Executive Officers in the Merger" beginning on page 59.

**Unanticipated costs relating to the merger could reduce SAL's future earnings per share.**

SAL believes that it has reasonably estimated the likely costs of integrating the operations of SBT and Riverside, and the incremental costs of operating as a combined company. However, it is possible that unexpected transaction costs such as taxes, fees or professional expenses or unexpected future operating expenses such as increased personnel costs or increased taxes, as well as other types of unanticipated adverse developments, could have a material adverse effect on the results of operations and financial condition of the combined company. If unexpected costs are incurred, the merger could have a dilutive effect on the combined company's earnings per share. In other words, if the merger is completed, the earnings per share of SAL common stock could be less than it would have been if the merger had not been completed.

**Both Riverside and SAL shareholders will have a reduced ownership and voting percentage interest after the merger and will exercise less influence over management of the combined organization.**

Each of Riverside and SAL shareholders currently have the right to vote in the election of their respective boards of directors and on various other matters affecting their respective companies. After the merger, each Riverside shareholder will hold a percentage ownership of the combined organization that is much smaller than such shareholder's current percentage ownership of Riverside. Specifically, Riverside shareholders will hold in the aggregate approximately 37% of the outstanding shares of SAL common stock. Furthermore, because shares of SAL common stock will be issued to existing Riverside shareholders, current SAL shareholders will have their ownership and voting interests diluted to reflect the new ownership of 37% of SAL by the former shareholders of Riverside. In addition, the tangible book value dilution to shareholders of SAL at June 30, 2014 was approximately 7.50%. Accordingly, both Riverside and SAL shareholders will have less influence on the management and policies of the

combined company than they now have on the management and policies of their respective companies.

**The opinions of the respective financial advisors to Riverside and SAL do not reflect changes in circumstances subsequent to the date of the financial advisors' opinions.**

In connection with the proposed merger, KBW, Riverside's financial advisor, delivered an opinion dated March 18, 2014 as to the fairness, from a financial point of view and as of the date of the opinion, of the exchange ratio in the proposed merger. Sterne Agee, SAL's financial advisor also delivered an opinion dated March 18, 2014 in connection with the proposed merger as to the fairness, from a financial point of view, and as of the date of such opinion, of the merger consideration. The opinions do not reflect changes that may occur or may have occurred after the date of the opinions, including changes to the operations and prospects of SAL or Riverside, changes in general market and economic conditions or regulatory or other factors. Any such changes may materially alter or affect the relative values of SAL and Riverside.



**Failure to complete the merger could negatively impact the stock prices and future businesses and financial results of SAL and Riverside.**

If the merger is not completed, the ongoing businesses of SAL and Riverside may be adversely affected and SAL and Riverside will be subject to several risks, including the following:

Riverside may be required, under certain circumstances, to pay SAL a termination fee of \$1,200,000 and potential reimbursement for certain expenses of up to \$500,000 under the merger agreement;

SAL and Riverside will be required to pay certain costs relating to the merger, whether or not the merger is completed, such as legal, accounting, financial advisor and printing fees;

under the merger agreement, Riverside is subject to certain restrictions on the conduct of its business prior to completing the merger which may adversely affect its ability to execute certain of its business strategies; and matters relating to the merger may require substantial commitments of time and resources by SAL and Riverside management, which could otherwise have been devoted to other opportunities that may have been beneficial to SAL and Riverside as independent companies, as the case may be.

In addition, if the merger is not completed, SAL and/or Riverside may experience negative reactions from the financial markets and from their respective customers and employees. SAL and/or Riverside also could be subject to litigation related to any failure to complete the merger or to enforcement proceedings commenced against SAL or Riverside to perform their respective obligations under the merger agreement. If the merger is not completed, SAL and Riverside cannot assure their shareholders that the risks described above will not materialize and will not materially affect their business, financial results and stock prices.

**After the merger is completed, Riverside shareholders will become SAL shareholders and will have different rights that may be less advantageous than their current rights.**

Upon completion of the merger, Riverside shareholders will become SAL shareholders. Differences in Riverside's organization certificate and bylaws and SAL's certificate of incorporation and bylaws and the laws governing Riverside and SAL will result in changes to the rights of Riverside shareholders who become SAL shareholders. See the section of this joint proxy statement/prospectus titled "Comparison of Rights of Shareholders of Riverside and SAL," beginning on page 122 for more information.

## INFORMATION ABOUT THE COMPANIES

### Salisbury Bancorp, Inc. and Salisbury Bank and Trust Company

Salisbury Bancorp, Inc. is the parent company of Salisbury Bank and Trust Company, a Connecticut chartered commercial bank serving the communities of northwestern Connecticut and proximate communities in New York and Massachusetts since 1848, through full service branches in Canaan, Lakeville, Salisbury and Sharon, Connecticut, Dover Plains and Millerton, New York and Great Barrington, South Egremont and Sheffield, Massachusetts. At June 30, 2014, SAL has, on a consolidated basis, assets of \$621 million, deposits of \$507 million and shareholders' equity of \$75 million. SAL's stock trades on the NASDAQ Capital Market under the symbol "SAL". The Bank offers a full complement of consumer and business banking products and services as well as trust and wealth advisory services. Additional information about SAL and its subsidiary, SBT, is included in documents incorporated by reference in this joint proxy statement/prospectus. See "Where You Can Find Additional Information".

SBT is committed to providing high quality community banking services in the geographic markets in which it conducts business. SBT's products and services include a wide array of credit services, such as consumer loans, credit cards, commercial loans, small business loans, automobile loans, real estate mortgages, community development loans, HELOCs, SBA loans, and several other forms of credit; deposit services, such as personal and business checking accounts, savings accounts, money market accounts, certificates of deposit, HSAs, IRAs, SEPs, repurchase agreements, IOLTA accounts, CDARS, holiday and vacation club accounts, school savings programs and other similar deposit services and products; additional services such as safe deposit boxes, debit cards, wire transfers, telephone, on-line and mobile banking, and notary public and signature guarantee services; and, as noted above, trust and wealth advisory services.

### Riverside Bank

Riverside Bank is a New York State chartered commercial bank serving small and medium sized businesses, professionals and individuals in the Hudson Valley with branches in Poughkeepsie, Red Oaks Mill, Newburgh and Fishkill, New York. Since opening for business in 1988, Riverside Bank has been committed to providing outstanding products and service to its customers focusing on serving small to medium sized businesses and professionals within its markets.

## SPECIAL MEETING OF SHAREHOLDERS OF RIVERSIDE

This joint proxy statement/prospectus is being furnished to holders of Riverside common stock for use at a special meeting of shareholders of Riverside and any adjournments or postponements thereof.

### Date, Time and Place of the Special Meeting

The special meeting of shareholders of Riverside will be held at The Poughkeepsie Grand Hotel, 40 Civic Center Plaza, Poughkeepsie, New York 12601 on October 29, 2014, at 10:30 a.m., local time.

### Purpose of the Special Meeting

At the special meeting, Riverside shareholders as of the record date will be asked to consider and vote on the following proposals (which are discussed in more detail below under “Riverside Proposals” on page 28):

1. to approve the Agreement and Plan of Merger by and among Riverside, SBT and SAL, dated as of March 18, 2014, pursuant to which Riverside will merge with and into SBT with SBT surviving;
2. to approve one or more adjournments of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting, or at any adjournment or postponement of that meeting, to adopt and approve the merger agreement; and
3. such other matters as may properly come before the special meeting or any adjournment or postponement of that meeting.

### Recommendation of the Board of Directors of Riverside

The Riverside board of directors has approved the merger agreement and unanimously recommends that you vote your shares as follows:

- **“FOR”** adoption and approval of the merger agreement; and
- **“FOR”** the proposal to adjourn the special meeting, if necessary, to permit further solicitation of proxies.

Record Date; Outstanding Shares; Shares Entitled to Vote

Only holders of record of Riverside common stock at the close of business on the record date of September 5, 2014, are entitled to notice of and to vote at the special meeting of shareholders of Riverside. As of the record date, there were 741,876 shares of Riverside common stock outstanding, held of record by approximately 329 shareholders. Each holder of Riverside common stock is entitled to one vote for each share of Riverside common stock owned as of the record date.

A list of Riverside shareholders as of the record date will be available for review by any Riverside shareholder at Riverside's principal executive offices during regular business hours beginning 10 days prior to the date of the special meeting and continuing through the special meeting.

#### Quorum; Vote Required

A quorum of Riverside shareholders is necessary to hold a valid meeting. If the holders of at least a majority of the total number of the outstanding shares of Riverside common stock entitled to vote are represented in person or by proxy at the special meeting, a quorum will exist. Riverside will include proxies marked as abstentions in determining the number of shares present at the special meeting.

The affirmative vote of the holders of at least two-thirds of the shares of Riverside common stock outstanding and entitled to vote at the special meeting is required to approve the merger agreement. The affirmative vote of the holders of at least a majority of the shares present and entitled to vote at the special meeting is required to approve the proposal to adjourn the special meeting.

Abstentions and broker non-votes will have the same effect as a vote "AGAINST" approval of the merger agreement. Abstentions will have the same effect as a vote "AGAINST" the adjournment proposal, but broker non-votes will have no effect on that proposal.

## Share Ownership of Management; Voting Agreements

As of the record date, the directors and executive officers of Riverside and their affiliates collectively owned 303,045 shares of Riverside common stock, or approximately 39.52% of Riverside's outstanding shares. Each Riverside director and executive officer has entered into a voting agreement with SAL, which requires each person to vote all of the shares of Riverside common stock beneficially owned by him or her **"FOR"** approval of the merger agreement and the other proposals described in the notice for the special meeting. None of the directors or executive officers were paid any additional consideration in connection with the execution of the voting agreement.

When considering the recommendation of the board of directors of Riverside that you vote in favor of the approval of the merger agreement, you should be aware that the executive officers and directors of Riverside have financial interests in the merger that may be different from, or in addition to, the interests of shareholders of Riverside. See "The Merger - Interests of Riverside's Directors and Executive Officers in the Merger" beginning on page 59.

## Voting of Proxies

If you are a Riverside shareholder, the board of directors of Riverside requests that you return the proxy card accompanying this document for use at the special meeting. Please complete, date and sign the proxy card and promptly return it in the enclosed postage-paid envelope.

All properly signed proxies received prior to the special meeting and not revoked before the vote at the special meeting will be voted at the special meeting according to the instructions indicated on the proxies or, **if no instructions are given, the shares will be voted "FOR" approval of the merger agreement and "FOR" an adjournment of the special meeting to solicit additional proxies, if necessary.**

If you hold your shares of Riverside common stock in "street name," meaning in the name of a bank, broker or other nominee who is the record holder, you must either direct the record holder of your shares of Riverside common stock how to vote your shares or obtain a proxy from the record holder to vote your shares in person at the special meeting. If you fail to properly submit your proxy card or to instruct your broker, bank or other nominee to vote your shares of Riverside common stock and you do not attend the special meeting and vote your shares in person, your shares will not be voted. This will have the same effect as a vote **"AGAINST"** adoption and approval of the merger agreement.

## How to Revoke Your Proxy

If you are a Riverside shareholder, you may revoke your proxy at any time by taking any of the following actions before your proxy is voted at the special meeting:

- delivering a written notice bearing a date later than the date of your proxy card to Riverside's President and CEO at the address listed below, stating that you revoke your proxy;
- submitting a new signed proxy card bearing a later date (any earlier proxies will be revoked automatically); or
- attending the special meeting and voting in person, although attendance at the special meeting will not, by itself, revoke a proxy.

You should send any notice of revocation to John M. Davies, President and CEO, at the following address:

Riverside Bank

11 Garden Street

Poughkeepsie, New York 12601

If you have instructed a bank, broker or other nominee to vote your shares, you must follow the directions you receive from your bank, broker or other nominee to change your vote.

## Voting in Person

If you are a Riverside shareholder and plan to attend the special meeting of Riverside shareholders and wish to vote in person, you will be given a ballot at the special meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the special meeting, you must obtain a proxy from the broker, bank or other nominee in order to vote your shares.

Whether or not you plan to attend the special meeting, Riverside requests that you complete, sign, date and return the enclosed proxy card as soon as possible in the enclosed postage-paid envelope. This will not prevent you from voting in person at the special meeting but will assure that your vote is counted if you are unable to attend.

## Abstentions and Broker Non-Votes

Only shares affirmatively voted for approval of the merger agreement, including shares represented by properly executed proxies that do not contain voting instructions, will be counted as votes **“FOR”** approval of the merger agreement and **“FOR”** approval of the proposal to adjourn the special meeting, if necessary.

Brokers who hold shares of Riverside common stock in street name for a customer who is the beneficial owner of those shares may not exercise voting authority on the customer’s shares with respect to the actions proposed in this document without specific instructions from the customer. Proxies submitted by a broker that do not exercise this voting authority are referred to as broker non-votes. If your broker holds your Riverside common stock in street name, your broker will vote your shares only if you provide instructions on how to vote by filling out the voter instruction form sent to you by your broker with this joint proxy statement/prospectus.

Accordingly, you are urged to mark and return the enclosed proxy card to indicate your vote, or fill out the voter instruction form, if applicable.

Abstentions will be included in determining the presence of a quorum at the special meeting. Broker non-votes will be counted in determining the presence of a quorum at the special meeting, only if the beneficial owner of such shares has instructed the bank or broker how to vote with respect to at least one matter before the meeting. Abstentions and broker non-votes will have the same effect as a vote **“AGAINST”** approval of the merger agreement. Abstentions will have the same effect as a vote **“AGAINST”** the adjournment proposal, but broker non-votes will have no effect on that proposal.

## Proxy Solicitation

If you are a Riverside shareholder, the enclosed proxy is solicited by and on behalf of the board of directors of Riverside. Riverside will pay the expenses of soliciting proxies to be voted at the special meeting. Following the original mailing of the proxies and other soliciting materials, Riverside and its agents also may solicit proxies by mail, telephone, facsimile or in person. No additional compensation will be paid to directors, officers or other employees of Riverside for making these solicitations.

This joint proxy statement/prospectus and the proxy card are first being sent to Riverside shareholders on or about September \_\_\_\_, 2014.

## Stock Certificates

If you are a Riverside shareholder, you should not send in any certificates representing Riverside common stock. You will receive separate instructions from the exchange agent for the exchange of your certificates representing Riverside common stock.



## RIVERSIDE PROPOSALS

### Proposal No. 1 - To Approve the Riverside Merger Proposal

Riverside is asking its shareholders to approve the merger agreement and the transactions contemplated thereby. Holders of Riverside common stock should read this joint proxy statement/prospectus carefully and in its entirety, including the appendices, for more detailed information concerning the merger agreement and the merger. A copy of the merger agreement is attached to this joint proxy statement/prospectus as Appendix A.

After careful consideration, the Riverside board of directors adopted the merger agreement and declared the merger agreement and the transactions contemplated thereby, including the merger, to be advisable and in the best interest of Riverside and the shareholders of Riverside. See “The Merger—Riverside’s Reasons for the Merger; Recommendation of Riverside’s Board of Directors” included elsewhere in this joint proxy statement/prospectus for a more detailed discussion of the Riverside board of directors’ recommendation.

**The Riverside board of directors unanimously recommends a vote “FOR” the Riverside Merger Proposal.**

### Proposal No. 2 - To Approve the Riverside Adjournment Proposal

The Riverside special meeting may be adjourned to another time or place, if necessary or appropriate to solicit additional proxies if there are insufficient votes at the time of the Riverside special meeting to adopt and approve the merger agreement.

If at the Riverside special meeting the number of shares of Riverside common stock present or represented and voting in favor of the Riverside merger proposal is insufficient to approve such proposal, Riverside intends to move to adjourn the Riverside special meeting to solicit additional proxies for approval of the merger agreement. In that event, Riverside will ask its shareholders to vote upon the Riverside adjournment proposal, but not the Riverside merger proposal.

In this proposal, Riverside is asking its shareholders to authorize the holder of any proxy solicited by the Riverside board of directors on a discretionary basis to vote in favor of adjourning the Riverside special meeting to another time and place to solicit additional proxies, including the solicitation of proxies from Riverside shareholders who have previously voted.

**The Riverside board of directors unanimously recommends a vote “FOR” the Riverside Adjournment Proposal.**

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SPECIAL MEETING OF SHAREHOLDERS OF SAL

This joint proxy statement/prospectus is being furnished to holders of SAL common stock for use at a special meeting of shareholders of SAL and any adjournments or postponements thereof.

Date, Time and Place of the Special Meeting

The special meeting of shareholders of SAL will be held at Hotchkiss School (Griswold Science Building, located off Route 41), 11 Interlaken Road, Lakeville, Connecticut 06039, on Wednesday, October 29, 2014, at 4:00 p.m., local time.

Purpose of the Special Meeting

At the special meeting, SAL shareholders as of the record date will be asked to consider and vote on the following proposals (which are discussed in more detail below under "SAL Proposals" on page 32):

- to approve the SAL merger proposal;
- to approve the SAL certificate of amendment proposal;
- to approve one or more adjournments of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting, or at any adjournment or postponement of that meeting, to adopt and approve the merger agreement; and
- such other matters as may properly come before the special meeting or any adjournment or postponement of that meeting.

Recommendation of the Board of Directors of SAL

The SAL board of directors has approved the merger agreement and the transactions contemplated thereby and unanimously recommends that you vote your shares as follows:

- "FOR" approval of the SAL merger proposal;
- "FOR" approval of the SAL certificate of amendment proposal; and
- "FOR" the SAL adjournment proposal.

Record Date; Outstanding Shares; Shares Entitled to Vote

Only holders of record of SAL common stock at the close of business on the record date of September 5, 2014, are entitled to notice of and to vote at the special meeting of shareholders of SAL. As of the record date, there were 1,713,281 shares of SAL common stock outstanding, held of record by 1,739 shareholders. Each holder of SAL common stock is entitled to one vote for each share of SAL common stock owned as of the record date.

A list of SAL shareholders as of the record date will be available for review by any SAL shareholder at SAL's principal executive offices during regular business hours beginning 10 days prior to the date of the special meeting and continuing through the special meeting.

Quorum; Vote Required

A quorum of SAL shareholders is necessary to hold a valid meeting. If the holders of at least a majority of the total number of the outstanding shares of SAL common stock entitled to vote are represented in person or by proxy at the special meeting, a quorum will exist. SAL will include proxies marked as abstentions in determining the number of shares present at the special meeting.

The affirmative vote of the holders of at least a majority of the shares of SAL common stock outstanding and entitled to vote at the special meeting is required to approve the merger proposal, the SAL certificate of amendment proposal, and the SAL adjournment proposal. Abstentions and broker non-votes are counted "AGAINST" the SAL merger proposal, the proposal to amend SAL's certificate of incorporation and the proposal to issue SAL common stock as merger consideration, but will have no effect on the SAL adjournment proposal.

## Share Ownership of Management

As of the record date, the directors and executive officers of SAL and their affiliates collectively owned 127,240 shares of SAL common stock, or approximately 7.43% of SAL's outstanding shares.

When considering the recommendation of the board of directors of SAL that you vote in favor of the approval of the merger agreement, including the issuance of SAL common stock as merger consideration, and the approval of the amendment to SAL's certificate of incorporation, you should be aware that the executive officers and directors of SAL have financial interests in the merger that may be different from, or in addition to, the interests of shareholders of SAL. See "The Merger - Interests of SAL's Directors and Executive Officers in the Merger" beginning on page 59.

## Voting of Proxies

If you are a SAL shareholder, the board of directors of SAL requests that you return the proxy card accompanying this document for use at the special meeting. Please complete, date and sign the proxy card and promptly return it in the enclosed postage-paid envelope.

All properly signed proxies received prior to the special meeting and not revoked before the vote at the special meeting will be voted at the special meeting according to the instructions indicated on the proxies or, **if no instructions are given, the shares will be voted "FOR" approval of the SAL merger proposal, "FOR" approval of the SAL certificate of amendment proposal, and "FOR" the SAL adjournment proposal, if necessary.**

If you hold your shares of SAL common stock in "street name," meaning in the name of a bank, broker or other nominee who is the record holder, you must either direct the record holder of your shares of SAL common stock how to vote your shares or obtain a proxy from the record holder to vote your shares in person at the special meeting.

If you fail to properly submit your proxy card or to instruct your broker, bank or other nominee to vote your shares of SAL common stock and you do not attend the special meeting and vote your shares in person, your shares will not be voted. This will have the same effect as a vote "**AGAINST**" adoption and approval of the proposals to approve the merger agreement, to amend SAL's certificate of incorporation and to issue shares as consideration for the merger, but will have no effect on the SAL adjournment proposal. However, if you mark "**ABSTAIN**" on your proxy card with respect to any proposal, it will have the same effect as a vote "**AGAINST**" such proposal.

## How to Revoke Your Proxy

If you are a SAL shareholder, you may revoke your proxy at any time by taking any of the following actions before your proxy is voted at the special meeting:

• delivering a written notice bearing a date later than the date of your proxy card to SAL's Secretary at the address listed below, stating that you revoke your proxy;

• submitting a new signed proxy card bearing a later date (any earlier proxies will be revoked automatically); or  
• attending the special meeting and voting in person, although attendance at the special meeting will not, by itself, revoke a proxy.

You should send any notice of revocation to Shelly L. Humeston, Secretary, at the following address:

Salisbury Bank and Trust Company

5 Bissell Street

P.O. Box 1868

Lakeville, CT 06039-1868

If you have instructed a bank, broker or other nominee to vote your shares, you must follow the directions you receive from your bank, broker or other nominee to change your vote.

## Voting in Person

If you are a SAL shareholder and plan to attend the special meeting of SAL shareholders and wish to vote in person, you will be given a ballot at the special meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the special meeting, you must obtain a proxy from the broker, bank or other nominee in order to vote your shares.

Whether or not you plan to attend the special meeting, SAL requests that you complete, sign, date and return the enclosed proxy card as soon as possible in the enclosed postage-paid envelope. This will not prevent you from voting in person at the special meeting but will assure that your vote is counted if you are unable to attend.

## Abstentions and Broker Non-Votes

Only shares affirmatively voted for approval, including shares represented by properly executed proxies that do not contain voting instructions, will be counted as votes **“FOR”** the approval of the SAL merger proposal; **“FOR”** approval of the amendment to SAL’s certificate of incorporation to increase SAL’s authorized common stock and to increase the number of directors on SAL’s board; and **“FOR”** the SAL adjournment proposal, if necessary.

Brokers who hold shares of SAL common stock in street name for a customer who is the beneficial owner of those shares may not exercise voting authority on the customer’s shares with respect to the actions proposed in this document without specific instructions from the customer. Proxies submitted by a broker that do not exercise this voting authority are referred to as broker non-votes. If your broker holds your SAL common stock in street name, your broker will vote your shares only if you provide instructions on how to vote by filling out the voter instruction form sent to you by your broker with this joint proxy statement/prospectus.

Accordingly, you are urged to mark and return the enclosed proxy card to indicate your vote, or fill out the voter instruction form, if applicable.

Abstentions will be included in determining the presence of a quorum at the special meeting, but will be counted as a vote **“AGAINST”** any of the proposals for which a shareholder marks **“ABSTAIN”**. Broker non-votes will only be included in determining the presence of a quorum at the special meeting, if the beneficial owner of such shares has instructed the bank or broker how to vote with respect to at least one matter before the meeting. Abstentions and broker non-votes will have the same effect as a vote **“AGAINST”** approval of the SAL merger proposal, and the SAL certificate of amendment proposal, except that broker non-votes will have no effect on the SAL adjournment proposal.

Proxy Solicitation

If you are a SAL shareholder, the enclosed proxy is solicited by and on behalf of the board of directors of SAL. SAL will pay the expenses of soliciting proxies to be voted at the special meeting. Following the original mailing of the proxies and other soliciting materials, SAL and its agents also may solicit proxies by mail, telephone, facsimile or in person. No additional compensation will be paid to directors, officers or other employees of SAL for making these solicitations. SAL has retained a proxy solicitation firm, Morrow & Co., LLC to aid in its solicitation process. SAL will pay Morrow & Co., LLC a fee of approximately \$5,000, plus reasonable disbursements in connection with the solicitation. SAL intends to reimburse persons who hold SAL common stock of record but not beneficially, such as brokers, custodians, nominees, and fiduciaries, for their reasonable expense in forwarding copies of proxies and other soliciting materials to, and requesting authority for the exercise of proxies from, the persons for whom they hold shares.

This joint proxy statement/prospectus and the proxy card are first being sent to SAL shareholders on or about September \_\_\_\_, 2014.



## SAL PROPOSALS

### Proposal No. 1 - To Approve the SAL Merger Proposal

SAL is asking its shareholders to approve the merger agreement and the transactions contemplated thereby. Holders of SAL common stock should read this joint proxy statement/prospectus carefully and in its entirety, including the appendices, for more detailed information concerning the merger agreement and the merger. A copy of the merger agreement is attached to this joint proxy statement/prospectus as Appendix A.

In connection with the merger agreement, SAL is also asking its shareholders to approve the issuance of SAL common stock as merger consideration proposal. Pursuant to the merger agreement, upon completion of the merger, holders of Riverside common stock will be entitled to receive, for each share of Riverside common stock that is issued and outstanding, 1.35 shares of SAL common stock.

After careful consideration, the SAL board of directors unanimously adopted the merger agreement and declared the merger agreement and the transactions contemplated thereby, including the merger and the issuance of SAL common stock as merger consideration, to be advisable and in the best interests of SAL and the shareholders of SAL. See “The Merger—SAL’s Reasons for the Merger; Recommendation of SAL’s Board of Directors” included elsewhere in this joint proxy statement/prospectus for a more detailed discussion of the SAL board of directors’ recommendation.

**The SAL board of directors unanimously recommends a vote “FOR” the approval of the SAL Merger Proposal, including the issuance of SAL common stock as merger consideration.**

### Proposal No. 2 - To Approve the SAL Certificate of Amendment Proposal

SAL is asking its shareholders to approve the SAL certificate of amendment proposal. This proposal would increase the number of authorized common shares of SAL from 3,000,000 to 5,000,000 shares. In addition, the certificate of incorporation would be amended to eliminate the minimum and maximum number of directors of SAL to provide that the board of directors may fix the number of directors from time to time. Currently, the certificate of incorporation provides that the SAL board should consist of no more than twelve (12) directors. At the effective time of the merger, pursuant to the merger agreement, SAL’s board will consist of fifteen (15) directors (its ten (10) current directors and the five (5) Riverside representatives who will become directors of SAL and SBT). A copy of the form of the SAL certificate of amendment is attached to this joint proxy statement/prospectus as Appendix E. Approval of this proposal is necessary in order for SAL to have sufficient shares to issue to the former Riverside shareholders as consideration in the merger, and, therefore, SAL cannot complete the merger unless this proposal is approved.

After careful consideration, the SAL board of directors, by a unanimous vote of all directors, adopted the SAL certificate amendment proposal. The increase in the number of authorized shares will provide sufficient shares to be issued as merger consideration in connection with the merger and provided sufficient shares for outstanding options, as well as provide shares for future issuance. The larger board size will allow all current SAL directors and the five Riverside representatives to serve on the board of directors of SAL as of the effective time.

**The SAL board of directors unanimously recommends a vote “FOR” the SAL Certificate of Amendment Proposal.**

Proposal No. 3 - To Approve the SAL Adjournment Proposal

The SAL special meeting may be adjourned to another time or place, if necessary or appropriate, to permit, among other things, further solicitation of proxies if necessary to obtain additional votes in favor of the SAL merger proposal.

If, at the SAL special meeting, the number of shares of SAL common stock present or represented and voting in favor of the SAL merger proposal is insufficient to approve such proposal, SAL intends to move to adjourn the SAL special meeting to solicit additional proxies for the approval of the merger agreement. In that event, SAL will ask its shareholders to vote upon the SAL adjournment proposal, but not the SAL merger proposal.

In this proposal, SAL is asking its shareholders to authorize the holder of any proxy solicited by the SAL board of directors on a discretionary basis to vote in favor of adjourning the SAL special meeting to another time and place to solicit additional proxies, including the solicitation of proxies from SAL shareholders who have previously voted.

**The SAL board of directors unanimously recommends a vote “FOR” the SAL Adjournment Proposal.**

## THE MERGER

*The following discussion contains material information about the merger. The discussion is subject, and qualified in its entirety by reference, to the merger agreement and other documents attached as appendices to this joint proxy statement/prospectus. We urge you to read carefully this entire proxy statement/prospectus, including the merger agreement and other documents attached as appendices to this joint proxy statement/prospectus, for a more complete understanding of the merger.*

### General

On March 18, 2014, the SBT and SAL boards of directors and board of directors of Riverside approved the merger agreement. The merger agreement provides for the merger of Riverside with and into SBT, with SBT as the surviving corporation.

Upon completion of the merger, holders of Riverside common stock (other than stock held by Riverside or SAL) will be entitled to receive, for each share of Riverside common stock that is issued and outstanding, 1.35 shares of SAL common stock.

See “The Merger Agreement” beginning on page 71, for additional and more detailed information regarding the legal documents that govern the merger, including information about the conditions to the merger and the provisions for terminating or amending the merger agreement.

### Background of the Merger

The board of Riverside, as part of its ongoing strategic planning, has historically reviewed alternatives available to Riverside on an ongoing basis. The board concluded that in order for Riverside to remain as an independent organization, it would need to raise additional capital. Although Riverside’s regulatory capital ratios have consistently exceeded the regulatory minimums required for it to be considered “well capitalized”, Riverside’s ability to grow its loan portfolio and customer base has been constrained by its relatively low legal lending limit, which is 15% of capital for most loans. This has meant that in order to originate larger credits, and serve the needs of growing or larger customers, Riverside has needed to share the credit with a participating institution. Riverside has therefore run the risk of its customers outgrowing the bank. In addition, the board of Riverside believed that in the current regulatory environment, it has been and would continue to be difficult for a small institution to absorb all of the increasing costs of regulatory compliance. Therefore, to remain independent, the board believed that Riverside would need to continue to grow, and Riverside would, therefore, require additional capital to support that growth.

The Riverside board also concluded that for a number of reasons, including the difficulty incurred by small, illiquid banks in accessing the capital markets, Riverside would have difficulty raising additional capital on terms that would benefit its existing shareholders.

As an outgrowth of these planning sessions, in May of 2012, George Banta, then a director of Riverside, suggested that John Davies, the President and CEO of Riverside, reach out to Richard J. Cantele, Jr., President and CEO of SAL and SBT. Mr. Banta is a shareholder of SAL, and believed that SAL was interested in expanding further in New York.

Mr. Davies met with Mr. Cantele in May of 2012 to discuss whether there was any basis for the two companies to engage in a transaction. No terms were discussed at this meeting. Both Messrs. Davies and Cantele believed that a deal between Riverside and SAL could be beneficial to the shareholders of both and agreed to keep speaking.

Messrs. Davies and Cantele met again in June and in October of 2012 to informally discuss a potential transaction. Economic terms of a transaction were not discussed at either meeting. At the October 2012 meeting, Mr. Davies agreed to provide Mr. Cantele with publicly available financial information for Riverside, including financial results through September 30, 2012. Over the next several weeks, Mr. Davies provided the requested information to Mr. Cantele.

In January 2013, SAL retained Sterne Agee to produce a pro forma model showing a combination of SAL and Riverside, assuming a stock for stock exchange with an exchange ratio of 1.22 shares of SAL common stock for each share of Riverside common stock. In late January 2013, Mr. Davies met with Mr. Cantele, and Mr. Cantele reviewed the Sterne Agee model with Mr. Davies. Both Mr. Davies and Mr. Cantele agreed that the model represented a basis on which to move forward with a possible combination of SBT and Riverside.

The board of directors of Riverside received and reviewed the Sterne Agee model at its February 26, 2013 board meeting, and concluded that the model represented terms on which the board would be willing to negotiate a combination with SAL, and directed the executive committee of the board to meet with representatives of SAL and further explore the terms of a possible transaction.

On March 5, 2013, members of the executive committee of the Riverside board met with Mr. Cantele and a delegation of the board members of SAL. At that meeting, the parties discussed social and structural aspects of the proposed transaction, but did not discuss financial terms. The Riverside executive committee reported the results of that meeting to the full board of Riverside at its meeting on March 26, 2013. As a result, the board authorized the Riverside executive committee to have a second meeting with representatives of SAL, and authorized management to contact KBW about acting as a financial advisor to Riverside. Mr. Davies thereafter contacted a representative of KBW.

On April 8, 2013 members of the executive committee of the Riverside board again met with Mr. Cantele, and a designated board committee of SAL to discuss a potential transaction. In addition, representatives of Sterne Agee attended the meeting, and reviewed their model with the members of Riverside's executive committee. As a result of that meeting, the Riverside executive committee determined that Riverside should move forward with discussions with SAL.

At approximately the same time in April, Mr. Davies was contacted by a senior executive of another financial institution and asked whether he would have lunch with the executive and the institution's CEO. Mr. Davies knew both from professional activities, and agreed to meet. He was not told the purpose of the meeting.

Mr. Davies met with the two executives, and they expressed an interest in purchasing Riverside in an all cash transaction. No proposed price was discussed at that meeting.

Mr. Davies then contacted KBW and requested that KBW provide assistance with assessing the financial ability of SAL and the other financial institution to purchase Riverside through a stock for stock exchange in the case of SAL and through an all cash transaction in the case of the other institution. At a meeting held on April 23, 2013, the board authorized Mr. Davies to have further discussions with the other financial institution to ascertain the potential terms of their interest in Riverside.

At the request of the other financial institution, Mr. Davies in late April and early May of 2013 provided the other financial institution with publicly available financial information regarding Riverside.

On May 24, 2013, the other financial institution presented an indication of interest valuing Riverside at \$35.00 per share in a proposed all cash purchase. At a meeting on May 28, 2013, the board discussed the indication of interest

and determined that the indication inadequately valued Riverside and that the bank should continue with its efforts to negotiate a merger with SAL. Riverside management communicated the board's decision to the other financial institution.

Riverside management and KBW continued to discuss the terms of the proposed transaction with SAL management and Sterne Agee. During these discussions, SAL proposed an exchange ratio of 1.245 SAL shares for each Riverside share. In addition, the other financial institution continued discussions with Riverside management and KBW, and continued to express interest in acquiring Riverside in an all cash transaction.

On June 25, 2013, the Riverside board held a meeting at which representatives of KBW were present to review the current terms of the proposed transaction with SAL and the continued interest of the other financial institution. The board concluded that KBW should reach out to each of SAL and the other institution and direct them to present their best and final indication of interest for a proposed transaction with Riverside.

Both SAL and the other institution presented indications of interest. SAL proposed a stock for stock exchange with an exchange ratio of 1.25 SAL shares for each Riverside share. The other financial institution proposed an all cash transaction valuing Riverside at \$43.00 per share.

On July 12, 2013, the board of Riverside held a meeting, which representatives of KBW attended, and which Windels Marx Lane & Mittendorf, Riverside's counsel, also attended, to review the indications. Counsel reviewed with the board its fiduciary duties and the obligations it owed to Riverside's shareholders. The representatives of KBW discussed with the board the financial terms and financial aspects of each indication. After further discussions, the board elected to proceed with the proposed transaction with SAL, and authorized and directed management, working with counsel and KBW, to negotiate a definitive agreement with SAL.

Over the next few days, certain shareholders with knowledge of the two proposed transactions, including emeritus members of the board, expressed reservations about turning down the all-cash deal, based in part on the liquidity it offered. The Riverside board became concerned about Riverside's ability to obtain a two-thirds vote in favor of the SAL transaction in light of the concerns expressed by these shareholders.

On July 19, 2013, the Riverside board met with counsel to again review the two indications of interest and the concerns expressed by the emeritus members of the board. After further discussion, the Riverside board authorized and directed management, working with counsel and KBW, to negotiate a definitive merger agreement providing for an all cash transaction at \$43.00 per share with the other financial institution.

During August and September of 2013, the other financial institution undertook a detailed diligence review of Riverside, and during September of 2013, counsel for the other financial institution began to negotiate the definitive agreements with counsel for Riverside. By late September and early October of 2013, several issues had arisen in the negotiations which were proving difficult to resolve. The purchasing financial institution had imposed a condition to the transaction that certain shareholders who were not members of the Riverside board of directors agree to vote in favor of the transaction. One or more of these shareholders were unwilling to so agree. In addition, the purchasing financial institution required senior management of Riverside to waive their current employment and/or change in control agreements and enter into new agreements with the acquirer. However, the parties were unable to come to agreement on the terms of the new agreements.

As a result of these issues, in early October 2013, the other financial institution notified Riverside that it was ending the negotiations to acquire Riverside, and that it would not move forward with the transaction.

The executive committee of the Riverside board then held a meeting also attended by KBW to discuss Riverside's alternatives, and elected to approach SAL to gauge its interest in a possible transaction with Riverside. On or about October 8, 2013, Mr. Davies called Mr. Cantele, who indicated that SAL remained interested in a potential transaction with Riverside. On October 22, 2013, Mr. Davies informed the Riverside board of SAL's continued interest and on October 25, 2013, Mr. Cantele informed the SAL board that discussions with Riverside have been revived.

SAL then provided an updated indication of interest on November 4, 2013. The indication provided for a stock for stock exchange in a merger with an exchange ratio of 1.35 SAL shares for each Riverside share. Mr. Davies presented the new SAL indication of interest to the Riverside board, which concluded that it represented the basis on which the board was willing to negotiate a definitive agreement with SAL.

SAL engaged an independent consultant to assist with due diligence and during December of 2013 and January of 2014, SAL undertook a detailed diligence review of Riverside, and counsel for SAL began to prepare drafts of the definitive transaction documents.



During February and March of 2014, counsel for SAL and counsel for Riverside negotiated the definitive transaction documents, including the merger agreement and employment related agreements for Riverside management. In addition, Riverside undertook a diligence review of SAL.

On March 18, 2014, the respective boards of Riverside and SAL met and approved the definitive merger agreement. At the Riverside board meeting, representatives of Windels Marx Lane & Mittendorf and KBW made presentations prior to the vote being taken by the Riverside board. The presentation by Windels, Marx, Lane & Mittendorf covered the terms of the merger agreement and the fiduciary duties of board members. At this meeting, KBW reviewed the financial aspects of the proposed transaction, and, at the request of the Riverside board of directors, rendered its opinion to the Riverside board of directors as to the fairness, from a financial point of view and as of the date of its opinion, to the holders of Riverside common stock of the exchange ratio in the proposed merger pursuant to the merger agreement. At the SAL meeting, representatives of Cranmore, FitzGerald & Meaney and Sterne Agee made presentations prior to the vote being taken by the SAL board. Sterne Agee reviewed and discussed its financial analyses of the merger and the merger consideration with the SAL board based on materials previously provided to the directors. Sterne Agee delivered its written opinion that, as of March 18, 2014, and subject to the limitations and qualifications set forth in the opinion, the proposed merger consideration was fair to SAL's shareholders, from a financial point of view.

After the respective meetings were concluded, the merger agreement and various ancillary documents were signed by the parties, after the close of the financial markets for the trading day. Prior to the opening of trading in the financial markets on March 19, a joint press release announcing the execution of the definitive merger agreement was disseminated by the parties.

#### Riverside's Reasons for the Merger

In the course of its deliberations on the proposed transaction with SAL, the Riverside board consulted with its legal counsel with respect to its legal duties and the terms of the merger agreement. The Riverside board consulted with Riverside's financial advisor with respect to the financial aspects of the transaction and with senior management regarding, among other things, operational and diligence matters.

The following discussion of the information and factors considered by the Riverside board is not intended to be exhaustive; it does, however, include all material factors considered by the board.

In reaching its decision to approve the merger agreement, the Riverside board considered the following:

- the ability to create a combined institution with over \$800 million in assets, a higher lending limit and the infrastructure for growth in small and middle-market lending;
- the fact that SAL's stock was traded on the NASDAQ Capital Market, providing liquidity to Riverside shareholders for the first time;
- the benefits of combining Riverside's focus on small business customers with SAL's full suite of consumer products;
- the terms of the merger agreement, including the exchange ratio and the fact that the Riverside shareholders would have substantial representation on the board of directors of the resulting entity;
  - the compatibility of the business cultures of the two organizations,
- the financial condition, results of operations and prospects of the two companies, as well as SAL's history of paying cash dividends; and
- the opinion dated March 18, 2014 of KBW provided to the Riverside board of directors as to the fairness, from a financial point of view and as of the date of such opinion, to the holders of Riverside common stock of the exchange ratio in the proposed merger pursuant to the merger agreement.

All business combinations, including the merger, also include certain risks and disadvantages. The material potential risks and disadvantages to Riverside's shareholders identified by Riverside's board and management include the following material matters, the order of which does not necessarily reflect their relative significance:

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there can be no assurance that the combined company will attain the type of revenue enhancements and cost savings necessary to cause the trading markets to consider the transaction a success, increasing the value of the combined company's stock received by the shareholders of Riverside;

since the exchange ratio is fixed, Riverside shareholders will receive less value if the SAL common stock price declines prior to the closing;

- although the SAL stock is traded on the NASDAQ Capital Market, it is not highly liquid, and Riverside shareholders looking to sell a large position could be required to sell over a prolonged time period, and the fact that the termination fee provided for in the merger agreement and certain other provisions of the merger agreement might discourage third parties from seeking to acquire Riverside, in light of the fact that SAL was unwilling to enter into the merger agreement absent such provisions.

In reaching the determination to approve the merger agreement and the related transactions, the Riverside board of directors did not quantify or otherwise attempt to assign any relative weight to the various factors it considered, and individual directors may have viewed certain factors more positively or negatively than others. In addition, as in any business combination, there can be no assurances that the benefits of the merger perceived by the Riverside board of directors and described above will be realized or will outweigh the risks and uncertainties.

## SAL's Reasons for the Merger

In reaching its decision to adopt the merger agreement and approve the merger and the other transactions contemplated by the merger agreement, and to recommend that its shareholders approve the merger agreement, the SAL board of directors consulted with SAL management, as well as its financial and legal advisors, and considered a number of factors.

The SAL board of directors considered its view that Riverside's business and operations complement those of SAL and that the branch networks are a natural extension of each company's stand-alone footprint. The SAL board considered that the merger would result in a premier community bank franchise in the combined institution's four counties of operation, which would rank #10 in deposit market share in such four counties. In addition, the SAL Board believes that the scale of the combined companies, which would result in over \$800 million in assets, would allow for greater size and product breadth to compete effectively. The SAL board also considered that the combined company would have the ability to deliver new and existing customers quality banking products and services and provide them with more locations to do their banking.

The board of directors further considered a number of strategic benefits, including the following:

- Each of SAL's and Riverside's business, operations, financial condition, asset quality, earnings and prospects. The significant cross-sale opportunities through SAL's established residential lending and wealth management platform and Riverside's higher commercial/commercial real estate concentration;
  - The increased market capitalization and liquidity;
- The complementary nature of the cultures and product mix of the two companies, including with respect to strategic focus, target markets, client service and strong community orientation, which management believes should facilitate integration and implementation of the transaction;
- The expanded possibilities, including organic growth and future acquisitions, that would be available to the combined company, given its larger size, asset base, capital and geographic footprint;
- Its understanding of the current and prospective environment in which SAL and Riverside operate, including national and local economic conditions, the competitive environment for financial institutions generally, and the likely effect of these factors on SAL both with and without the proposed transaction;
- That the transaction is financially compelling. The SAL board, in consultation with its financial advisors considered the following, in addition to other factors, as compelling reasons for the transaction:
  - The EPS accretion for both sets of shareholders;
  - The manageable tangible book value dilution to SAL;
  - The opportunity to improve operating efficiency and grow earnings by spreading costs over a larger asset base; and
  - The upside from revenue synergies identified through increased lending capacity and cross-sales;
  -

The continued participation of some of Riverside's board of directors and management in the combined company, which enhances the likelihood that the strategic benefits that SAL expects to achieve as a result of the merger will be realized and that the benefits and talents that Riverside brings to the combined institution will be appropriately valued and effectively utilized; in particular, SAL's board of directors considered the following:

o That John M. Davies, Riverside's current President and Chief Executive Officer, would serve as the President of the New York Region of SBT as the surviving bank;

o That Todd Rubino, Riverside's current Executive Vice President and Senior Lending Officer, would serve as Vice President, Senior Lender of the New York Region of SBT as the surviving bank;

- Its review and discussions with SAL's management concerning the extensive due diligence of Riverside; Management's expectation that the combined company will have a strong capital position upon completion of the transaction;

The opinion of Sterne Agee, dated March 18, 2014, to SAL's board of directors as to the fairness to SAL, from a financial point of view and as of the date of the opinion, of the merger consideration provided for in the merger, as more fully described below in the section entitled "Opinion of Sterne Agee";

- The financial and other terms of the merger agreement, including the fixed exchange ratio, expected tax treatment and deal protection and termination fee provisions, which it reviewed with its outside financial and legal advisors; and

- The expectation that all necessary regulatory approvals will be received in a timely manner and without the imposition of unacceptable conditions.

In addition to the foregoing benefits of the merger, the board of directors of SAL considered a number of risks associated with the merger, including:

- The potential risk of diverting management attention and resources from the operation of SAL's business and towards the completion of the merger; and
- The potential risks associated with achieving anticipated cost synergies and savings and successfully integrating Riverside's business, operations and workforce with those of SAL.

The foregoing discussion of the factors considered by the SAL board of directors is not intended to be exhaustive, but, rather, includes the material factors considered by the SAL board of directors. In reaching its decision to adopt the merger agreement and approve the merger and the other transactions contemplated by the merger agreement, the SAL board of directors did not quantify or assign any relative weights to the factors considered, and individual directors may have given different weights to different factors. The SAL board of directors considered all these factors as a whole, including discussions with, and questioning of, SAL's management and SAL's financial and legal advisors, and overall considered the factors to be favorable to, and to support, its determination. There can be no assurance that the potential synergies or opportunities considered by the SAL board will be achieved through completion of the merger. See the section of this document titled "Risk Factors—Risks Relating to the Merger" beginning on page 20.

#### Opinion of Keefe, Bruyette & Woods, Inc., Financial Advisor to Riverside

Riverside engaged KBW to render financial advisory and investment banking services to Riverside, including an opinion to the Riverside board of directors as to the fairness, from a financial point of view, to the holders of Riverside common stock, of the exchange ratio in the proposed merger. Riverside selected KBW because KBW is a nationally recognized investment banking firm with substantial experience in transactions similar to the merger. As part of its investment banking business, KBW is continually engaged in the valuation of financial services businesses and their securities in connection with mergers and acquisitions.

At the meeting held on March 18, 2014 at which the Riverside board evaluated the proposed merger, KBW reviewed the financial aspects of the proposed merger and rendered an opinion to the effect that, as of such date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW as set forth in such opinion, the exchange ratio in the proposed merger was fair, from a financial point of view, to the holders of Riverside common stock. The Riverside board approved the merger agreement at this meeting.

The description of the opinion set forth herein is qualified in its entirety by reference to the full text of the opinion, which is attached as Appendix C to this document and is incorporated herein by reference, and describes the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW in preparing the opinion.

**KBW's opinion speaks only as of the date of the opinion. The opinion was for the information of, and was directed to, the Riverside board (in its capacity as such) in connection with its consideration of the financial terms of the merger. The opinion addressed only the fairness, from a financial point of view, of the exchange ratio in the merger to the holders of Riverside common stock. It did not address the underlying business decision of Riverside to engage in the merger or enter into the merger agreement. KBW's opinion did not and does not constitute a recommendation to the Riverside board in connection with the merger, and it did not and does not constitute a recommendation to any Riverside shareholder or any shareholder of any other entity as to how to vote in connection with the merger or any other matter, nor does it constitute a recommendation on whether or not any such shareholder should enter into a voting, shareholders' or affiliates' agreement with respect to the merger or exercise any dissenters' or appraisal rights that may be available to such shareholder.**

KBW's opinion was reviewed and approved by KBW's Fairness Opinion Committee in conformity with its policies and procedures established under the requirements of Rule 5150 of the Financial Industry Regulatory Authority.

In connection with the opinion, KBW reviewed, analyzed and relied upon material bearing upon the financial and operating condition of Riverside and SAL and the merger, including, among other things:

- a draft, dated March 15, 2014, of the merger agreement (the most recent draft then made available to KBW);
- the audited financial statements and Annual Reports on Form 10-K for the three years ended December 31, 2012 of SAL;
- the audited financial statements and Annual Reports for the two years ended December 31, 2012 of Riverside;
- the draft financial statements and Annual Reports for the year ended December 31, 2013 for Riverside and SAL;
- the quarterly call reports for the three year period ended December 31, 2013 of Riverside, SAL and SBT;
- the Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013, June 30, 2013 and September 30, 2013 of SAL;
- certain other interim reports and other communications of Riverside and SAL to their respective shareholders; and
- other financial information concerning the businesses and operations of Riverside and SAL furnished to KBW by Riverside and SAL for purposes of KBW's analysis.

KBW's consideration of financial information and other factors that it deemed appropriate under the circumstances or relevant to its analyses included, among others, the following:

- the historical and current financial position and results of operations of Riverside and SAL;
- the assets and liabilities of Riverside and SAL;
- the nature and terms of certain other merger transactions and business combinations in the banking industry;
- a comparison of certain financial information of Riverside and certain financial and stock market information for SAL with similar information for certain other companies the securities of which are publicly traded;
- financial and operating forecasts and projections of Riverside that were prepared by, and provided to and discussed with KBW by, Riverside management and that were relied upon by KBW with the consent of the Riverside board;
- and
- financial and operating forecasts and projections of SAL and estimates regarding certain pro forma financial effects of the merger on SAL (including, without limitation, the cost savings, revenue enhancements and related expenses expected to result from the merger) that were prepared by, and provided to and discussed with KBW by SAL management and that were used and relied upon by KBW with the consent of the Riverside board.

KBW also performed such other studies and analyses as it considered appropriate and took into account its assessment of general economic, market and financial conditions and its experience in other transactions, as well as its experience in securities valuation and knowledge of the banking industry generally. KBW also held discussions with senior management of Riverside and SAL regarding the past and current business operations, regulatory relations, financial condition and future prospects of their respective companies and such other matters that KBW deemed relevant to its inquiry.

In conducting its review and arriving at its opinion, KBW relied upon and assumed the accuracy and completeness of all of the financial and other information provided to it or publicly available and did not independently verify the accuracy or completeness of any such information or assume any responsibility or liability for such verification, accuracy or completeness. KBW relied upon the respective management teams of Riverside and SAL as to the



reasonableness and achievability of the financial and operating forecasts and projections of Riverside and SAL (and the assumptions and bases therefor) that were prepared by such management teams and KBW assumed, at the direction of Riverside, that such forecasts and projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of such management teams and that such forecasts and projections would be realized in the amounts and time periods estimated by such management teams. KBW further relied upon SAL management as to the reasonableness and achievability of the estimates regarding certain pro forma financial effects of the merger on SAL that were prepared by and provided to KBW by such management, and that were discussed with KBW by such management (and the assumptions and bases therefor, including but not limited to the financial and operating projections of Riverside that were prepared by SAL in connection therewith and used by KBW at the direction of the Riverside board and any potential cost savings and operating synergies and other potential pro forma effects assumed or estimated by SAL with respect to the merger), and KBW assumed, with the consent of Riverside, that all such estimates were reasonably prepared on a basis reflecting the best available estimates and judgments of SAL management and that such estimates would be realized in the amounts and in the time periods estimated.

The forecasts, projections and estimates of Riverside and SAL that were provided to KBW were not prepared with the expectation of public disclosure. All such information was based on numerous variables and assumptions that are inherently uncertain, including, without limitation, factors related to general economic and competitive conditions and that, accordingly, actual results could vary significantly from those set forth in such forecasts, projections and estimates. KBW assumed, based on discussions with the respective management teams of Riverside and SAL, that such forecasts, projections and estimates referred to above, provided a reasonable basis upon which KBW could form its opinion and KBW expressed no view as to any such information or the assumptions or bases therefor. KBW relied on all such information without independent verification or analysis and did not in any respect assume any responsibility or liability for the accuracy or completeness thereof.

KBW assumed that there were no material changes in the assets, liabilities, financial condition, results of operations, business or prospects of either Riverside or SAL since the date of the last financial statements made available to KBW. KBW is not an expert in the independent verification of the adequacy of allowances for loan and lease losses and KBW assumed, without independent verification and with Riverside's consent, that the aggregate allowances for loan and lease losses for Riverside and SAL were adequate to cover such losses. In rendering its opinion, KBW did not make or obtain any evaluations or appraisals or physical inspection of the property, assets or liabilities (contingent or otherwise) of Riverside or SAL, the collateral securing any of such assets or liabilities, or the collectability of any such assets, nor did KBW examine any individual loan or credit files, nor did it evaluate the solvency, financial capability or fair value of Riverside or SAL under any state or federal laws, including those relating to bankruptcy, insolvency or other matters. Estimates of values of companies and assets do not purport to be appraisals or necessarily reflect the prices at which companies or assets may actually be sold. Because such estimates are inherently subject to uncertainty, KBW assumed no responsibility or liability for their accuracy.

KBW assumed that, in all respects material to its analyses:

the merger would be completed substantially in accordance with the terms set forth in the merger agreement (the final terms of which KBW assumed would not differ in any respect material to KBW's analyses from the latest draft of the merger agreement that had been reviewed by KBW) with no adjustments to the exchange ratio or additional forms of consideration;

the representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement are true and correct;

each party to the merger agreement and all related documents would perform all of the covenants and agreements required to be performed by such party under such documents;

there are no factors that would delay or subject to any adverse conditions, any necessary regulatory or governmental approval for the merger and that all conditions to the completion of the merger would be satisfied without any waivers or modifications to the merger agreement; and

in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the merger, no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, would be imposed that would have a material adverse effect on the future results of operations or financial condition of Riverside, SAL, the combined entity or the contemplated benefits of the merger, including the cost savings, revenue enhancements, and related expenses expected to result from the merger.

KBW assumed that the merger would be consummated in a manner that complied with the applicable provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and all other applicable federal and state statutes, rules and regulations. KBW further assumed that Riverside relied upon the advice of its counsel, independent accountants and other advisors (other than KBW) as to all legal, financial reporting, tax, accounting and regulatory matters with respect to Riverside, SAL, SBT, the merger and any related transaction, and the merger agreement. KBW did not provide and is not providing advice with respect to any such matters.

KBW's opinion addressed only the fairness, from a financial point of view, as of the date of such opinion, of the exchange ratio in the merger to the holders of Riverside common stock. KBW expressed no view or opinion as to any terms or other aspects of the merger or any related transaction, including without limitation, the form or structure of the merger or any related transaction, any consequences of the merger to Riverside, its shareholders, creditors or otherwise, or any terms, aspects or implications of any voting, support, shareholder or other agreements, arrangements or understandings contemplated or entered into in connection with the merger or otherwise. KBW's opinion was necessarily based upon conditions as they existed and could be evaluated on the date of such opinion and the information made available to KBW through such date. Developments subsequent to the date of KBW's opinion may have affected, and may affect, the conclusion reached in KBW's opinion and KBW did not and does not have an obligation to update, revise or reaffirm its opinion. KBW's opinion did not address, and KBW expressed no view or opinion with respect to:

- the underlying business decision of Riverside to engage in the merger or enter into the merger agreement;
- the relative merits of the merger as compared to any strategic alternatives that are, have been or may be available to or contemplated by Riverside or the Riverside board;
- the fairness of the amount or nature of any compensation to any of Riverside's officers, directors or employees, or any class of such persons, relative to any compensation to the holders of Riverside common stock;
- the effect of the merger or any related transaction on, or the fairness of the consideration to be received by, holders of any class of securities of Riverside other than Riverside common stock (solely with respect to the exchange ratio), or of any class of securities of SAL, SBT or any other party to any transaction contemplated by the merger agreement;
- the actual value of the SAL common stock to be issued in the merger;
- the prices, trading range or volume at which the common stock of Riverside or SAL would trade following the public announcement of the merger or the consummation of the merger;
- any advice or opinions provided by any other advisor to any of the parties to the merger or any other transaction contemplated by the merger agreement; or
- any legal, regulatory, accounting, tax or similar matters relating to Riverside, SAL, SBT, their respective shareholders, or relating to or arising out of or as a consequence of the merger or any related transaction, including whether or not the merger would qualify as a tax-free reorganization for United States federal income tax purposes.

In performing its analyses, KBW made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of KBW, Riverside and SAL. Any estimates contained in the analyses performed by KBW are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the KBW opinion was among several factors taken into consideration by the Riverside board in making its determination to approve the merger agreement and the merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the Riverside board with respect to the fairness of the exchange ratio. The type and amount of consideration payable in the merger were determined through negotiation between Riverside and SAL and the decision to enter into the merger agreement was solely that of the Riverside board.

The following is a summary of the material financial analyses performed by KBW in connection with its opinion. The summary is not a complete description of the financial analyses underlying the opinion, but summarizes the material analyses performed in connection with such opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, KBW did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. Accordingly, KBW believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion. The tables alone do not constitute a complete description of the financial analyses.

*Selected Companies Analyses.* Using publicly available information, KBW compared the financial performance and, financial condition of Riverside to 20 selected publicly traded banks and thrifts headquartered in the New England region (defined as Connecticut Massachusetts, New Hampshire, Rhode Island and Vermont) or the Mid-Atlantic region (defined as Delaware, Maryland, New Jersey, New York and Pennsylvania) of the United States with total assets between \$150 million and \$300 million, loans / deposits ratios greater than 50% and nonperforming assets / (loans + OREO) ratios less than 4.0%. KBW also reviewed the market performance of the selected companies.

The selected companies included in Riverside's "peer" group were:

Farmers and Merchants Bank	First Suffield Financial, Inc.
PSB Holding Corporation	Fleetwood Bank Corporation
Grand Bank Corporation	Highlands Bancorp, Inc.
Community Bankers' Corporation	Elmer Bancorp, Inc.
Peoples Limited	Rockport National Bancorp, Inc.
Damascus Community Bank	Harmony Bank
First Colebrook Bancorp, Inc.	GNB Financial Services, Inc.
Landmark Bancorp, Inc.	JTNB Bancorp, Inc.
National Bank of Coxsackie	First Resource Bank
Bank of Akron	ES Bancshares, Inc.

To perform this analysis, KBW used last-twelve-months ("LTM") and other financial information as of or for the most recent completed quarter available and market price information as of March 17, 2014. Certain financial data prepared by KBW, as referenced in the tables presented below, may not correspond to the data presented in Riverside's historical financial statements, or the data prepared by Sterne Agee presented under the section "Opinion of SAL's Financial Advisor," as a result of the different periods, assumptions and methods used by KBW to compute the financial data presented.

KBW's analysis showed the following concerning the financial performance of Riverside and the selected companies in its "peer" group:

	Peer Group									
	Riverside	25th Percentile	Average	Median	75th Percentile					
LTM Core Return on Average Assets <sup>(1)</sup>	0.83	%	0.48	%	0.65	%	0.61	%	0.84	%
LTM Core Return on Average Equity <sup>(1)</sup>	7.49	%	6.11	%	6.76	%	6.73	%	8.41	%
LTM Net Interest Margin	4.13	%	3.33	%	3.67	%	3.73	%	3.96	%
LTM Fee Income / Revenue Ratio <sup>(2)</sup>	8.2	%	10.9	%	13.4	%	12.7	%	16.5	%
LTM Efficiency Ratio	60.6	%	79.1	%	73.9	%	75.8	%	67.9	%

(1) Core income excludes extraordinary items, gain/loss on sale of securities and nonrecurring revenues/expenses.

(2) Excludes gain/loss on sale of securities.

KBW's analysis also showed the following concerning the financial condition of Riverside and the selected companies in its "peer" group:

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	Riverside	%	Peer Group				75th			
			25th	Average	Median	Percentile				
Tangible Common Equity / Tangible Assets	11.34	%	6.86	%	8.36	%	8.14	%	9.79	%
Total Risk-Based Capital / Risk-Weighted Assets	14.08	%	13.03	%	15.18	%	14.00	%	17.04	%
Loans / Deposits	95.6	%	74.2	%	78.7	%	79.1	%	85.0	%
Loan Loss Reserve / Gross Loans	1.40	%	0.97	%	1.23	%	1.18	%	1.34	%
Nonperforming Assets / Loans + OREO	1.26	%	2.84	%	1.92	%	1.83	%	0.98	%
LTM Net Charge-Offs / Average Loans	0.34	%	0.36	%	0.18	%	0.13	%	0.04	%

In addition, KBW's analysis showed the following concerning the market performance of the selected companies in Riverside's "peer" group (excluding the impact of certain selected company LTM earnings per share ("EPS") multiples considered to be not meaningful because they were negative or greater than 30.0x):

	Peer Group							
	25th Percentile		Average		Median		75th Percentile	
One - Year Stock Price Change	0.0	%	5.2	%	2.3	%	10.0	%
One - Year Total Return	1.0	%	7.3	%	5.3	%	11.0	%
YTD Stock Price Change	(1.4	%)	0.2	%	0.0	%	2.2	%
Stock Price / Book Value per Share	0.78	x	0.98	x	0.93	x	1.13	x
Stock Price / Tangible Book Value per Share	0.79	x	0.99	x	0.93	x	1.13	x
Stock Price / LTM EPS	9.3	x	12.3	x	11.9	x	13.0	x
Dividend Yield	0.9	%	2.1	%	2.2	%	3.2	%
LTM Dividend Payout	13.9	%	25.6	%	27.4	%	38.9	%

Using publicly available information, KBW compared the financial performance, financial condition and market performance of SAL to 21 selected banks and thrifts traded on NASDAQ or the New York Stock Exchange and headquartered in the New England region or the Mid-Atlantic region of the United States with total assets between \$400 million and \$750 million and nonperforming assets / loans + OREO ratios less than 4.0%.

The selected companies included in SAL's "peer" group were:

Oneida Financial Corp.	Union Bankshares, Inc.
1st Constitution Bancorp	Patriot National Bancorp, Inc.
Northeast Bancorp	Emclave Financial Corp.
Mid Penn Bancorp, Inc.	Prudential Bancorp, Inc.
Norwood Financial Corp.	Elmira Savings Bank
Hampden Bancorp, Inc.	Howard Bancorp, Inc.
DNB Financial Corporation	First Bank
Bancorp of New Jersey, Inc.	Wellesley Bancorp, Inc.
Malvern Bancorp, Inc.	Bay Bancorp, Inc.
Peoples Federal Bancshares, Inc.	Alliance Bancorp, Inc. of Pennsylvania
Chicopee Bancorp, Inc.	

To perform this analysis, KBW used LTM and other financial information as of or for the most recent completed quarter available and market price information as of March 17, 2014. Certain financial data prepared by KBW, as referenced in the tables presented below, may not correspond to the data presented in SAL's historical financial statements, or the data prepared by Sterne Agee presented under the section "Opinion of SAL's Financial Advisor," as a result of the different periods, assumptions and methods used by KBW to compute the financial data presented.

KBW's analysis showed the following concerning the financial performance of SAL and the selected companies in its "peer" group:



		Peer Group							
		25th		Average	Median	75th			
	SAL	Percentile				Percentile			
LTM Core Return on Average Assets <sup>(1)</sup>	0.69 %	0.43	%	0.40	%	0.54	%	0.72	%
LTM Core Return on Average Equity <sup>(1)</sup>	5.67 %	2.88	%	3.93	%	5.01	%	8.31	%
LTM Net Interest Margin	3.57 %	3.23	%	3.48	%	3.40	%	3.60	%
LTM Fee Income / Revenue Ratio <sup>(2)</sup>	25.2 %	8.2	%	16.5	%	14.7	%	18.1	%
LTM Efficiency Ratio	71.3 %	81.2	%	75.7	%	72.9	%	68.8	%

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(1) Core income excludes extraordinary items, gain/loss on sale of securities and nonrecurring revenues/expenses.

(2) Excludes gain/loss on sale of securities.

KBW's analysis also showed the following concerning the financial condition of SAL and the selected companies in its "peer" group:

	Peer Group									
	SAL		25th Percentile		Average		Median		75th Percentile	
Tangible Common Equity / Tangible Assets	8.04	%	7.45	%	11.20	%	10.20	%	12.56	%
Total Risk-Based Capital / Risk-Weighted Assets	16.46	%	13.88	%	18.50	%	15.97	%	19.43	%
Loans / Deposits	92.8	%	84.5	%	89.6	%	89.0	%	98.1	%
Loan Loss Reserve / Gross Loans	1.06	%	0.92	%	1.04	%	1.09	%	1.22	%
Nonperforming Assets / Loans + OREO	3.62	%	2.32	%	1.84	%	1.69	%	1.48	%
LTM Net Charge-Offs / Average Loans	0.18	%	0.32	%	0.36	%	0.17	%	0.05	%

In addition, KBW's analysis showed the following concerning the market performance of SAL and the selected companies in its peer group (excluding the impact of certain selected company LTM EPS multiples considered to be not meaningful because they were negative or greater than 30.0x):

	Peer Group									
	SAL		25th Percentile		Average		Median		75th Percentile	
One - Year Stock Price Change	7.9	%	0.5	%	9.7	%	7.3	%	20.4	%
One - Year Total Return	12.3	%	2.9	%	11.5	%	11.2	%	21.2	%
YTD Stock Price Change	1.1	%	(3.4	%)	1.1	%	(1.4	%)	1.6	%
Stock Price / Book Value per Share	0.82	x	0.96	x	1.12	x	1.04	x	1.21	x
Stock Price / Tangible Book Value per Share	1.00	x	0.98	x	1.19	x	1.05	x	1.27	x
Stock Price / LTM EPS	11.8	x	14.0	x	16.9	x	15.2	x	19.3	x
Dividend Yield	4.1	%	0.0	%	1.6	%	1.4	%	3.5	%
LTM Dividend Payout	48.7	%	0.0	%	30.6	%	27.6	%	52.6	%

Using publicly available information, KBW reviewed the financial performance, financial condition and market performance of 17 selected banks and thrifts traded on NASDAQ or the New York Stock Exchange and headquartered in the New England region or the Mid-Atlantic region of the United States with total assets between \$750 million and \$1.25 billion and nonperforming assets / loans + OREO ratios less than 4.0%.

The selected companies included in this third group were:

Citizens & Northern Corporation	ACNB Corporation
Penns Woods Bancorp, Inc.	Community Financial Corporation
Orrstown Financial Services, Inc.	Ocean Shore Holding Co.
Old Line Bancshares, Inc.	Republic First Bancorp, Inc.
Codorus Valley Bancorp, Inc.	Unity Bancorp, Inc.
Fox Chase Bancorp, Inc.	TF Financial Corporation
Cape Bancorp, Inc.	Evans Bancorp, Inc.
AmeriServ Financial, Inc.	Two River Bancorp
BSB Bancorp, Inc.	

To perform this analysis, KBW used LTM and other financial information of the selected companies as of or for the most recent completed quarter available and market price information of the selected companies as of March 17, 2014.

KBW's analysis showed the following concerning the financial performance of the selected companies in the third group and certain corresponding pro forma combined information of SAL and Riverside:

	Pro Forma SAL-Riverside	Peer Group			75th	
		25th Percentile	Average	Median	Percentile	
LTM Core Return on Average Assets <sup>(1)(2)</sup>	0.83	% 0.52	% 0.72	% 0.69	% 0.90	%
LTM Core Return on Average Equity <sup>(1)(2)</sup>	6.91	% 4.36	% 6.91	% 7.37	% 9.47	%
LTM Net Interest Margin	—	3.48	% 3.61	% 3.59	% 3.83	%
LTM Fee Income / Revenue Ratio <sup>(3)</sup>	—	12.4	% 19.1	% 17.0	% 25.8	%
LTM Efficiency Ratio	—	73.3	% 69.8	% 67.5	% 63.2	%

(1) Core income excludes extraordinary items, gain/loss on sale of securities and nonrecurring revenues/expenses.

(2) Pro forma SAL and Riverside ratios based on projected pro forma financial data for the 2015 fiscal year provided by SAL management and include impact of purchase accounting adjustments provided by SAL management.

(3) Excludes gain/loss on sale of securities.

KBW's analysis also showed the following concerning the financial condition of the selected companies in the third group and certain corresponding pro forma combined information of SAL and Riverside:

	Pro Forma SAL-Riverside	Peer Group			75th	
		25th Percentile	Average	Median	Percentile	
Tangible Common Equity / Tangible Assets <sup>(1)</sup>	8.57	% 7.71	% 9.63	% 9.13	% 10.71	%
Total Risk-Based Capital / Risk-Weighted Assets <sup>(1)</sup>	14.61	% 13.21	% 15.96	% 15.00	% 16.30	%
Loans / Deposits <sup>(1)</sup>	93.0	% 87.5	% 90.6	% 91.6	% 95.9	%
Loan Loss Reserve / Gross Loans	—	1.06	% 1.39	% 1.28	% 1.57	%
Nonperforming Assets / Loans + OREO	—	2.96	% 2.44	% 2.63	% 1.87	%
LTM Net Charge-Offs / Average Loans	—	0.21	% 0.15	% 0.10	% 0.04	%

(1) Pro forma SAL and Riverside ratios based on pro forma financials as of September 30, 2014 provided by SAL management and include impact of purchase accounting adjustments provided by SAL management.

In addition, KBW's analysis showed the following concerning the market performance of the selected companies in the third group (excluding the impact of certain selected company LTM EPS multiples considered to be not meaningful because they were negative or greater than 30.0x) and certain corresponding pro forma combined information of SAL and Riverside:

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	Pro Forma SAL-Riverside	Peer Group				75th Percentile
		25th Percentile	Average	Median		
One - Year Stock Price Change	—	13.5	% 21.9	% 23.6	% 28.8	%
One - Year Total Return	—	13.5	% 23.9	% 25.1	% 30.5	%
YTD Stock Price Change	—	(0.2	%) 9.8	% 8.4	% 12.2	%
Stock Price / Book Value per Share <sup>(1)</sup>	0.88	x 1.01	x 1.20	x 1.19	x 1.38	x
Stock Price / Tangible Book Value per Share <sup>(1)</sup>	1.05	x 1.09	x 1.29	x 1.19	x 1.41	x
Stock Price / LTM EPS <sup>(1)</sup>	11.6	x 12.8	x 14.8	x 13.5	x 15.5	x
Dividend Yield	4.1	% 1.0	% 1.9	% 1.7	% 2.4	%
LTM Dividend Payout	—	15.1	% 29.6	% 21.3	% 48.7	%

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Pro forma SAL and Riverside book value per share and tangible book value per share multiples based on the closing price of SAL common stock on March 17, 2014 and pro forma financials as of September 30, 2014 provided by (1)SAL management and include impact of purchase accounting adjustments provided by SAL management. Pro forma SAL and Riverside LTM EPS multiple based on 2013 reported earnings of Riverside and SAL and include impact of purchase accounting adjustments and other merger adjustments provided by SAL management.

No company used as a comparison in the above selected companies analyses is identical to Riverside or SAL. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

*Selected Transactions Analyses.* KBW reviewed publicly available information related to 15 selected bank and thrift transactions announced since June 30, 2012 with acquired companies in the New England region or the Mid-Atlantic region of the United States, transaction values of between \$10 million and \$50 million. Terminated transactions, mergers of equals and mutual-to-mutual transactions were excluded from the selected transactions. The selected transactions included in the group were:

<u>Acquiror:</u>	<u>Acquired Company:</u>
Southern National Bancorp of Virginia, Inc.	Prince George's Federal Savings Bank
Mascoma Mutual Financial Services Corporation	Connecticut River Bancorp, Inc.
ESSA Bancorp, Inc.	Franklin Security Bancorp, Inc.
1st Constitution Bancorp	Rumson-Fair Haven Bank & Trust Co.
Wilshire Bancorp, Inc.	BankAsiana
Haven Bancorp, MHC	Hilltop Community Bancorp, Inc.
Independent Bank Corp.	Mayflower Bancorp, Inc.
New Hampshire Thrift Bancshares, Inc.	Central Financial Corporation
Riverview Financial Corporation	Union Bancorp, Inc.
Liberty Bank	Southern Connecticut Bancorp, Inc.
TF Financial Corporation	Roebling Financial Corp, Inc.
Penns Woods Bancorp, Inc.	Luzerne National Bank Corporation
Old Line Bancshares, Inc.	WSB Holdings, Inc.
New Hampshire Thrift Bancshares, Inc.	Nashua Bank
Hana Financial Group Inc.	BNB Financial Services Corporation

For each selected transaction, KBW derived the ratio of the transaction consideration value per common share paid for the acquired company to the following, in each case based on the acquired company's then latest publicly available financial statements of the acquired company available prior to the announcement of the acquisition:

- tangible book value per share of the acquired company;
- tangible equity premium to core deposits (total deposits less time deposits greater than \$100,000); and
- LTM EPS for the acquired company.

The above transaction multiples and premium for the selected transactions were compared with the corresponding transaction multiples and premium for the proposed merger based on the implied value of the merger consideration of \$36.71 per share of Riverside common stock (which implied value was based on the exchange ratio of 1.35 shares of SAL common stock to be exchanged in the merger for each share of Riverside common stock and the closing price of SAL common stock on March 17, 2014) and using historical financial information for Riverside as of December 31, 2013. KBW also reviewed the price per common share paid for the acquired company for each selected transaction involving a publicly traded acquired company as a premium to the closing price of the acquired company one day

prior to the announcement of the acquisition (expressed as a percentage and referred to as the one-day market premium).

The results of the analysis (excluding the impact of certain selected transaction LTM EPS multiples and the one-day premium for one of the selected transactions, which LTM EPS multiples and one-day premium were considered to be not meaningful) are set forth in the following table:

Transaction Price to:	SAL /		Selected Transactions							
	Riverside		25th		Average		Median		75th	
	Merger		Percentile		Percentile		Percentile		Percentile	
Tangible Book Value per Share	1.08	x	0.89	x	1.13	x	1.07	x	1.33	x
Core Deposit Premium	1.6	%	(1.9	%)	0.9	%	0.7	%	5.1	%
LTM EPS	15.1	x	24.0	x	30.2	x	30.5	x	32.6	x
One-Day Market Premium	NA		50.3	%	54.1	%	56.5	%	67.8	%

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Additionally, KBW reviewed publicly available information related to 14 selected nationwide bank and thrift transactions announced since January 1, 2011 with transaction values of between \$10 million and \$100 million, 100% stock consideration and acquired company total assets / acquiror total assets percentages greater than 30%. Terminated transactions, mergers of equals and mutual-to-mutual transactions were excluded from the selected transactions. The selected transactions included in the group were:

<u>Acquiror:</u>	<u>Acquired Company:</u>
New Century Bancorp, Inc.	Select Bancorp, Inc.
Riverview Financial Corporation	Union Bancorp, Inc.
Nicolet Bankshares, Inc.	Mid-Wisconsin Financial Services, Inc.
Coronado First Bank	San Diego Private Bank
Old Florida Bancshares, Inc.	New Traditions National Bank
Crescent Financial Bancshares, Inc.	ECB Bancorp, Inc.
HaleCo Bancshares, Incorporated	LubCo Bancshares, Inc.
Equity Bancshares, Inc.	First Community Bancshares, Inc.
United Financial Bancorp, Inc.	New England Bancshares, Inc.
First Priority Financial Corp.	Affinity Bancorp, Inc.
Tompkins Financial Corporation	VIST Financial Corp.
California United Bank	Premier Commercial Bancorp
AltaPacific Bancorp	Stellar Business Bank
FNB United Corp.	Bank of Granite Corporation

For each selected transaction, KBW derived the ratio of the transaction consideration value per common share paid for the acquired company to the following, in each case based on the acquired company's then latest publicly available financial statements of the acquired company available prior to the announcement of the acquisition:

- tangible book value per share of the acquired company;
- tangible equity premium to core deposits; and
- LTM EPS for the acquired company.

The above transaction multiples and premium for the selected transactions were compared with the corresponding transaction multiples and premium for the proposed merger based on the implied value of the merger consideration of \$36.71 per share of Riverside common stock and using historical financial information for Riverside as of December 31, 2013. KBW also reviewed the one-day market premium for each selected transaction.

The results of the analysis, excluding the impact of certain selected transaction LTM EPS multiples considered to be not meaningful, are set forth in the following table:



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Transaction Price to:	SAL /		Selected Transactions							
	Riverside		25th		Average		Median		75th	
	Merger		Percentile						Percentile	
Tangible Book Value per Share	1.08	x	0.95	x	1.04	x	1.00	x	1.13	x
Core Deposit Premium	1.6	%	(0.8	%)	0.1	%	(0.1	%)	1.1	%
LTM EPS	15.1	x	12.9	x	18.9	x	14.4	x	23.9	x
One-Day Market Premium	NA		49.6	%	55.1	%	55.0	%	62.8	%

No company or transaction used as a comparison in the above selected transaction analyses is identical to Riverside or the proposed merger. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

*Relative Contribution Analysis.* KBW analyzed the relative stand-alone contribution of SAL and Riverside to various pro forma balance sheet and income statement items to derive implied exchange ratios of shares of SAL common stock for each share of Riverside common stock. This analysis did not include purchase accounting adjustments. To perform this analysis, KBW used (i) reported balance sheet data for SAL and Riverside as of December 31, 2013 and 2013 reported net income for SAL and Riverside, and (ii) 2014 and 2015 net income estimates for SAL and Riverside per SAL's and Riverside's respective managements. Implied exchange ratios were derived by dividing the implied share price for Riverside common stock based on the Riverside contribution to the applicable pro forma item, taking into account the dilutive impact of Riverside stock options, by the closing share price of SAL common stock on March 17, 2014. The results of KBW's analysis are set forth in the following table, which also compares the results of KBW's analysis with the implied pro forma ownership percentages of SAL and Riverside shareholders in the combined company based on the 1.35 exchange ratio in the proposed merger:

	SAL as a % of Total	Riverside as a % of Total	Implied Exchange Ratio <sup>(1)</sup>	
Balance Sheet				
Assets	73 %	27 %	0.868	x
Gross Loans Held for Investment	70 %	30 %	0.968	x
Deposits	71 %	29 %	0.940	x
Tangible Common Equity	65 %	35 %	1.233	x
Net Income to Common				
2013 GAAP Net Income	68 %	32 %	1.055	x
2014 Estimated GAAP Net Income	64 %	36 %	1.286	x
2015 Estimated GAAP Net Income	64 %	36 %	1.286	x
<b>Pro Forma Ownership at 1.350x Exchange Ratio</b>	<b>63 %</b>	<b>37 %</b>	<b>1.350</b>	<b>x</b>

<sup>(1)</sup> Implied exchange ratio calculates the implied price per Riverside share based on Riverside contribution to the total company (including dilutive impact of Riverside options) divided by SAL's closing price of \$27.19 as of 3/17/2014.

*Discounted Cash Flow Analyses.* KBW performed a discounted cash flow analysis to estimate a range for the implied equity value of Riverside. In this analysis, KBW used financial forecasts and projections relating to the earnings and assets of Riverside prepared, and provided to KBW, by Riverside management and assumed discount rates ranging from 13.0% to 17.0%. The ranges of values were derived by adding (i) the present value of the estimated free cash flows that SAL could generate over the period from September 30, 2014 to December 31, 2018 as a stand-alone company, and (ii) the present value of Riverside's implied terminal value at the end of such period. KBW assumed that Riverside would maintain a tangible common equity ratio of 8.00% and would retain sufficient earnings to maintain that level based on these assumptions. Any free cash flows in excess of what would need to be retained represented dividendable cash flows for Riverside. KBW derived implied terminal multiples using two methodologies, one based on 2019 earnings multiples and the other based on 2018 tangible book value multiples. Using implied terminal values for Riverside calculated by applying a range of 10.0x and 14.0x estimated 2019 earnings, KBW derived a range of implied values per share of Riverside common stock of approximately \$34.34 to \$46.41. Using implied terminal

values for Riverside calculated by applying a range of 0.80x to 1.10x estimated 2018 tangible book value, KBW derived a range of implied values per share of Riverside common stock of approximately \$28.58 to \$36.67.

KBW also performed a discounted cash flow analysis to estimate a range for the implied equity value of SAL. In this analysis, KBW used financial forecasts and projections relating to the earnings and assets of SAL prepared, and provided to KBW, by SAL management and assumed discount rates ranging from 13.0% to 17.0%. The ranges of values were derived by adding (i) the present value of the estimated free cash flows that SAL could generate over the period from September 30, 2014 to December 31, 2018 as a stand-alone company, and (ii) the present value of SAL's implied terminal value at the end of such period. KBW assumed that SAL would maintain a tangible common equity ratio of 8.00% and would retain sufficient earnings to maintain that level based on these assumptions. Any free cash flows in excess of what would need to be retained represented dividendable cash flows for SAL. KBW derived implied terminal multiples using two methodologies, one based on 2019 earnings multiples and the other based on 2018 tangible book value multiples. Using implied terminal values for SAL calculated by applying a range of 13.0x and 17.0x estimated 2019 earnings, KBW derived a range of implied values per share of SAL common stock of approximately \$23.24 to \$33.60 and a range of implied values for 1.35 shares of SAL common stock of approximately \$31.38 to \$45.36. Using implied terminal values for SAL calculated by applying a range of 0.95x and 1.25x estimated 2018 tangible book value, KBW derived a range of implied values per share of SAL common stock of approximately \$19.91 to \$28.69 and a range of implied values for 1.35 shares of SAL common stock of approximately \$26.88 to \$38.74.

Additionally KBW performed a discounted cash flow analysis to estimate a range for the implied equity value of the pro forma combined company. In this analysis, KBW used financial forecasts and projections relating to the earnings and assets of Riverside and SAL prepared, and provided to KBW, by the respective managements of Riverside and SAL and pro forma assumptions (including purchase accounting assumptions, cost savings and related expenses) provided by SAL management and assumed discount rates ranging from 13.0% to 17.0%. The ranges of values were derived by adding (i) the present value of the estimated free cash flows that the pro forma combined company could generate over the period from September 30, 2014 to December 31, 2018, and (ii) the present value of the pro forma combined company's implied terminal value at the end of such period. KBW assumed that the pro forma combined company would maintain a tangible common equity ratio of 8.00% and would retain sufficient earnings to maintain that level based on these assumptions. Any free cash flows in excess of what would need to be retained represented dividendable cash flows for the pro forma combined company. KBW derived implied terminal multiples using two methodologies, one based on 2019 earnings multiples and the other based on 2018 tangible book value multiples. Using implied terminal values for the pro forma combined company calculated by applying a range of 13.0x and 17.0x estimated 2019 earnings, KBW derived a range of implied values for 1.35 shares of SAL common stock of approximately \$37.50 to \$52.87. Using implied terminal values for the pro forma combined company calculated by applying a range of 1.10x and 1.40x estimated 2018 tangible book value, KBW derived a range of implied values for 1.35 shares of SAL common stock of approximately \$31.19 to \$42.40.

The discounted cash flow analysis is a widely used valuation methodology, but the results of such methodology are highly dependent on the assumptions that must be made, including asset and earnings growth rates, terminal values, dividend payout rates, and discount rates. The analysis did not purport to be indicative of the actual values or expected values of Riverside, SAL or the pro forma combined company.

*Pro Forma Financial Impact Analysis.* KBW performed a pro forma financial impact analysis that combined projected income statement and balance sheet information of SAL and Riverside. Using closing balance sheet estimates as of September 30, 2014 for SAL and Riverside based on long-term balance sheet growth rate assumptions provided by the respective managements of SAL and Riverside, financial forecasts and projections for SAL and Riverside provided by the respective managements of SAL and Riverside and pro forma assumptions (including purchase accounting assumptions, cost savings and related expenses) provided by SAL management, KBW analyzed the potential financial impact of the merger on certain projected financial results of SAL. This analysis indicated the merger could be accretive to SAL's 2015 estimated EPS and dilutive to SAL's estimated tangible book value per share as of September 30, 2014. Furthermore, the analysis indicated that, pro forma for the proposed merger, SAL's tangible common equity to tangible assets ratio as of September 30, 2014 could be higher and that SAL's leverage ratio, Tier 1 Risk Based Capital Ratio and Total Risk Based Capital Ratio as of September 30, 2014 could be lower. For all of the above, the actual results achieved by SAL following the merger may vary from the projected results, and the variations may be material.

*Miscellaneous.* KBW acted as financial advisor to Riverside in connection with the proposed merger and did not act as an advisor to or agent of any other person. As part of its investment banking business, KBW is continually engaged in the valuation of bank and bank holding company securities in connection with acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for various other purposes. As specialists in the securities of banking companies, KBW has experience in, and knowledge of, the valuation of

banking enterprises. Further to ongoing sales and trading relationships between KBW and each of Riverside and SAL, from time to time KBW has, in the ordinary course of its business as a broker-dealer, purchased securities from, or sold securities to, Riverside and SAL. As a market maker in securities, KBW may from time to time have a long or short position in, and buy or sell, debt or equity securities of Riverside and SAL for its own account and for the accounts of its customers. To the extent KBW held any such positions as of the date of its opinion, it was disclosed to the Riverside board.

Pursuant to the KBW engagement agreement, Riverside agreed to pay KBW a cash fee equal to 1.50% of the aggregate merger consideration, of which \$50,000 and \$100,000 became payable upon the entry into the engagement agreement and the rendering of KBW's opinion, respectively, and the balance of which is contingent upon the consummation of the merger. Riverside also agreed to reimburse KBW for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify KBW against certain liabilities relating to or arising out of KBW's engagement or KBW's role in connection therewith. Other than in connection with this present engagement, during the two years preceding the date of its opinion, KBW has not provided investment banking and financial advisory services to Riverside. In the past two years, KBW has not provided investment banking and financial advisory services to SAL. KBW may in the future provide investment banking and financial advisory services to Riverside or SAL and receive compensation for such services.

Opinion of Sterne, Agee & Leach, Financial Advisor to SAL

SAL retained Sterne Agee to act as its financial advisor in connection with its proposed merger with Riverside. Sterne Agee agreed to assist SAL in analyzing, structuring, and negotiating the merger and was also engaged to render a written opinion to SAL's board of directors as to whether the merger consideration pursuant to the merger agreement was fair, from a financial point of view, to SAL. Sterne Agee is a nationally recognized investment banking firm with substantial experience in transactions similar to the merger and is familiar with SAL and its business. As part of its investment banking business, Sterne Agee is continually engaged in the valuation of financial services companies and their securities in connection with mergers and acquisitions.

As part of its engagement, representatives of Sterne Agee attended the meeting of the SAL board of directors, held on March 18, 2014, at which the SAL board of directors evaluated the proposed merger with Riverside. At this meeting, Sterne Agee reviewed the financial aspects of the proposed merger and rendered an opinion that, as of such date and based upon and subject to the various factors, assumptions and limitations set forth in its opinion, the merger consideration pursuant to the merger agreement was fair, from a financial point of view, to SAL. Following extensive review and discussion, the SAL board of directors approved the merger agreement at this meeting.

The full text of Sterne Agee's written opinion is attached as Appendix D to this document and is incorporated herein by reference. SAL shareholders are urged to read the opinion in its entirety for a description of the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by Sterne Agee. The description of the opinion set forth herein is qualified in its entirety by reference to the full text of such opinion. Sterne Agee has consented to the inclusion of its opinion and a summary thereof in this joint proxy statement/prospectus and in the registration statement on Form S-4, which includes this joint proxy statement/prospectus. The issuance of Sterne Agee's opinion was approved by a fairness opinion committee of Sterne Agee. Sterne Agee provided its opinion to the SAL board of directors in connection with and for the purposes of its evaluation of the merger.

**Sterne Agee's opinion speaks only as of the date of the opinion. The opinion is directed to the SAL board of directors and addresses only the fairness, from a financial point of view, of the merger consideration to be paid by SAL in the merger. It does not address the underlying business decision to proceed with the merger and does not constitute a recommendation to any SAL shareholder as to how the shareholder should vote at the SAL special meeting on the merger or any related matter.**

In rendering its opinion, Sterne Agee reviewed, among other things:

- certain publicly-available financial and business information of SAL, Riverside and their affiliates which it deemed to be relevant;

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certain information, including financial forecasts, relating to the business, earnings, cash flow, assets, liabilities, liquidity and prospects of SAL and Riverside;

certain information detailing the merger prepared by SAL, Riverside and their affiliates and by their legal and accounting advisors including the estimated amount and timing of the cost savings and related expenses and synergies expected to result from the merger (the “Synergies”);

a comparison of certain financial metrics of SAL and Riverside to other selected banks and thrifts that it deemed to be relevant;

the terms of the merger relative to selected prior mergers and acquisitions involving a depository institution as the selling entity;

the projected pro forma impact of the merger on the projected balance sheet, capital ratios, tangible book value per share and estimated earnings per share of SAL;

the recent price performance of the common stock of SAL and compared it to other selected banks and thrifts that it deemed relevant;

- the overall environment for depository institutions in the United States;
- the merger agreement dated March 18, 2014; and

such other financial studies, analyses and investigations and took into account such other matters as it deemed appropriate for purposes of its opinion, including its assessment of general economic, market and monetary conditions and its experience in other transactions, as well as its experience in securities valuation and knowledge of the banking industry generally.

Sterne Agee also held several discussions with members of senior management and representatives of both SAL and Riverside with respect to certain aspects of the merger, as well as their respective businesses and prospects before and after giving effect to the merger and certain other matters Sterne Agee believed necessary or appropriate to its inquiry.

Sterne Agee, in conducting its review and arriving at its opinion, relied upon, without independent verification, the accuracy and completeness of the information provided to it by SAL, Riverside and their affiliates. In addition, where appropriate, Sterne Agee relied upon publicly available information, without independent verification, that Sterne Agee believes to be reliable, accurate and complete; however, Sterne Agee cannot guarantee the reliability, accuracy, or completeness of any such publicly available information. Sterne Agee was not engaged to express, and is not expressing, any opinion with respect to any other transaction, including any alternative transaction between SAL and Riverside. Sterne Agee prepared its opinion using internal projections for SAL and Riverside provided by and discussed with senior management of SAL and Riverside. With respect to the financial forecasts, including the synergies and restructuring charges, supplied to Sterne Agee, Sterne Agee assumed, with SAL's consent, that they were reasonably prepared and reflected, as of the date of Sterne Agee's opinion, the best currently available estimates and judgments of SAL and Riverside as to the future operating and financial performance of SAL, Riverside and the combined company.

Sterne Agee did not make an independent evaluation or appraisal or physical inspection of the assets or liabilities (contingent or otherwise) of SAL, Riverside or their affiliates, including, but not limited to, any derivative or off-balance sheet assets or liabilities nor did Sterne Agee conduct any review of individual credit files of SAL or Riverside, evaluate the adequacy of the loan or lease loss reserves of SAL or Riverside or evaluate the solvency of SAL or Riverside under any state or federal laws relating to bankruptcy, insolvency or similar matters. Sterne Agee rendered no opinion or evaluation on the collectability of any asset or the future performance of any loan of SAL or Riverside. Sterne Agee was not retained to evaluate loan or lease portfolios for the purpose of assessing the adequacy of the allowances for losses with respect thereto and, accordingly, Sterne Agee did not make an independent evaluation of the adequacy of the allowance for loan and lease losses of SAL or Riverside or on the credit mark assumed taken in the merger, and Sterne Agee has assumed, with SAL's consent, that the respective allowances for loan and lease losses for both SAL and Riverside, respectively, as well as the credit mark are adequate to cover such losses and will be adequate on a pro forma basis for the combined company. Sterne Agee has relied upon and assumed, without assuming any responsibility for independent verification, the accuracy and completeness of all of the financial, legal, regulatory, tax, accounting and other information provided to, discussed with or reviewed by Sterne Agee.

For purposes of rendering its opinion, Sterne Agee assumed that, in all respects material to its analyses:

- the merger will be completed substantially in accordance with the terms set forth in the merger agreement with no additional payments or adjustments to the merger consideration;
- the representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement are true and correct;
- each party to the merger agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents;
- all conditions to the completion of the merger will be satisfied without any waiver; and



in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the merger, no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, will be imposed that will have a material adverse effect on the future results of operations or financial condition of the combined entity or the contemplated benefits of the merger, including the synergies and restructuring charges expected to result from the merger.

Sterne Agee further assumed, without assuming any responsibility for independent verification, that the merger will be accounted for as a purchase transaction under GAAP, and that the merger will qualify as a tax-free reorganization for United States federal income tax purposes. Sterne Agee's opinion is not an expression of an opinion as to the actual value of the shares of common stock of the combined company when issued pursuant to the merger, or the price at which the shares of common stock of the combined company will trade following the completion of the merger.

The merger consideration was determined through negotiations between SAL and Riverside and was approved by SAL's board of directors. Sterne Agee provided advice to SAL during these negotiations; Sterne Agee did not recommend that any specific merger consideration constituted the only appropriate merger consideration for the merger.

### ***Summary of Analyses by Sterne Agee***

In accordance with customary investment banking practice, Sterne Agee employed generally accepted valuation methods in reaching its opinion. The following is a summary of the material financial analyses undertaken by Sterne Agee in connection with rendering its opinion to the SAL board of directors on March 18, 2014. The summary is not a complete description of the analyses underlying the Sterne Agee opinion or the presentation made by Sterne Agee to the SAL board of directors, but summarizes the material analyses performed and presented in connection with such opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. In arriving at its opinion, Sterne Agee did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. The tables alone do not constitute a complete description of the financial analyses. Accordingly, Sterne Agee believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion.

### ***Summary of Proposal***

Pursuant to the terms of the merger agreement, each outstanding share of Riverside common stock not owned by SAL or Riverside other than shares owned in a fiduciary or agency capacity or as a result of debts previously contracted, will be converted into the right to receive 1.350 shares of SAL common stock (the “merger consideration”). Based on SAL’s closing price on March 14, 2014, of \$26.90, the exchange ratio represented a price of \$36.32 per share to Riverside’s shareholders.

### ***Demographic and Branch Analysis***

Sterne Agee reviewed and compared selected demographic information on SAL’s and Riverside’s markets where they have one or more active branch offices and conduct business. On a weighted average basis, based on data provided by a nationally recognized consolidator of this information, SNL Financial, Riverside’s franchise was found to have a projected household income change from 2013 to 2018 of 17.4% and 2013 median household income of \$72,345. SAL’s franchise was found to have a projected household income change from 2013 to 2018 of 14.9% and 2013 median household income of \$67,823. Sterne Agee also prepared a pro forma map combining SAL branch offices with Riverside’s branch offices. The map revealed the complementary nature of each institution’s branch footprint, with a total of 25,386 businesses with less than 500 employees, based on the latest U.S. Census Bureau data, operating in the combined four counties of operation.

***Riverside Publicly Traded Companies Analysis***

Using publicly available information, Sterne Agee compared the financial performance and financial condition of Riverside to the following publicly traded banks and bank holding companies and thrifts and thrift holding companies headquartered in the state of either New York, Connecticut, Massachusetts, Maine, New Hampshire or Rhode Island, excluding mutual holding companies and pending merger targets, with assets between \$100 million and \$400 million and nonperforming assets to assets less than 4.0%. Companies in this group were:

- Greater Hudson Bank, National Association
- VSB Bancorp, Inc.
- Grand Bank Corporation
- Delhi Bank Corp.
- National Bank of Coxsackie
- First Colebrook Bancorp, Inc.
- Georgetown Bancorp, Inc.
- CMS Bancorp, Inc.
- Delaware Bancshares, Inc.
- Bank of Akron
- First Suffield Financial, Inc.
- Rockport National Bancorp, Inc.
- Damariscotta Bankshares, Inc.
- Island Bancorp, Inc.
- ES Bancshares, Inc.
- First National Bank of Groton
- Patriot Federal Bank

To perform this analysis, Sterne Agee used financial information for the three months ended December 31, 2013 (or as of the most recently available quarter) and market price information as of March 14, 2014. Certain financial data prepared by Sterne Agee, and as referenced in the tables presented below, may not correspond to the data presented in Riverside's historical financial statements, or to the data prepared by KBW, presented under the section "Opinion of Keefe, Bruyette & Woods, Inc., Financial Advisor to Riverside," as a result of the different periods, assumptions and methods used by Sterne Agee to compute the financial data presented. No company used as a comparison in the analysis below is identical to Riverside. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.

The following table summarizes the relevant data items for Riverside and the peer group:

	Riverside	Riverside Peer Group			
		Minimum	Median	Mean	Maximum
Balance Sheet (Most Recent Quarter)					
Total Assets (\$ millions)	\$221	\$107	\$262	\$231	\$336
Loan / Deposits	95.6 %	27.2 %	79.6 %	75.0 %	126.3 %
Securities / Assets	9.2 %	8.5 %	19.5 %	25.9 %	51.6 %
Tangible Common Equity / Tangible Assets	11.3 %	6.9 %	9.8 %	9.6 %	13.5 %
Tier 1 Capital Ratio	12.8 %	11.7 %	15.9 %	17.1 %	27.6 %
Total Risk Based Capital Ratio	14.1 %	12.8 %	17.1 %	18.3 %	28.9 %
Income Analysis (Most Recent Quarter)					
Return on Average Assets	1.03 %	0.16 %	0.45 %	0.51 %	1.33 %
Return on Average Equity	9.1 %	1.6 %	4.8 %	5.0 %	9.9 %
Return on Average Tangible Common Equity	9.1 %	1.6 %	5.2 %	5.3 %	9.9 %
Net Interest Margin	4.24 %	2.83 %	3.52 %	3.58 %	4.84 %
Efficiency Ratio	60.4 %	57.0 %	77.4 %	76.3 %	88.2 %
Fee Income / Operating Revenue	8.8 %	3.6 %	12.4 %	13.6 %	26.9 %
Asset Quality (Most Recent Quarter)					
Non-Performing Assets / Total Assets	1.06 %	0.15 %	1.10 %	1.09 %	2.65 %
Loan Loss Reserves / Total Loans	1.4 %	0.3 %	1.1 %	1.2 %	2.0 %
Net Charge-Offs / Total Loans	0.27 %	(0.71 %)	0.08 %	0.23 %	1.45 %
Trading Multiples & Market Statistics (1)(2)					
Stock Price / Tangible Book Value	NA	54.7 %	87.3 %	96.4 %	179.9 %
Stock Price / Last Quarter Annualized EPS	NA	8.1 x	12.4 x	13.3 x	18.8 x
Stock Price / Last Twelve Months EPS	NA	8.8 x	12.9 x	13.9 x	18.3 x
Stock Price / Core Deposit Premium (3)	NA	(6.4 %)	(2.0 %)	(0.7 %)	10.6 %
Current Dividend Yield	NA	0.0 %	2.0 %	2.0 %	5.7 %

(1) As of 3/14/2014

(2) Riverside is not a public company

(3) Core deposits defined as total deposits less time deposits over \$100,000. The core deposit premium is calculated by taking the market capitalization less tangible book value, divided by core deposits

*Riverside Comparable Transaction Analysis*

Sterne Agee reviewed publicly available information related to selected acquisitions of banks and bank holding companies as well as thrifts and thrift holding companies with headquarters in the state of either New York, Connecticut, Massachusetts, Maine, New Hampshire or Rhode Island announced after December 31, 2010, where deal value was available and the buyer was a bank or bank holding company or a thrift or thrift holding company, the seller had assets between \$100 million and \$500 million and nonperforming assets to assets less than 4.0%. The transactions included in the groups were:

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**Acquiror**

Mascoma Mutual Financial Services Corporation  
 Independent Bank Corp.  
 SI Financial Group, Inc.  
 New Hampshire Thrift Bancshares, Inc.  
 Commerce Bancshares Corp.  
 Provident New York Bancorp  
 NBT Bancorp Inc.  
 Berkshire Hills Bancorp, Inc.

**Acquiree**

Connecticut River Bancorp, Inc.  
 Mayflower Bancorp, Inc.  
 Newport Bancorp, Inc.  
 Nashua Bank  
 Mercantile Capital Corp  
 Gotham Bank of New York  
 Hampshire First Bank  
 Connecticut Bank and Trust Company

Transaction multiples for the merger were derived from an offer price of \$36.32 per share for Riverside, based on SAL's March 14, 2014 closing price of \$26.90. For each precedent transaction, Sterne Agee derived and compared, among other things, the implied ratio of price per common share paid for the acquired company to:

• tangible book value per share of the acquired company based on the latest public financial statements of the company available prior to the announcement of the acquisition;

• tangible equity premium to core deposits (core deposits defined as total deposits less time deposits over \$100,000) based on the financial statements of the company available prior to the announcement of the acquisition and;

• the last twelve months earnings per share based on the financial statements of the company available prior to the announcement of the acquisition

The results of the analysis are set forth in the following table:

	Salisbury / Riverside Merger		Comparable Transactions Minimum		Comparable Transactions Median		Comparable Transactions Mean		Comparable Transactions Maximum	
Transaction Price to:										
Tangible Book Value	107	%	116	%	142	%	144	%	194	%
Core Deposit Premium	1.2	%	2.0	%	5.7	%	5.9	%	10.8	%
LTM Earnings Per Share	14.9	x	16.3	x	29.1	x	31.9	x	51.2	x

***Riverside Dividend Discount Analysis with Synergies***

Sterne Agee performed an analysis that estimated the present value per share of Riverside common stock through December 31, 2019. Sterne Agee based the analysis on Riverside's projected earnings stream as derived from the internal financial projections provided by Riverside's management for full year 2014 and 2015 and a 6.0% growth rate thereafter provided by SAL's management as well as synergies and restructuring charges as projected by management of SAL and calculated the assumed potential after-tax distributions to common shareholders such that Riverside's tangible common equity ratio would remain 8.0% of tangible assets. To approximate the terminal value of Riverside's common stock at December 31, 2019, Sterne Agee applied price to forward earnings multiples of 12.0x to 14.0x of

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2019 forecasted earnings. The income streams and terminal values were then discounted to present values using different discount rates ranging from 12.0% to 14.0% (based on a capital asset pricing model, and certain stock market estimated return information as calculated by Ibbotson Associates, a financial research firm). This discounted dividend analysis resulted in a net present value per share range of \$51.81 to \$61.03 per share of Riverside common stock as illustrated below.

Discount Rate	Terminal Earnings Multiple		
	12.0x	13.0x	14.0x
12.0%	\$54.86	\$57.94	\$61.03
13.0%	\$53.30	\$56.27	\$59.24
14.0%	\$51.81	\$54.67	\$57.53

The dividend discount analysis is a widely used valuation methodology that relies on numerous assumptions, including asset and earnings growth rates, terminal values and discount rates. The analysis did not purport to be indicative of the actual values or expected values of Riverside.

### ***SAL Stock Price Performance***

Sterne Agee reviewed the history of the publicly reported trading prices of SAL's common stock for the one year period ended March 14, 2014. SAL's common stock traded as low as \$25.20 per share and as high as \$29.95 per share, as compared to the closing price of SAL's common stock on March 14, 2014 of \$26.90 per share.

### ***SAL Publicly Traded Companies Analysis***

Using publicly available information, Sterne Agee compared the financial performance, financial condition and market performance of SAL to the following publicly traded banks and bank holding companies and thrifts and thrift holding companies headquartered in the states of New York, Connecticut, Massachusetts, Maine, New Hampshire or Rhode Island, excluding mutual holding companies and pending merger targets, with assets between \$400 million and \$750 million and nonperforming assets to assets less than 4.0%. Companies in this group were:

- Oneida Financial Corp.
- Lyons Bancorp, Inc.
- Northeast Bancorp
- Hampden Bancorp, Inc.
- Solvay Bank Corporation
- Orange County Bancorp, Inc.
- Katahdin Bankshares Corporation
- Peoples Federal Bancshares, Inc.
- Chicopee Bancorp, Inc.
- Patriot National Bancorp, Inc.
- Elmira Savings Bank
- Naugatuck Valley Financial Corporation
- Empire Bancorp Inc.
- Wellesley Bancorp, Inc.
- Steuben Trust Corporation
- SBT Bancorp, Inc.
- Glenville Bank Holding Company, Inc.
- Ballston Spa Bancorp, Inc.
- Citizens National Bancorp, Inc.

To perform this analysis, Sterne Agee used financial information for the three months ended December 31, 2013 (or as of the most recently available quarter) and market price information as of March 14, 2014. Certain financial data prepared by Sterne Agee, and as referenced in the tables presented below, may not correspond to the data presented in SAL's historical financial statements, or to the data prepared by KBW, presented under the section "Opinion of Keefe, Bruyette & Woods, Inc., Financial Advisor to Riverside," as a result of the different periods, assumptions and methods used by Sterne Agee to compute the financial data presented. No company used as a comparison in the analysis below is identical to SAL. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.





The following table summarizes the relevant data items for SAL and the peer group:

	Salisbury	Salisbury Peer Group			
		Minimum	Median	Mean	Maximum
Balance Sheet (Most Recent Quarter)					
Total Assets (\$ millions)	\$587	\$403	\$541	\$560	\$742
Loan / Deposits	92.8 %	42.6 %	91.9 %	85.1 %	112.3 %
Securities / Assets	17.0 %	7.0 %	18.7 %	22.9 %	64.1 %
Tangible Common Equity / Tangible Assets	8.0 %	4.4 %	8.9 %	9.9 %	17.9 %
Tier 1 Capital Ratio	15.2 %	10.2 %	15.3 %	15.8 %	24.3 %
Total Risk Based Capital Ratio	16.5 %	11.4 %	16.0 %	17.0 %	25.0 %
Income Analysis (Most Recent Quarter)					
Return on Average Assets	0.67 %	(1.97 %)	0.59 %	0.50 %	1.20 %
Return on Average Equity	5.5 %	(16.4 %)	5.1 %	5.1 %	12.9 %
Return on Average Tangible Common Equity	8.6 %	(16.4 %)	6.2 %	5.7 %	13.0 %
Net Interest Margin	3.72 %	3.11 %	3.40 %	3.53 %	5.21 %
Efficiency Ratio	73.6 %	59.6 %	77.1 %	77.0 %	104.8 %
Fee Income / Operating Revenue	24.7 %	6.3 %	16.5 %	18.3 %	62.0 %
Asset Quality (Most Recent Quarter)					
Non-Performing Assets / Total Assets	2.62 %	0.22 %	1.23 %	1.32 %	3.50 %
Loan Loss Reserves / Total Loans	1.1 %	0.3 %	1.1 %	1.3 %	2.7 %
Net Charge-Offs / Total Loans	0.15 %	(0.02 %)	0.11 %	0.21 %	1.00 %
Trading Multiples & Market Statistics (1)					
Stock Price / Tangible Book Value	99.2 %	47.8 %	100.3 %	105.9 %	191.1 %
Stock Price / Last Quarter Annualized EPS	12.2 x	7.2 x	11.6 x	12.4 x	19.0 x
Stock Price / Last Twelve Months EPS	11.7 x	7.0 x	11.5 x	12.8 x	19.3 x
Stock Price / Core Deposit Premium (2)	(0.1 %)	(4.8 %)	0.0 %	0.5 %	9.0 %
Current Dividend Yield	4.2 %	0.0 %	2.5 %	2.3 %	4.0 %

(1) As of 3/14/2014

(2) Core deposits defined as total deposits less time deposits over \$100,000. The core deposit premium is calculated by taking the market capitalization less tangible book value, divided by core deposits

### ***SAL Dividend Discount Analysis***

Sterne Agee performed an analysis that estimated the present value per share of SAL's common stock through December 31, 2019. Sterne Agee based the analysis on SAL's projected earnings stream as derived from the internal financial projections provided by SAL's management for full year 2014 and 2015 and a 6.0% growth rate thereafter provided by SAL's management and calculated the assumed potential after-tax distributions to common shareholders such that SAL's tangible common equity ratio would remain 8.0% of tangible assets. To approximate the terminal value of SAL's common stock at December 31, 2019, Sterne Agee applied price to forward earnings multiples of 12.0x to 14.0x of 2019 forecasted earnings. The income streams and terminal values were then discounted to present values using different discount rates ranging from 12.0% to 14.0% (based on a capital asset pricing model, and certain stock

market estimated return information as calculated by Ibbotson Associates). This discounted dividend analysis resulted in a net present value per share range of \$22.22 to \$27.51 per share of SAL's common stock as illustrated below.

Discount Rate	Terminal Earnings Multiple		
	12.0x	13.0x	14.0x
12.0%	\$23.95	\$25.73	\$27.51
13.0%	\$23.07	\$24.78	\$26.49
14.0%	\$22.22	\$23.87	\$25.52

***Relative Contribution Analysis***

Sterne Agee analyzed the relative contribution of SAL and Riverside to the pro forma balance sheet and income statement items of the combined entity, including pro forma ownership, assets, loans, deposits, equity, tangible common equity, trailing twelve months earnings, quarter ended December 31, 2013 annualized earnings, and projected 2014 and 2015 earnings estimates. This analysis excluded all purchase accounting adjustments. Sterne Agee compared the pro forma ownership interests of SAL and Riverside of approximately 63% and 37%, respectively, to the select financial information shown in the following table.

	Salisbury	Riverside
Assets	72.6 %	27.4 %
Net Loans	70.4	29.6
Deposits	71.0	29.0
Equity	74.4	25.6
Tangible Common Equity	64.9	35.1
Last Twelve Months Earnings	69.3	30.7
Most Recent Quarter Annualized Earnings	63.6	36.4
Estimated 2014 Earnings	63.9	36.1
Estimated 2015 Earnings	63.9	36.1
Median	69.3	30.7
Estimated Pro Forma Ownership	62.7	37.3

***Financial Impact Analysis***

Sterne Agee performed pro forma merger analyses that combined the projected income statement and balance sheet information of SAL and Riverside. In performing this analysis, Sterne Agee used internal earnings estimates for Riverside and SAL for full year 2014 and 2015 provided by SAL management. Sterne Agee also used synergies estimates, purchase accounting adjustments, and restructuring charges provided by SAL and Riverside management to calculate the financial impact that the merger would have on certain projected financial results of Riverside and SAL. This analysis indicated that the merger is expected to be accretive to Riverside's and SAL's estimated earnings per share in 2014 and 2015. The analysis also indicated that the merger is expected to be dilutive to tangible book value per share for SAL; however, SAL is estimated to earn back its tangible book value dilution in approximately 5 years and maintain well capitalized capital ratios. For all of the above analyses, the actual results achieved by SAL and Riverside, following the merger, will vary from the projected results and the variations may be material.

***Value Creation Analysis***

In addition, Sterne Agee performed a dividend discount analysis to estimate a range of the present values of after-tax cash flows that SAL (pro forma for the merger) could provide to equity holders through December 31, 2019. In performing this analysis, Sterne Agee used earnings estimates, synergies estimates, purchase accounting adjustments, and restructuring charges provided by SAL's and Riverside's management. To approximate the terminal value of SAL's common stock (pro forma for the merger) at December 31, 2019, Sterne Agee applied earnings multiples ranging from 12.0x to 14.0x. The income stream and terminal value was then discounted to present value using a range of 12% to 14% discount rate (based on a capital asset pricing model and certain stock market estimated return information as calculated by Ibbotson Associates). Based on these assumptions, the following table sets forth the respective valuation ranges for SAL on a standalone and pro forma basis.

Net Present Value Per Share - Stand Alone	Terminal Earnings Multiple
Discount Rate	12.0x 13.0x 14.0x
12.0%	\$23.95 \$25.73 \$27.51
13.0%	\$23.07 \$24.78 \$26.49
14.0%	\$22.22 \$23.87 \$25.52
Net Present Value Per Share - Pro Forma for Riverside	Terminal Earnings Multiple
Discount Rate	12.0x 13.0x 14.0x
12.0%	\$29.67 \$31.61 \$33.55
13.0%	\$28.68 \$30.55 \$32.42
14.0%	\$27.74 \$29.54 \$31.34

### *General*

In performing its analyses, Sterne Agee made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of Sterne Agee, SAL and Riverside. Any estimate contained in the analyses performed by Sterne Agee is not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the Sterne Agee opinion was among several factors taken into consideration by the SAL board of directors in making its determination to approve the merger agreement and the merger. Consequently, the analyses described above should not be viewed as determinative of the decision of the SAL board of directors with respect to the fairness of the merger consideration, from a financial point of view, to SAL. Further, events and developments occurring after the date of the Sterne Agee opinion could materially affect the assumptions used in preparing the opinion, and Sterne Agee does not have any obligation to update, revise or reaffirm its opinion.

SAL and Sterne Agee have entered into an agreement relating to the services to be provided by Sterne Agee in connection with the merger. SAL paid Sterne Agee \$25,000 upon signing of its engagement letter to serve as financial advisor in connection with the proposed merger and \$100,000 with the rendering of the fairness opinion relating to the merger. Additionally, SAL has agreed to pay to Sterne Agee \$500,000 at the time of closing of the merger (the "Success Fee"). The fees paid prior to the Success Fee payment will be credited against the Success Fee. Pursuant to the Sterne Agee engagement agreement, SAL also agreed to reimburse Sterne Agee for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify against certain liabilities, including liabilities under the federal securities laws.

Other than Sterne Agee's engagement by SAL in connection with the merger, Sterne Agee has not provided any other material investment banking services to SAL, Riverside or their affiliates during the past two years; however, Sterne Agee may do so in the future. In the ordinary course of Sterne Agee's business as a broker-dealer, Sterne Agee may, from time to time, purchase securities from and sell securities to SAL, Riverside or their affiliates.

### *Interest of Riverside's Directors and Executive Officers*

As described below, Riverside's directors and executive officers have interests in the merger that are in addition to, or different from, the interests of Riverside's shareholders generally. Riverside's board of directors was aware of these interests and considered them, among other matters, when it approved the merger agreement.

### *Share Ownership*

On September 5, 2014, the record date for the special meeting of Riverside's shareholders, Riverside's directors and executive officers beneficially owned, in the aggregate, 303,045 shares of Riverside's common stock, representing approximately 39.52% of the outstanding shares of Riverside common stock. See the section of this joint proxy statement/prospectus titled "The Voting Agreements" beginning on page 77 for further information regarding the voting agreements between SAL and directors and executive officers and certain principal shareholders of Riverside.

***Certain Riverside Directors and Affiliates to be Appointed to the Board of Directors of SAL and SBT***

Effective immediately after the consummation of the merger, SBT and SAL shall have no less than fourteen (14) and no more than sixteen (16) directors, and will include five (5) individuals who are current directors or affiliates of Riverside: Rudolph P. Russo, Charles M. Andola, George E. Banta, Michael D. Gordon and P. Diane Hoe. These nominees will be appointed and elected to the SAL and SBT boards of directors to serve in the classes as follows: Rudolph P. Russo - Class of 2015 (to be nominated for re-election at the 2015 Annual Meeting of Shareholders of SAL for the Class of 2018); Charles M. Andola - Class of 2017; George E. Banta - Class of 2017; Michael D. Gordon - Class of 2016; and P. Diane Hoe - Class of 2016 (provided such individuals do not have any material conflict of interest with SBT or involve a risk that would necessitate an adverse disclosure); provided, however, that subject to the exercise by SAL board of directors of its fiduciary duties, the Riverside nominee whose term would expire at SAL's 2015 annual meeting of shareholders will be nominated for re-election at SAL's 2015 annual meeting of shareholders in a manner consistent with SAL's certificate of incorporation and by-laws. All other directors of SAL and SBT prior to the effective time shall remain directors of SAL and SBT following the effective time, subject to shareholder approval at SAL and SBT annual meetings. John M. Davies shall be appointed as President of the New York Region of SBT and Todd Rubino will be appointed Vice President and Senior Lender of the New York Region of SBT. All other officers of SAL and SBT prior to the effective time shall remain officers of SAL and SBT following the effective time, subject to board approval.

***Advisory Board***

The merger agreement provides that SBT and SAL will invite all of the non-officer directors of Riverside, excluding those that will serve on the boards of directors of SBT and SAL, to serve as members of an advisory board.

***New Employment Agreements with Certain Riverside Officers***

Compensation that may be paid or become payable to Riverside's executive officers in connection with the merger pursuant to agreements solely between such executive officers and SAL is not subject to a non-binding advisory vote but is described below.

***New Employment Agreement with John M. Davies***

SBT and Mr. Davies have entered into an employment agreement, which is effective upon consummation of the merger and which supersedes his existing employment agreement with Riverside. Pursuant to such agreement, Mr. Davies, currently the Chief Executive Officer and President of Riverside will become President of the New York Region of SBT.



Mr. Davies' initial base salary will be \$225,000 per year, payable in installments in accordance with SBT's normal payroll practices, less such deductions or withholdings as are required by law. Such base salary will be subject to at least annual evaluations and shall be not less than \$225,000. SBT shall pay, or shall direct Riverside to pay immediately prior to the effective time of the merger, Mr. Davies an initial cash success bonus of \$70,000, contingent upon (i) the closing of the merger at or prior to December 31, 2014, and (ii) as of the effective time, the dollar amount of the gross loan portfolio of Riverside equaling at least 90% of the dollar amount of the gross loan portfolio of Riverside as of December 31, 2013.

In addition, Mr. Davies shall be entitled to receive the following cash payments, subject to the vesting requirements set forth below. Upon the vesting of each award, the cash award shall be paid to Mr. Davies:

- \$100,000 awarded in 2015 on the anniversary of the effective date and fully vested and paid to Mr. Davies in 2016 on the anniversary of the effective date;
- \$100,000 awarded in 2016 on the anniversary of the effective date and fully vested and paid to Mr. Davies in 2018 on the anniversary of the effective date; and
- \$100,000 awarded in 2017 on the anniversary of the effective date and fully vested and paid to Mr. Davies in 2018 on the anniversary of the effective date.

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In order for the foregoing awards to vest and be paid over to Mr. Davies, Mr. Davies must be employed by SBT on both the award date and the vesting date; provided however, that (i) in the event Mr. Davies' employment is terminated by SBT for any reason other than "cause", (ii) Mr. Davies terminates his employment with SBT for "good reason" (as defined in the employment agreement), or (iii) there occurs a change in control, then in that case (x) any award set forth above which has not yet been awarded to Mr. Davies shall be awarded to Mr. Davies, and (y) all such awards shall be deemed fully vested and paid to Mr. Davies, all as of his termination date or the effective date of such change in control, whichever is applicable.

Pursuant to the employment agreement, SBT shall also grant to Mr. Davies 3,000 shares of restricted SAL common stock on the effective time of the merger, which shall vest at a rate of 750 shares on the effective date and on each of the subsequent three anniversaries of the effective date, provided Mr. Davies is still employed by SBT on such anniversary date; provided however, that (i) in the event Mr. Davies' employment is terminated by SBT for any reason other than "cause", (ii) Mr. Davies terminates his employment with SBT for good reason, or (iii) there occurs a change in control, then in that case any unvested shares of restricted stock then held by Mr. Davies shall be deemed fully vested as of his termination date or the effective date of such change in control, whichever is applicable.

The agreement also provides for change in control protection. In the event of Mr. Davies' involuntary termination of employment for reasons other than cause or a voluntary termination of employment for good reason occurring on or after a change in control, he shall be entitled to the following:

(a) A lump sum cash payment equal to two (2.0) times his annual rate of base salary in effect on the date of termination or, if greater, his average annual base salary rate for the twelve (12) month period ending on the last day of the calendar month immediately prior to the date of such termination. Such amount shall be paid to Mr. Davies within sixty (60) days following his separation from service.

(b) Life insurance coverage and non-taxable medical and dental coverage, at no cost to Mr. Davies, that is substantially comparable (and on substantially the same terms and conditions) to the coverage maintained by SBT for Mr. Davies immediately prior to his date of termination. Such life insurance and non-taxable medical and dental coverage shall be provided by SBT to the Mr. Davies for two (2) years following his separation from service and subject to the same terms and conditions as other benefits provided under the employment agreement. If, as the result of any change in, or interpretation of, the laws applicable to the continued welfare benefits to be provided under the employment agreement, such benefits are deemed illegal or subject to penalties, then SBT shall, to the extent permitted under such laws, pay to Mr. Davies a cash lump sum payment reasonably estimated to be equal to the amount of welfare benefits (or the remainder of such amount) that Mr. Davies is no longer permitted to receive in-kind. Such lump sum payment shall be required to be within sixty (60) days following Mr. Davies' separation from service, or if later, within sixty (60) days following a determination that such payment would be illegal or subject to penalties.

(c) Unpaid compensation and benefits, and unused vacation, accrued through the date of his termination of employment. Mr. Davies shall also be entitled to be reimbursed by SBT for final expenses that he reasonably and

necessarily incurred on behalf of SBT prior to his termination of employment, provided that Mr. Davies submits expense reports and supporting documentation of such expenses in accordance with SBT's expense reimbursement policies in effect at that time. Such reimbursement payment(s) shall be made no later than the time required by applicable law (or, if earlier, by SBT or SAL policy, practice, or rule), but in no event later than the sixtieth (60th) day following Mr. Davies' date of termination.

“Change in control” shall mean (i) a change in the ownership of SAL or SBT, (ii) a change in the effective control of SAL or SBT, or (iii) a change in the ownership of a substantial portion of the assets of SAL or SBT, as described below.

A change in the ownership of a corporation occurs on the date that any one person, or more than one person acting as a group (as defined in Treasury Regulation §1.409A-3(i)(5)(v)(B)), acquires ownership of stock of SAL or SBT (i) that, together with stock held by such person or group, constitutes more than fifty (50) percent of the total fair market value or total voting power of the stock of such corporation. For these purposes, a change in ownership will not be deemed to have occurred if no stock of SAL or SBT is outstanding.

A change in the effective control of SAL or SBT occurs on the date that either (A) any one person, or more than one person acting as a group (as defined in Treasury Regulation §1.409A-3(i)(5)(vi)(D)) acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of SAL or SBT possessing thirty (30) percent or more of the total voting power of the stock of (ii) SAL or SBT, or (B) a majority of the members of SAL’s or SBT’s board of directors is replaced during any twelve (12)-month period by directors whose appointment or election is not endorsed by a majority of the members of SAL’s or SBT’s board of directors prior to the date of the appointment or election, provided that this definition of a change in control is inapplicable where a majority shareholder of the entity that experiences the change in control is another corporation.

A change in a substantial portion of SAL’s or SBT’s assets occurs on the date that any one person or more than one person acting as a group (as defined in Treasury Regulation §1.409A-3(i)(5)(vii)(C)) acquires (or has acquired (iii) during the twelve (12)-month period ending on the date of the most recent acquisition by such person or persons) assets from SAL or SBT that have a total gross fair market value equal to or more than forty (40) percent of the total gross fair market value of (A) all of the assets of SAL or SBT, or (B) the value of the assets being disposed of, either of which is determined without regard to any liabilities associated with such assets.

The employment agreement also includes typical confidentiality and non-compete and non-solicitation provisions.

#### ***New Employment Agreement with Todd Rubino***

Upon consummation of the merger, Todd Rubino, currently the Executive Vice President and Senior Lending Officer of Riverside will become Vice President and Senior Lender of the New York Region of SBT. Mr. Rubino has entered into an employment agreement with SBT, which supersedes his existing change in control agreement with Riverside, and which is effective upon consummation of the merger.

Mr. Rubino’s initial base salary will be \$147,000 per year. Such base salary shall be evaluated at least annually and shall be not less than \$147,000. The Bank shall pay, or shall direct Riverside Bank to pay immediately prior to the effective time of the merger, Mr. Rubino an initial cash success bonus of \$40,000, contingent upon (i) the closing of

the merger at or prior to December 31, 2014, and (ii) as of the effective time, the dollar amount of the gross loan portfolio of Riverside equaling at least 90% of the dollar amount of the gross loan portfolio of Riverside as of December 31, 2013.

Mr. Rubino will also be entitled to receive the following cash payments, subject to the vesting requirements set forth below:

\$43,334 awarded on the effective date and fully vested and paid to Mr. Rubino in 2015 on the anniversary of the effective date;

\$43,334 awarded in 2015 on the anniversary of the effective date and fully vested and paid to Mr. Rubino in 2016 on the anniversary of the effective date; and

\$43,334 awarded in 2016 on the anniversary of the effective date and fully vested and paid to Mr. Rubino in 2017 on the anniversary of the effective date.

In order for the foregoing awards to vest and be paid over to Mr. Rubino, Mr. Rubino must be employed by SBT on both the award date and the vesting date; provided however, that (i) in the event Mr. Rubino's employment is terminated by SBT for any reason other than "Cause", (ii) Mr. Rubino terminates his employment with SBT for "good reason" (as defined in the employment agreement), or (iii) there occurs a Change in Control, then in that case (x) any award set forth above which has not yet been awarded to Mr. Rubino shall be awarded to Mr. Rubino, and (y) all such awards shall be deemed fully vested and paid to Mr. Rubino, all as of his termination date or the effective date of such Change in Control, whichever is applicable.

SBT shall grant to Mr. Rubino 2,000 shares of restricted Company common stock on the Effective Time of the Merger, which shall vest at a rate of 500 shares on the effective date and on each of the subsequent three anniversaries of the effective date, provided Mr. Rubino is still employed by SBT on such anniversary date; provided however, that (i) in the event Mr. Rubino's employment is terminated by SBT for any reason other than "Cause", (ii) Mr. Rubino terminates his employment with SBT for "good reason", or (iii) there occurs a change in control, then in that case any unvested shares of restricted stock then held by Mr. Rubino shall be deemed fully vested as of his termination date or the effective date of such change in control, whichever is applicable.

The agreement also provides for change in control protection. In the event of Mr. Rubino's involuntary termination of employment for reasons other than Cause or a voluntary termination of employment for Good Reason occurring on or after a Change in Control, Mr. Rubino shall be entitled to the following:

(a) A lump sum cash payment equal to Mr. Rubino's annual rate of base salary in effect on Mr. Rubino's date of termination or, if greater, Mr. Rubino's average annual base salary rate for the twelve (12) month period ending on the last day of the calendar month immediately prior to the date of such termination. Such amount shall be paid to Mr. Rubino within sixty (60) days following Mr. Rubino's separation from service.

(b) Life insurance coverage and non-taxable medical and dental coverage, at no cost to Mr. Rubino, that is substantially comparable (and on substantially the same terms and conditions) to the coverage maintained by the Bank for Mr. Rubino immediately prior to his date of termination. Such life insurance and non-taxable medical and dental coverage shall be provided by SBT to Mr. Rubino for one year following Mr. Rubino's separation from service and subject to the same terms and conditions as the benefits provided under the employment agreement. If as the result of any change in, or interpretation of, the laws applicable to the continued welfare benefits to be provided under the employment agreement, such benefits are deemed illegal or subject to penalties, then SBT shall, to the extent permitted under such laws, pay to Mr. Rubino a cash lump sum payment reasonably estimated to be equal to the amount of welfare benefits (or the remainder of such amount) that Mr. Rubino is no longer permitted to receive in-kind. Such lump sum payment shall be required to be within sixty (60) days following Mr. Rubino's separation from service, or if later, within sixty (60) days following a determination that such payment would be illegal or subject to penalties.

(c) Unpaid compensation and benefits, and unused vacation, accrued through the date of Mr. Rubino's termination of employment. Mr. Rubino shall also be entitled to be reimbursed by SBT for final expenses that Mr. Rubino reasonably and necessarily incurred on behalf of SBT prior to Mr. Rubino's termination of employment, provided that Mr. Rubino submits expense reports and supporting documentation of such expenses in accordance with SBT's

expense reimbursement policies in effect at that time. Such reimbursement payment or payments shall be made no later than the time required by applicable law (or, if earlier, by SBT or SAL policy, practice or rule), but in no event later than the sixtieth (60th) day following Mr. Rubino's date of termination.

"Change in control" under Mr. Rubino's agreement is defined in the same manner as under Mr. Davies' employment agreement described above.

## Other Employment and Change in Control Agreements

Riverside maintains a change in control agreement with Gilbert Dilg, its Chief Financial Officer. Such agreement becomes effective as of the date on which a change in control, as defined in the agreement, occurs and continues for 24 months thereafter (referred to as the "Coverage Period"). If, following a change in control within the Coverage Period Mr. Dilg were to voluntarily terminate his employment (except as provided below), or leave due to a Constructive Discharge (as defined in the agreement), within 5 business days after termination, Riverside must pay or cause to be paid to Mr. Dilg (i) accrued but unpaid salary; (ii) accrued, unused vacation and sick time; and (iii) a lump sum equal to 1.5 times his annual base salary at the time of his termination. In addition, any outstanding stock options would immediately become vested and exercisable. Riverside must also provide a continuation of certain benefits for 18 months for Mr. Dilg and his dependents. If Riverside were to terminate Mr. Dilg's employment for any reason other than cause, death or disability (as defined in the agreement), Mr. Dilg would also be entitled to such benefits and payments. If Mr. Dilg were to voluntarily terminate his employment for any reason during the first full calendar month following the one year anniversary of the consummation of the change in control (unless Riverside has already given him notice that it intends to terminate him for cause), within 5 business days after termination, Riverside must pay or cause to be paid to Mr. Dilg: (i) accrued but unpaid salary; (ii) accrued, unused vacation and sick time; and (iii) a lump sum equal to two-thirds times his annual base salary at the time of his termination and any outstanding stock options would immediately become vested and exercisable.

## *Employee Severance Payments*

Pursuant to the merger agreement, each person who is an employee of Riverside as of the closing date, and who is terminated by SAL for a reason other than "cause" within six (6) months subsequent to the closing date, or is not offered employment with SAL as of the effective date, or resigns for good reason, excluding those employees who are entitled to benefits under employment arrangements, shall be entitled to severance benefits pursuant to Riverside's current severance plan or policy; provided, however, that if such benefits pursuant to Riverside's plan or policy will result in an excise tax under Code Section 4980D, such plan or policy shall be modified to the extent necessary so as to avoid the imposition of such excise tax.

With respect to severance payments, Riverside's Human Resources Policy Manual provides that non-officer employees with 0-2 years of service shall receive 2 weeks' salary; non-officer employees with 2-4 years of service shall receive 4 weeks' salary; and non-officer employees with over 4 years of service shall receive 6 weeks' salary. In addition, officer employees with 0-3 years of service shall receive 2 months' salary; officer employees with 3-5 years of service shall receive 2 months' salary, plus 1 week for each year of service; and officer employees with over 5 years of service shall receive 3 months' salary, plus 1 week for each year of service. Severance pay will also include medical, dental and life insurance premiums during the employee's compensation period with a minimum of one month paid benefits.

## Riverside Stock Options



At the effective time of the merger, SAL will assume each validly issued stock option granted under Riverside's stock option plan, whether vested or unvested, and which has not been previously exercised or cancelled, subject to adjustment such that options granted under Riverside's stock option plan will be exercisable for shares of SAL common stock. Of the 41,000 options granted in 2013, 21,000 options will not be assumed by SAL, and will be terminated by Riverside prior to the effective time.

The table below sets forth the outstanding stock options held by Riverside directors and officers and employees that will be converted to options to purchase SAL common stock at the effective time of the merger.

	<b>Number of Shares</b>	
	<b>Number of Shares</b>	<b>Subject to Option to</b>
	<b>Subject to Riverside</b>	<b>Purchase SAL</b>
<b>Name</b>	<b>Stock Options</b>	<b>Common Stock</b>
David MacFarland (retired employee)	16,000	21,600
Gil Dilg	7,500	10,125
Liliana Guarino	7,000	9,450
Todd Rubino	6,500	8,775
Roxie Geramita	6,000	8,100
John Davies	4,000	5,900
Bonnie Brocco	4,000	5,900
George Harnen (retired employee)	4,000	5,900
Total	55,000	74,250

### ***Indemnification***

Pursuant to the merger agreement, SAL has agreed that, after the effective date of the merger, it will indemnify, defend and hold harmless, for a period of six years from the effective time of the merger, each present and former officer or director of Riverside against all losses, claims, damages, costs, expenses (including attorneys' fees), liabilities, judgments and amounts that are paid in settlement of or in connection with any claim, action, suit, proceeding or investigation, based in whole or in part on, or arising in whole or in part out of, the fact that such person is or was a director or officer of Riverside if such action or proceeding pertains to any matter of fact arising, existing or occurring before the closing date of the merger to the fullest extent permitted under SAL's bylaws.

### ***Directors' and Officers' Insurance***

SAL has further agreed to ensure that, for a six-year period following the effective time of the merger, the persons serving as officers and directors of Riverside immediately prior to the effective date continue to be covered by Riverside's current directors' and officers' liability insurance policies, or by a policy which is not materially less advantageous than such policy, or by single premium tail coverage with policy limits equal to Riverside's existing coverage limits, with respect to acts or omissions occurring prior to the effective date which were committed by such officers and directors in their capacity as such. However, in no event will SAL be required to expend in any one year more than 150% of the current annual cost currently expended by Riverside with respect to such insurance.

Material U.S. Federal Income Tax Consequences of the Merger

The following is a general summary of material United States federal income tax consequences of the merger of SBT and Riverside. The federal income tax laws are complex and the tax consequences of the merger may vary depending upon each shareholder's individual circumstances or tax status. The following discussion is based upon current provisions of the Code, existing temporary and final regulations under the Code and current administrative rulings and court decisions, all of which are subject to change, possibly on a retroactive basis. No attempt has been made to comment on all United States federal income tax consequences of the merger that may be relevant to Riverside shareholders. The tax discussion set forth below is included for general information only. It is not intended to be, nor should it be construed to be, legal or tax advice to a particular Riverside shareholder.

The following discussion may not apply to particular categories of holders of shares of Riverside common stock subject to special treatment under the Code, such as insurance companies, financial institutions, broker-dealers, tax-exempt organizations, individual retirement and other tax-deferred accounts, banks, persons subject to the alternative minimum tax, persons who hold Riverside capital stock as part of a straddle, hedging or conversion transaction, persons whose functional currency is other than the United States dollar, persons eligible for tax treaty benefits, foreign corporations, foreign partnerships and other foreign entities, individuals who are not citizens or residents of the United States and holders whose shares were acquired pursuant to the exercise of an employee stock option or otherwise as compensation. This discussion assumes that holders of shares of Riverside common stock hold their shares as capital assets. The following discussion does not address state, local or foreign tax consequences of the merger. You are urged to consult your tax advisors to determine the specific tax consequences of the merger, including any state, local or foreign tax consequences of the merger.

### *Tax Consequences of the Merger Generally*

SAL will receive an opinion from Cranmore, FitzGerald & Meaney and Riverside will receive an opinion from Windels Marx Lane & Mittendorf, LLP, each dated as of the closing date, to the effect that the merger will qualify as a reorganization under Section 368(a) of the Code. Such opinions are filed as exhibits to the registration statement on Form S-4 of which this joint proxy statement/prospectus is a part. The tax opinions received by SAL and Riverside are based on certain representations, covenants, and assumptions, as described below, all of which must continue to be true and accurate in all material respects as of the effective time of the merger. It is a condition to the obligation of each of SAL and Riverside to complete the merger that their respective tax counsel confirms its opinion as of the closing date of the merger. Neither SAL nor Riverside intends to waive this condition. If any of the representations, covenants, or assumptions relied upon by tax counsel is inaccurate, tax counsel may not be able to provide the required closing date opinions or the tax consequences of the merger could differ from those described below. An opinion of counsel neither binds the Internal Revenue Service (the "IRS") nor precludes the IRS or the courts from adopting a contrary position. Neither SAL nor Riverside intends to obtain a ruling from the IRS regarding the tax consequences of the merger.

Based on the tax opinions described above, the anticipated material United States federal income tax consequences of the merger are as follows:

- no gain or loss will be recognized by SAL or Riverside as a result of the merger;
- no gain or loss will be recognized by a Riverside shareholder on the exchange, except to the extent the shareholder receives cash in lieu of a fractional share of SAL common stock;
- the aggregate tax basis in the SAL common stock received by a Riverside shareholder pursuant to the merger will equal that shareholder's aggregate tax basis in the shares of Riverside common stock being exchanged, reduced by any amount allocable to a fractional share of SAL common stock for which cash is received;
- the holding period of SAL common stock received by a Riverside shareholder in the merger will include the holding period of the shares of Riverside common stock being exchanged; and
- although no fractional shares of SAL common stock will be issued in the merger, a Riverside shareholder who receives cash in lieu of such a fractional share will be treated as having received that fractional share pursuant to the merger and then as having exchanged such fractional share for cash in a redemption by SAL. A Riverside shareholder will generally recognize capital gain or loss on such a deemed redemption of the fractional share in an amount determined by the excess of the amount of cash received and the shareholder's tax basis in the fractional share. Any capital gain or loss will be long-term capital gain or loss if the Riverside common stock was held for more than one year.

For purposes of the above discussion of the bases and holding periods for shares of Riverside common stock and SAL common stock, Riverside shareholders who acquired different blocks of Riverside common stock at different times for different prices must calculate their basis, gains and losses, and holding periods separately for each identifiable block of such stock exchanged, converted, cancelled or received in the merger.

***Backup Withholding***

Payments of cash to a Riverside shareholder pursuant to the merger are subject to information reporting and may, under certain circumstances, be subject to backup withholding unless such shareholder provides SAL with its taxpayer identification number and otherwise complies with the backup withholding rules. Any amounts withheld from payments to a Riverside shareholder under the backup withholding rules are not additional tax and generally will be allowed as a refund or credit against the Riverside shareholders' federal income tax liability, provided that the Riverside shareholder timely furnishes the required information to the Internal Revenue Service.

### ***Reporting Requirements***

Riverside shareholders who receive SAL common stock as a result of the merger will be required to retain records pertaining to the merger, and Riverside shareholders who hold at least 5% of the outstanding Riverside common stock immediately before the merger will be required to file with their United States federal income tax return for the year in which the merger takes place a statement setting forth certain facts relating to the merger.

This summary does not address tax consequences that may vary with, or are contingent on, individual circumstances. Moreover, it does not address any non-income tax or any foreign, state or local tax consequences of the merger. Tax matters are very complicated, and the tax consequences of the merger to you will depend upon the facts of your particular situation. Accordingly, we strongly urge you to consult with a tax advisor to determine the particular federal, state, local and foreign income and other tax consequences to you of the merger.

### **Accounting Treatment**

The merger will be accounted for using the purchase method of accounting with SAL treated as the acquiror. Under this method of accounting, Riverside's assets and liabilities will be recorded by SAL at their respective fair values as of the closing date of the merger and added to those of SAL. Any excess of purchase price over the net fair values of Riverside's assets and liabilities will be recorded as goodwill. Any excess of the fair value of Riverside's net assets over the purchase price will be recognized in earnings by SAL on the closing date of the merger. Financial statements of SAL issued after the merger will reflect these values, but will not be restated retroactively to reflect the historical financial position or results of operations of Riverside prior to the merger. The results of operations of Riverside will be included in the results of operations of SAL beginning on the effective date of the merger.

### **Regulatory Approvals**

### ***General***

SAL and Riverside have agreed to use their reasonable best efforts to obtain all permits, consents, approvals and authorizations of all third parties and governmental authorities that are necessary to consummate the merger. This includes the approval of the CT DOB, the FDIC and the approval or nonobjection of the FRB. SAL and Riverside have filed the applications or waiver requests necessary to obtain these regulatory approvals and nonobjections. SAL and Riverside have also submitted a copy of such regulatory applications to the New York Department of Financial Services ("NYFS"). The merger cannot be completed without such approvals and non-objections. SAL and Riverside cannot assure you that all required regulatory approvals and nonobjections will be obtained, when they will be received or whether they will be subject to any conditions.

***CT DOB***

SAL filed an application with the Connecticut Banking Commissioner for approval of the merger of Riverside with and into SBT on May 6, 2014. In reviewing the application, the CT DOB will review and consider, among other things, whether the investment and lending policies of SBT and Riverside, if applicable, and whether the services or proposed services are consistent with safe and sound banking practices and will benefit the economy of the state, and the financial and managerial resources and future prospects of SBT, the effectiveness of the institutions in combatting money laundering, and the effect of the transaction on the convenience and needs of the communities to be served. The Connecticut Banking Commissioner must also determine whether the merger will promote public convenience, whether benefits to the public clearly outweigh possible adverse effects, and whether the terms of the merger are reasonable and in accordance with law and sound public policy. The Connecticut Banking Commissioner also will review the records of SBT and Riverside under the Community Reinvestment Act of 1977 (the "CRA") to assess whether SBT and Riverside meet the credit needs of the communities to be served.

***FDIC***

The Bank Merger Act requires the prior written approval of the FDIC before any insured depository institution may merge or consolidate with another insured depository institution, if the resulting institution will be a state bank. As a state chartered bank, SAL's subsidiary, SBT, filed its application for approval of the bank merger with the FDIC on May 6, 2014.

The Bank Merger Act prohibits the FDIC from approving any proposed bank merger transaction that would result in a monopoly, or would further a combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States. Similarly, the Bank Merger Act prohibits the FDIC from approving a proposed bank merger transaction whose effect in any section of the country may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade.

In every proposed bank merger transaction, the FDIC must also consider the financial and managerial resources and future prospects of the existing and proposed institutions, the convenience and needs of the community to be served (including performance of each bank under the CRA), and the effectiveness of each insured depository institution involved in the proposed bank merger transaction in combating money-laundering activities. Further, the FDIC must consider the extent to which the proposed transaction would result in greater or more concentrated risks to the stability of the United States banking or financial system. Applicable regulations require publication of notice of an application for approval of the bank merger and an opportunity for the public to comment on the application in writing and to request a hearing.

Any transaction approved by the FDIC may not be completed until 30 days after such approval. With the concurrence of the DOJ, the waiting period may be reduced to 15 days.

***FRB***

Unless the application is waived, the merger is subject to the prior approval of the FRB, which may not approve the merger if:

- such transaction would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any part of the United States; or the effect of such transaction, in any section of the country, may be to substantially lessen competition, or tend to create a monopoly, or in any manner restrain trade, unless in each case the FRB finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the communities to be served.



In every case, the FRB is required to consider the financial and managerial resources and future prospects of the companies and banks concerned and the convenience and needs of the communities to be served. Under the CRA, the FRB also must take into account the record of performance of each bank in meeting the credit needs of the entire community, including low and moderate-income neighborhoods. In addition, the FRB must consider the effectiveness of the companies in combating money laundering activities. Further, the FRB must consider the extent to which the proposed transaction would result in greater or more concentrated risks to the stability of the United States banking or financial system. Applicable regulations require publication of notice of an application for approval of the merger and an opportunity for the public to comment on the application in writing and to request a hearing.

If a waiver is not granted, and application is thereafter made to the FRB, any transaction approved by the FRB may not be completed until 30 days after such approval, during which time the DOJ may challenge such transaction on antitrust grounds and seek divestiture of certain assets and liabilities. With the concurrence of the DOJ, the waiting period may be reduced to 15 days.

SAL intends to file a request for a waiver of the required application with the FRB.

#### Dissenters' Rights of Riverside Shareholders

Dissenters' rights are statutory rights that enable shareholders to dissent from an extraordinary transaction, such as a merger, and to demand that the corporation pay the fair value for their shares as determined by a court in a judicial proceeding instead of receiving the consideration offered to shareholders in connection with the merger.

**Shareholders of Riverside, but not of SAL, are entitled to exercise their rights as dissenting shareholders under Section 604 of the New York Banking Law, but only if they comply strictly with all procedural and other requirements of Section 604 and Section 6022 of the New York Banking Law, copies of which are attached to this document as Appendix B.**

The following is intended as a brief summary of the material provisions of the New York statutory procedures that a Riverside shareholder must follow in order to dissent from the merger and obtain payment of the fair value of his or her shares of Riverside common stock instead of the merger consideration. This summary, however, is not a complete statement of all applicable requirements and is qualified in its entirety by reference to Sections 604 and 6022 of the New York Banking Law, the full text of which appears in Appendix B of this joint proxy statement/prospectus.

***In the event you wish to dissent, you must deliver to Riverside written notice of your intent to demand payment.*** If you intend to demand payment of the fair value of your shares of Riverside common stock, you must deliver, before the special meeting of shareholders at which the merger is submitted to a vote, or at such meeting but before the vote, a written notice of intent to demand payment for your shares if the proposed merger is completed. This written notice of intent must be separate from the proxy card. A vote against the merger agreement alone will not constitute a written notice of intent to demand payment. Riverside shareholders who elect to exercise dissenters' rights should mail or deliver a written notice of intent to demand payment to: Riverside Bank, 11 Garden Street, Poughkeepsie, New York 12601, Attention: John M. Davies.

***In the event you wish to dissent, you must NOT vote for approval of the merger agreement.*** If you intend to demand payment of the fair value of your shares of Riverside common stock, you must *not* vote for approval of the merger agreement. If you vote, by proxy or in person, in favor of the merger agreement, this will terminate your right to demand payment for your shares under Section 604 and Section 6022 of the New York Banking Law. You will also terminate your right to demand payment if you submit a signed proxy card and (1) fail to vote against approval of the merger agreement or (2) fail to note that you are abstaining from voting. If you do either of these two things, your dissenters' rights will terminate, even if you previously filed a written notice of intent to demand payment. However, you will not terminate your right to demand payment if you do not submit a proxy card.

***In the event you wish to dissent, you must demand payment for your shares of Riverside common stock and deposit certificates for certificated shares.*** If the merger agreement is approved by Riverside shareholders within ten (10) days after the special meeting, Riverside shall give notice of the approval of the merger by registered mail to each shareholder who filed a written objection excepting any who voted for or consented in writing to the proposed action. Within twenty (20) days thereafter, any shareholder to whom Riverside was required to give such notice, and who elects to dissent shall file with Riverside further written notice of such election to dissent, stating his or her name and residence address, the number and classes of shares as to which he or she dissents, and a demand for payment of the fair value of his or her shares.

You must demand payment for your shares of Riverside common stock using the form provided with Riverside's written dissenters' notice and, on or within thirty (30) days of such demand, submit the certificates representing your

shares to Riverside which shall conspicuously note thereon that a notice of election has been filed and shall return the certificate to the shareholder. If you do not demand payment or deposit your certificates for certificated shares as required by the written dissenters' notice, and do not submit your stock certificates for notation in each instance in the time period provided above, you will not be entitled to payment for your shares under Sections 604 and 6022 of the New York Banking Law.

***If you fail to strictly comply with any of the conditions of the New York Banking Law and the merger becomes effective, you will only be entitled to receive the consideration provided in the merger agreement for your shares.*** If the merger is completed, each holder of shares of Riverside common stock who perfected dissenters' rights in accordance with Sections 604 and 6022 of the New York Banking Law, shall receive from SAL (as the surviving corporation) within seven (7) days of the consummation of the merger, a written offer to pay for his or her shares at a specified price which SAL considers to be their fair value. Such offer shall be accompanied by SAL's balance sheet as of the latest available date, which shall not be earlier than twelve (12) months before the making of such offer, and a profit and loss statement for not less than a twelve (12) month period ended on the date of such balance sheet. If within thirty (30) days after the making of such offer, SAL and any shareholder agree upon the price to be paid for such shareholder's shares, payment therefore shall be made within sixty (60) days after the making of such offer upon the surrender of the certificates representing such shares.

If SAL fails to make such offer within such period of seven days, or if it makes the offer and any dissenting shareholder fails to agree with it within the period of thirty (30) days thereafter upon the price to be paid for their shares:

SAL shall, within twenty (20) days after the expiration of whichever is applicable of the two periods last mentioned, institute a special proceeding in the supreme court in the judicial district in which the office of Riverside is located to determine the rights of dissenting shareholders and to fix the fair value of their shares.

If SAL fails to institute such proceeding within such period of twenty (20) days, any dissenting shareholder may institute such proceeding for the same purpose not later than thirty (30) days after the expiration of such twenty (20) day period. If such proceeding is not instituted within such thirty (30) day period, all dissenters' rights shall be lost unless the supreme court, for good cause shown, shall otherwise direct.

***If you are considering dissenting and demanding payment of the fair value of your shares, you should note that the fair value of your shares determined under the New York Banking Law could be more than, the same as, or less than the consideration you would receive under the terms of the merger agreement if you did not demand payment of the fair value of your shares. Investment banking opinions as to the fairness from a financial point of view of consideration payable in a transaction such as the merger are not opinions as to, and do not address in any way, fair value under New York Banking Law.*** If a dissenting shareholder petitions the court to determine the fair value of the shares, the court will assess costs of the proceeding, including reasonable compensation and expenses of appraisers appointed by the court, except that the court may assess costs against all or some of the dissenters, in amounts the court finds equitable, to the extent the court finds the dissenters acted arbitrarily, vexatiously, or not in good faith in demanding payment. The court may also assess the fees and expenses of counsel and experts in amounts the court finds equitable against Riverside if the court finds that Riverside did not substantially comply with the requirements of Sections 604 and 6022 of the New York Banking Law, or against either Riverside or the dissenters.

**If you fail to comply strictly with the procedures described in Sections 604 and 6022 of the New York Banking Law and summarized above, you will lose your dissenters' rights. Consequently, if you wish to exercise your dissenters' rights, you are strongly urged to consult with your legal advisor before attempting to do so.**

#### Restrictions on Sales of Shares by Certain Affiliates

The shares of SAL common stock to be issued in the merger will be freely transferable under the Securities Act, except for shares issued to any shareholder who is an "affiliate" of SAL as defined by Rule 144 under the Securities Act. Affiliates consist of individuals or entities that control, are controlled by, or are under common control with SAL and include the executive officers and directors of SAL and may include significant shareholders of SAL.

#### Stock Exchange Listing

Following the merger, the shares of SAL common stock will continue to trade on the NASDAQ Capital Market under the symbol "SAL."

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## THE MERGER AGREEMENT

*The information in this section is qualified in its entirety by reference to the full text of the merger agreement, a copy of which is attached to this joint proxy statement/prospectus as Appendix A beginning on page A-1 and which is incorporated by reference into this document.*

### Structure

Under the merger agreement, Riverside will be merged with and into SBT, with SBT as the surviving entity. Each share of SAL common stock that is issued and outstanding at the effective time of the merger will remain issued and outstanding as one share of common stock of SAL, and each share of Riverside common stock issued and outstanding at the effective time of the merger (other than stock held by Riverside or SAL) will be converted into the right to receive 1.35 shares of SAL common, as described below. See “Consideration to be Received in the Merger.”

The articles of incorporation of SBT will be the articles of incorporation of the combined bank, and the bylaws of SBT will be the bylaws of the combined institution.

The merger agreement provides that SAL may change the method of effecting the business combination between SBT and Riverside. However, no such change may (A) alter or change the amount of merger consideration to be issued to Riverside shareholders under the merger agreement, (B) reasonably be expected to materially impede or delay consummation of the merger, (C) adversely affect the federal income tax treatment of the Riverside shareholders in connection with the merger, or (D) require submission to or approval by Riverside’s shareholders after such shareholders have approved the plan of merger as set forth in the merger agreement.

### Effective Time and Timing of Closing

SAL and Riverside anticipate that the merger will be completed in the fourth quarter of 2014. However, completion of the merger could be delayed if there is a delay in obtaining the required regulatory approvals or in satisfying any other conditions to the merger. There can be no assurances as to whether, or when, SBT and Riverside will obtain the required approvals or complete the merger.

### Consideration to be Received in the Merger

Upon completion of the merger, each outstanding share of Riverside common stock (other than stock held by Riverside) will be converted into the right to receive 1.35 shares of SAL common stock.

No fractional shares of SAL common stock will be issued to any holder of Riverside common stock upon completion of the merger. For each fractional share that would otherwise be issued, SAL will pay each shareholder cash (without interest) in an amount equal to the fractional share interest to which such shareholder would otherwise be entitled multiplied by the average of the daily closing prices of SAL common stock during the regular session of SAL common stock on NASDAQ for the five consecutive trading days ending on the third business day immediately preceding the closing date, rounded to the nearest whole cent.

#### Exchange of Certificates; Dividends

On or before the closing date of the merger, SAL will cause to be delivered to the exchange agent certificates representing the shares of SAL common stock to be issued in the merger and cash to be paid in lieu of fractional shares of Riverside common stock.

Not later than five (5) Business Days following the effective time of the merger, the exchange agent will mail to each Riverside shareholder of record at the effective time of the merger a letter of transmittal and instructions for use in surrendering the shareholder's Riverside stock certificates. When such Riverside shareholders deliver their Riverside stock certificates to the exchange agent along with a properly completed and duly executed letter of transmittal and any other required documents, their Riverside stock certificates will be cancelled and in exchange they will receive, as allocated to them:

- a SAL stock certificate representing the number of whole shares of SAL common stock that they are entitled to receive under the merger agreement; and
- a check representing the amount of cash that they are entitled to receive in lieu of any fractional shares.

Riverside shareholders are not entitled to receive any dividends or other distributions on SAL common stock with a record date after the merger until they have surrendered their Riverside stock certificates in exchange for a SAL stock certificate. After the surrender of their Riverside stock certificates, Riverside shareholders of record will be entitled to receive any dividend or other distribution, without interest, which had become payable with respect to their SAL common stock.

SAL will issue a stock certificate for SAL common stock or a check for cash in lieu of a fractional share in a name other than the name in which a surrendered Riverside stock certificate is registered only if the exchange agent is presented with all documents required to show and effect the unrecorded transfer of ownership, together with evidence that any applicable stock transfer taxes have been paid.

#### Treatment of Riverside Stock Options

At the effective time, each Riverside stock option, whether vested or unvested, that is outstanding and unexercised immediately prior to the effective time shall cease to represent a right to acquire shares of Riverside common stock and shall be, converted automatically into an option to purchase shares of SAL common stock for a number of shares and at an exercise price determined as provided below, with such converted option to continue to be subject to the same terms and conditions as were applicable to the Riverside stock option under the Riverside stock option plan and the applicable award agreement thereunder (but taking into account any acceleration or vesting thereof provided for in the Riverside stock option plan, or in the related award agreement, by reason of the consummation of the transactions contemplated hereby). With regard to the options to purchase 41,000 Riverside shares granted in 2013, options to purchase 21,000 Riverside shares will not be assumed by SAL and will be terminated by Riverside prior to the effective time. The remaining options to purchase 20,000 shares will only be converted to purchase SAL shares to the extent that SAL receives, prior to the effective time, an opinion in writing from Riverside's legal counsel that such valid 2013 options are enforceable.

The number of shares of SAL common stock to be subject to the new option shall be equal to the product of the number of shares of Riverside common stock subject to the Riverside stock option and the exchange ratio; provided, that any fractional shares of SAL common stock resulting from such multiplication shall be rounded down to the nearest whole share, and the exercise price per share of SAL common stock under the new option shall be equal to the exercise price per share of Riverside common stock subject to the Riverside stock option divided by the exchange ratio; provided, that such exercise price shall be rounded up to the nearest whole cent.

#### Representations and Warranties



The merger agreement contains representations and warranties made by and to SAL, SBT and Riverside. The statements embodied in those representations and warranties were made for purposes of the contract among SAL, SBT and Riverside and are subject to important qualifications and limitations agreed to by SAL, SBT and Riverside in connection with negotiating its terms. In addition, certain representations and warranties were made as of a specified date, may be subject to contractual standards of materiality different from what may be viewed as material to shareholders, or may have been used for the purpose of allocating risk between SAL, SBT and Riverside rather than establishing matters as facts. For the foregoing reasons, you should not rely on the representations and warranties as statements of fact. Third parties are not entitled to the benefits of the representations and warranties in the merger agreement.

Each of SAL, SBT and Riverside has made representations and warranties to the other regarding, among other things:

- due organization, good standing and authority;
  - capitalization;
  - subsidiaries;
  - corporate power;
  - corporate authority;
- no violation or breach of certain organizational documents, agreements and governmental orders;
  - SEC documents and/or financial or regulatory reports;
    - tax matters;
      - absence of certain changes or events;
      - legal proceedings and regulatory action;
        - compliance with laws;
          - brokers;
          - employee benefit matters;
          - environmental matters;
          - risk management instruments;
          - deposits and deposit insurance;
            - internal controls;
            - related party transactions;
    - CRA, anti-money laundering and customer information security compliance;
  - issuance of the SAL's common stock in accordance with the merger agreement;
    - loans and nonperforming and classified assets;
      - property and insurance coverage;
        - fiduciary accounts;
      - the receipt of the opinion of its financial advisor;
      - material contracts, leases, and defaults;
        - labor matters;
        - intellectual property; and
    - preparation of this joint proxy statement/prospectus.

The representations and warranties of each of SAL, SBT and Riverside will expire upon the effective time of the merger. The representations and warranties in the merger agreement are complicated and not easily summarized. You are urged to carefully read Articles IV and V of the merger agreement attached to this joint proxy statement/prospectus as [Appendix A](#).

#### Conduct of Business Pending the Merger

#### *Conduct of Business of Riverside Pending the Merger*

Under the merger agreement, Riverside has agreed that, until the effective time of the merger or the termination of the merger agreement, Riverside will not, except as expressly permitted by the merger agreement or with the prior written consent of SAL:

• conduct its business other than in the usual, regular and ordinary course consistent with past practice and consistent with prudent banking practice and in compliance in all material respects with applicable laws and regulations;  
• fail to use reasonable best efforts to preserve intact its business organization and assets, and maintain its rights and franchises;

change the number of authorized or issued shares of its capital stock, issue any shares of common stock that are held as Treasury Stock as of the date of the merger agreement, or issue or grant any right or agreement relating to its authorized or issued capital stock or any securities convertible into shares of such stock, make any grant or award under the Riverside Stock Option Plan or split, combine or reclassify any shares of capital stock, or declare, set aside or pay any dividend in cash, stock or property or other distribution in respect of capital stock, or redeem stock, except that Riverside may issue shares upon the valid exercise of presently outstanding Riverside Stock Options issues under the Riverside Stock Option Plan;

- change or waive any provision of its certificate of incorporation or bylaws, except as required by law;

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enter into, amend in any material respect or terminate any material contract or agreement (including without limitation any settlement agreement with respect to litigation) in excess of \$10,000 except as contemplated by the merger agreement;

- make application for the opening or closing of any, or open or close any, branch or automated banking facility;

grant or agree to pay any bonus (discretionary or otherwise), severance or termination to, or enter into, renew or amend any employment agreement, severance agreement and/or supplemental executive agreement with, or increase in any manner the compensation or fringe benefits of, any of its directors, officers, employees or consultants, except (i) as may be required pursuant to commitments existing on the date of the merger agreement and disclosed to SAL, (ii) for salary adjustments in the ordinary course of business consistent with past practice provided that any increases to such amounts shall not exceed three percent (3%) in the aggregate, (iii) performance bonuses for calendar year 2014 in accordance with Riverside's 2014 budget and in such amounts as have been accrued by Riverside up to the effective time; provided, however, that such bonuses shall be prorated by multiplying the amount of the bonus by a fraction, the numerator of which shall be the number of months in 2014 which have occurred prior to the effective time of the merger and the denominator of which shall be twelve (12), or (iv) as otherwise contemplated by the merger agreement. Riverside shall not hire or promote any employee to a rank having a title of vice president or other more senior rank or hire any new employee at an annual rate of compensation in excess of \$30,000; provided, however, that Riverside shall not hire any new employee without first seeking to fill any position internally;

enter into or, except as may be required by law or any such plan or agreement or by the terms of the merger agreement and the transactions contemplated therein, modify any pension, retirement, stock option, stock purchase, stock appreciation right, stock grant, savings, profit sharing, deferred compensation, supplemental retirement, consulting, bonus, group insurance or other employee benefit, incentive or welfare contract, plan or arrangement, or any trust agreement related thereto, in respect of any of its directors, officers or employees, or make any contributions to any defined contribution or defined benefit plan not in the ordinary course of business consistent with past practice;

merge or consolidate Riverside with any other person; sell or lease all or any substantial portion of the assets or business of Riverside; make any acquisition of all or any substantial portion of the business or assets of any other person other than in connection with foreclosures, settlements in lieu of foreclosure, troubled loan or debt restructuring, or the collection of any loan or credit arrangement between Riverside or Riverside and any other person;

enter into a purchase and assumption transaction with respect to deposits and liabilities; incur deposit liabilities, other than liabilities incurred in the ordinary course of business consistent with past practice and in keeping with prevailing competitive rates; permit the revocation or surrender by Riverside of its certificate of authority to maintain, or file an application for the relocation of, any existing branch office, or file an application for a certificate of authority to establish a new branch office;

sell or otherwise dispose of any asset of Riverside other than in the ordinary course of business consistent with past practice; except for transactions with the FHLB, subject any asset of Riverside to a lien, pledge, security interest or other encumbrance (other than in connection with deposits, repurchase agreements, bankers acceptances, pledges in connection with acceptance of governmental deposits, and transactions in "federal funds" and the satisfaction of legal requirements in the exercise of trust powers) other than in the ordinary course of business consistent with past practice; incur any indebtedness for borrowed money (or guarantee any indebtedness for borrowed money), except in the ordinary course of business consistent with past practice;

change its method, practice or principle of accounting, except as may be required from time to time by GAAP (without regard to any optional early adoption date) or regulatory accounting principles or by any bank regulator responsible for regulating Riverside;

waive, release, grant or transfer any rights of value or modify or change any existing agreement or indebtedness to which Riverside is a party;

purchase any securities except securities: (i) rated "A" or higher by either Standard & Poor's Ratings Services or Moody's Investors Services, (ii) purchased in accordance with Riverside's existing investment policy, (iii) having a face amount in the aggregate of not more than \$500,000, (iv) having a duration of not more than three (3) years and (v) otherwise in the ordinary course of business consistent with past practice;

except as specifically provided for in the merger agreement, and except for commitments issued prior to the date of the merger agreement which have not yet expired and which have been disclosed to SAL, and except for the renewal

of existing lines of credit, (i) make or acquire any new loan or other credit facility commitment (including without limitation, loan participations, lines of credit and letters of credit) other than in the ordinary course of business consistent with past practice or (ii) make or acquire any new loan or issue any commitment for any new loan with a principal amount of \$1,000,000 or more without the prior consent of SAL or SBT; provided that such consent shall be deemed to have been granted if SAL or SBT does not object within three (3) business days of receipt of written notice from Riverside of its intent to make such loan;

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- enter into, renew, extend or modify any other transaction (other than a deposit transaction) with any affiliate; enter into any futures contracts, options, interest rate caps, interest rate floors, interest rate exchange agreements or other agreements or take any other action for purposes of hedging the exposure of its interest-earning assets and interest-bearing liabilities to changes in market rates of interest;
- except for the execution of the merger agreement, and actions taken or which will be taken in accordance with the merger agreement and performance thereunder, take any action that would give rise to a right of payment to any individual under any employment agreement;
- make any change in policies with regard to: the extension of credit, or the establishment of reserves with respect to the possible loss thereon or the charge off of losses incurred thereon; investments; asset/liability management; or other banking policies except as may be required by changes in applicable law or regulations, GAAP or regulatory accounting principles or by a bank regulator;
- except for the execution of the merger agreement, and the transactions contemplated therein and any terminations of employment, take any action that would give rise to an acceleration of the right to payment to any individual under any Riverside benefit plan;
- make any capital expenditures in excess of \$5,000 individually or \$20,000 in the aggregate, other than pursuant to binding commitments existing on the date of the merger agreement;
- purchase or otherwise acquire, or sell or otherwise dispose of, any assets or incur any liabilities other than in the ordinary course of business consistent with past practices and policies;
- except for existing commitments to sell any participation interest in any loan, sell any participation interest in any loan (other than sales of loans secured by one- to four-family real estate that are consistent with past practice) unless SBT has been given the first opportunity and a reasonable time to purchase any loan participation being sold, or purchase any participation interest in any loan other than purchases of participation interests from SBT; provided, that in the event Riverside proposes to sell any such participation interest, it will provide the chief lending officer of SBT with notice of such intent, including underwriting information for such loan. In the event that SBT has not elected within six (6) business days to purchase such participation interests, Riverside shall be free to sell such participation interest to a third party;
- undertake or enter into any lease, contract or other commitment for its account, other than in the ordinary course of providing credit to customers as part of its banking business, involving a payment by Riverside of more than \$10,000 annually, or containing any financial commitment extending beyond twelve (12) months from the date of the merger agreement;
- pay, discharge, settle or compromise any claim, action, litigation, arbitration or proceeding, other than any such payment, discharge, settlement or compromise in the ordinary course of business consistent with past practice that involves solely money damages in the amount not in excess of \$5,000 individually or \$20,000 in the aggregate, and that does not create negative precedent for other pending or potential claims, actions, litigation, arbitration or proceedings;
- foreclose upon or take a deed or title to any commercial real estate without having a Phase I environmental assessment of the property conducted as of a reasonably current date and, in the event such Phase I environmental assessment of the property indicates the presence of materials of environmental concern, providing notice to SAL thereof prior to final sale;
- purchase or sell any mortgage loan servicing rights other than in the ordinary course of business consistent with past practice;
- issue any broadly distributed communication of a general nature to employees (including general communications relating to benefits and compensation) without prior consultation with SAL and, to the extent relating to post-closing employment, benefit or compensation information without the prior consent of SAL (which shall not be unreasonably withheld, conditioned or delayed) or issue any broadly distributed communication of a general nature to customers without the prior approval of SAL (which shall not be unreasonably withheld, conditioned or delayed), except as required by law or for communications in the ordinary course of business consistent with past practice that do not relate to the merger or other transactions contemplated hereby;
- make, change or rescind any material election concerning taxes or tax returns, file any amended tax return, enter into any closing agreement with respect to taxes, settle or compromise any material tax claim or assessment or surrender

any right to claim a refund of taxes or obtain any tax ruling; or

- enter into any contract with respect to, or otherwise agree or commit to do, any of the foregoing.

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*Conduct of Business of SAL Pending the Merger*

SAL has agreed that, except with the prior written consent of Riverside, it will and will cause SBT to, among other things, to: operate its business only in the usual, regular and ordinary course of business; use reasonable best efforts to preserve intact its business organization and assets and maintain its rights and franchises; and voluntarily take no action which would (i) materially adversely affect the ability of the parties to obtain the regulatory approvals or materially increase the period of time necessary to obtain such approvals; (ii) materially adversely affect its ability to perform its covenants and agreements under the merger agreement; or (iii) result in the representations and warranties contained in Article V of the merger agreement not being true and correct on the date of the merger agreement or at any future date on or prior to the closing date or in any of the conditions set forth in Article IX thereof not being satisfied.

Riverside Shareholders' Meeting

Riverside has agreed to call, hold and convene a meeting of its shareholders as promptly as practicable after the registration statement of which this joint proxy statement/prospectus is a part becomes effective, subject to extension with the consent of the other party to consider and vote upon the approval of the merger agreement and any other matter required to be approved by the Riverside shareholders in order to consummate the merger. Riverside has also agreed to ensure that the Riverside shareholders' meeting is called, noticed, convened, held and conducted, and that all proxies solicited in connection with the meeting are solicited, in compliance with law, Riverside's articles of association and bylaws and all other applicable legal requirements.

Additionally, the board of directors of Riverside has agreed to recommend that Riverside shareholders vote to approve the merger agreement and the transactions contemplated thereby (including the merger) and any other matters required to be approved by their shareholders for consummation of the merger.

SAL Shareholders' Meeting

SAL has agreed to call, hold and convene a meeting of its shareholders as promptly as practicable after the registration statement of which this joint proxy statement/prospectus is a part becomes effective, subject to extension with the consent of the other party to consider the amendments to SAL's certificate of incorporation to authorize additional shares of common stock, and to take such other actions as are contemplated pursuant to the merger agreement.

No Solicitation



Until the merger is completed or the merger agreement is terminated, Riverside has agreed that it and its officers and directors will not:

solicit, initiate or encourage, or take any other action designed to facilitate any inquiries or the making of any proposal to acquire Riverside, whether by merger, consolidation, business combination, tender offer or exchange offer for 25% or more of Riverside's stock or otherwise;

- enter into or participate in any discussions or negotiations regarding any such acquisition proposal; or
  - make or authorize any statement in support of any such other acquisition proposal.

Riverside may, however, furnish information regarding Riverside to, or enter into discussions or negotiations with, any person or entity in response to, or authorize any statement or recommendation in support of an unsolicited acquisition proposal if:

Prior to the shareholder vote, Riverside's board of directors determines in good faith, after consultation with its financial advisers that the acquisition proposal is a superior proposal, and after receiving a written opinion from its outside legal counsel, that such actions would be required in order for Riverside's directors to comply with their fiduciary obligations under applicable law;

Riverside promptly notifies SAL of such inquiries, proposals or offers, the material terms of such inquiries, proposals or offers and the identity of the person making such inquiry, proposal or offer; and during the three day period following notification to SAL, Riverside negotiates in good faith with SAL to make adjustments to the merger agreement such that the other acquisition proposal is not reasonably likely to result in a transaction more favorable from a financial point of view to Riverside's shareholders than the merger with SAL, and such negotiations fail to result in the necessary adjustments to the merger agreement.

## Employee Matters

After the closing date of the merger, except to the extent SAL continues in effect any Riverside benefit plan providing benefits of a similar type, continuing employees of Riverside will be eligible for the employee benefits that SAL provides to its similarly-situated employees generally and on substantially the same terms and basis as is applicable to such employees. SAL has the right in its sole discretion to terminate, merge or continue any of Riverside's employee benefit plans, except that SAL will maintain Riverside's plans (other than stock-based or incentive plans) until the employees of Riverside and Riverside Bank are permitted to participate in comparable SAL plans. To the extent permitted under applicable law and SAL's benefit plans, each Riverside employee will be given credit with respect to the satisfaction of limitations as to pre-existing condition exclusions, evidence of insurability requirements and waiting periods for participation and coverage equal to the credit that such employee had received as of the effective time of the merger under the comparable Riverside benefit plans.

## Indemnification and Insurance

### *Indemnification*

Pursuant to the merger agreement, SAL has agreed that, after the effective date of the merger, it will indemnify, defend and hold harmless, for a period of six years from the effective time of the merger, each present and former officer or director of Riverside against all losses, claims, damages, costs, expenses (including attorneys' fees), liabilities, judgments and amounts that are paid in settlement of or in connection with any claim, action, suit, proceeding or investigation, based in whole or in part on, or arising in whole or in part out of, the fact that such person is or was a director or officer of Riverside if such action or proceeding pertains to any matter of fact arising, existing or occurring before the closing date of the merger to the fullest extent permitted under SAL's bylaws.

### *Directors' and Officers' Insurance*

SAL has further agreed to ensure that, for a six-year period following the effective time of the merger, the persons serving as officers and directors of Riverside immediately prior to the effective date continue to be covered by Riverside's current directors' and officers' liability insurance policies, or by a policy which is not materially less advantageous than such policy, or by single premium tail coverage with policy limits equal to Riverside's existing coverage limits, with respect to acts or omissions occurring prior to the effective date which were committed by such officers and directors in their capacity as such. However, in no event will SAL be required to expend in any one year more than 150% of the current annual cost currently expended by Riverside with respect to such insurance.

Voting Agreements

Riverside's directors, executive officers and certain principal shareholders of Riverside who will become directors of SBT and SAL (referred to as "designated nominees") have entered into voting agreements with SAL. In the voting agreements, each director, executive officer and designated nominee agreed to vote, and granted SAL an irrevocable proxy and power of attorney to vote, all of his or her shares of Riverside common stock:

- in favor of adoption and approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger; and
- against approval of any other agreement providing for a merger, consolidation, sale of assets, or other business combination of Riverside with any person or entity other than SAL.

Under the voting agreements, each director, executive officer and designated nominee agreed not to, and not to permit any of their affiliates, to:

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solicit or encourage or initiate any communication with any other person or entity with respect to, any proposal for a merger, consolidation, sale of assets, or other business combination involving Riverside, or for the acquisition of Riverside stock; or encourage any person, firm, corporation, group or other entity to engage in any such action; solicit proxies or become a participant in a solicitation with respect to another acquisition proposal (other than the merger agreement) or otherwise encourage or assist any party in taking or planning any action that would compete with, restrain or otherwise serve to interfere with or inhibit the timely consummation of the merger in accordance with the terms of the merger agreement;

initiate a shareholders' vote or action by consent of Riverside's shareholders with respect to another acquisition proposal; or

- except by reason of the voting agreement, become a member of a group with respect to any voting securities of Riverside that takes any action in support of another acquisition proposal.

In addition, except under limited circumstances, each director, executive officer and designated nominee also agreed not to sell, assign, transfer or otherwise dispose of or encumber his or her shares of Riverside common stock while the voting agreement is in effect. The voting agreements terminate immediately upon the earlier of the effective time of the merger, the termination of the merger agreement in accordance with its terms, or mutual written agreement of SAL and the director, executive officer, or designated nominee.

As of the record date, the directors, executive officers and designated nominees of Riverside and their affiliates collectively owned 303,045 shares of Riverside common stock, or approximately 39.52% of Riverside's outstanding shares. None of the directors, executive officers or designated nominees were paid any additional consideration in connection with the execution of the voting agreements.

#### Additional Agreements

SAL and Riverside have also agreed to use their reasonable best efforts to:

take all actions necessary, proper or advisable under the merger agreement and applicable law to consummate the merger as soon as practicable; and

promptly prepare and file all necessary documentation to obtain the consent, approval and authorization of all third parties and governmental entities which are necessary or advisable to consummate the merger.

The merger agreement also contains covenants relating to cooperation in the preparation of this joint proxy statement/prospectus and additional agreements relating to, among other things, access to information, notice of certain matters and the listing of SAL common stock on NASDAQ.

## Conditions to the Merger

The respective obligations of SAL and Riverside to complete the merger are subject to various conditions prior to the merger. The conditions include the following:

- approval of the merger by all applicable federal and state regulatory authorities and the expiration or termination of all applicable waiting periods;
- effectiveness of the registration statement filed with the SEC with respect to the common stock to be issued by SAL in accordance with the merger agreement;
  - the shares of SAL common stock to be issued in the merger being approved for listing on the NASDAQ;
- no judgment, order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the merger or any of the other transactions contemplated by the merger agreement from taking place is in effect, and no statute, rule, regulation, order, injunction or decree is enacted, entered, promulgated or enforced by any governmental entity which prohibits or makes illegal the consummation of the merger; and
- the receipt of legal opinions delivered by tax counsel to SAL and Riverside, respectively, to the effect that the merger will qualify as a reorganization under Section 368(a) of the Code.

The parties may waive conditions to their obligations unless they are legally prohibited from doing so. Shareholder and regulatory approvals may not be legally waived.

SAL is not obligated to complete the merger unless the following additional conditions are satisfied or waived:

the representations and warranties of Riverside contained in the merger agreement are true and correct in all material respects as of the date of the merger agreement and (except to the extent such representations and warranties speak as of an earlier date) as of the closing date of the merger as though made on and as of the closing date, except where the failure to be so true and correct has not had, and would not reasonably be expected to result in, a material adverse effect on Riverside;

Riverside performs in all material respects all covenants and agreements contained in the merger agreement to be performed by Riverside at or prior to the closing date;

SAL having received a certificate from the chief executive officer of Riverside with respect to compliance with the foregoing conditions;

no required regulatory approval listed in the merger agreement contains any condition, restriction or requirement which the board of directors of SAL reasonably determines in good faith would, individually or in the aggregate, materially reduce the benefits of the merger to such a degree that SAL would not have entered into the merger agreement had such condition, restriction or requirement been known at the date hereof; and

the merger agreement and the merger are approved by the affirmative vote of the holders of at least two-thirds of the outstanding shares of Riverside common stock entitled to vote at the special meeting.

Riverside is not obligated to complete the merger unless the following additional conditions are satisfied or waived:

the representations and warranties of SAL contained in the merger agreement are true and correct as of the date of the merger agreement and (except to the extent such representations and warranties speak as of an earlier date) as of the closing date of the merger as though made on and as of the closing date, except where the failure to be so true and correct has not had, and would not reasonably be expected to result in, a material adverse effect on SAL;

SAL performs in all material respects all covenants and agreements contained in the merger agreement required to be performed by it at or prior to the closing date;

The shareholders of SAL have approved the amendment to SAL's certificate of incorporation to increase the authorized number of SAL shares of common stock and to eliminate the minimum and maximum number of directors to provide SAL the ability to increase its number of directors pursuant to the merger agreement and approved the issuance of SAL common stock as consideration in the merger; and

Riverside having received a certificate from the chief executive officer and chief financial officer of SAL with respect to compliance with the foregoing conditions.

“Material adverse effect” means, with respect to Riverside, any effect that is material and adverse to the financial position, results of operations or business of Riverside or that would materially impair the ability of Riverside to perform its obligations under the merger agreement or otherwise materially impairs the ability of Riverside to consummate the transactions contemplated by the merger agreement; *provided, however*, that material adverse effect shall not be deemed to include the impact of:

- changes in banking and similar laws of general applicability or interpretations thereof by governmental authorities;
- changes in GAAP or regulatory accounting requirements applicable to banks generally;
- changes in general economic conditions (including interest rates) affecting banks generally or changes or events affecting the financial services industry generally;
- changes in the value of Riverside's securities or loan portfolio, or any change in the value of the deposits or borrowings of Riverside resulting from a change in interest rates generally, or the issuance in and of itself of any order or directive by any bank regulator (although, the underlying facts giving rise to such an issuance or the effects of such issuance may constitute a material adverse effect);
- reasonable expenses incurred in connection with the transactions contemplated by the merger agreement; and
- the effects of any action or omission taken with the prior consent of SAL or as otherwise expressly permitted or contemplated by the merger agreement.

With respect to SAL, the term “material adverse effect” means any effect that materially impairs the ability of SAL to make payment at the effective time of the aggregate merger consideration or otherwise materially impairs the ability of SAL to consummate the transactions contemplated by the merger agreement.

#### Termination of the Merger Agreement

The merger agreement may be terminated prior to the closing, before or after approval by SAL’s or Riverside’s shareholders, as follows:

- by mutual agreement of SAL and Riverside;
- by either party, if any required regulatory approvals for consummation of the merger are not obtained or are denied in a final nonappealable action or are permanently withdrawn at the request of a governmental authority;
- by either party, if the shareholders of SAL do not approve the increase in the number of SAL common shares and the issuance of shares as consideration in the merger or if the shareholders of SAL or Riverside do not approve the merger agreement;
- by the non-breaching party, if the other party breaches any covenants, agreements, representations or warranties contained in the merger agreement such that the terminating party would not be obligated to complete the merger and such breach has not been cured within thirty days after notice from the terminating party;
- by either party, if the closing of the merger has not occurred on or before December 31, 2014, or such later date as has been agreed upon in writing by SAL and Riverside, and such failure to close is not due to the terminating party’s material breach of any representation, warranty, covenant or other agreement contained in the merger agreement;
- by either party, if the other party fails to recommend in the proxy statement that its shareholders approve the transactions contemplated by the merger agreement or withdraws, modifies, or qualifies such recommendation in a manner adverse to the other party or resolves to do so;
- by SAL, if Riverside fails to recommend against acceptance of a tender offer or exchange offer for outstanding Riverside common stock that has been publicly disclosed within ten (10) business days after commencement of such tender or exchange offer, or if Riverside recommends or endorses an acquisition proposal or fails to issue a press release announcing its opposition to an acquisition proposal within ten (10) business days after an acquisition proposal is publicly announced or if Riverside breaches its obligations not to solicit another acquisition proposal, breaches its obligation to recommend approval of the merger with SAL to Riverside shareholders, recommends, proposes or publicly announces the intention to recommend or propose to engage in an acquisition transaction with any party other than SAL or SBT, or breaches its obligation to convene the meeting of Riverside shareholders to vote upon the merger agreement; or
- by Riverside, if Riverside has received a superior proposal and in accordance with Section 6.10 of the merger agreement regarding acquisition proposals has entered into an acquisition agreement with respect to the superior proposal provided Riverside pays SAL the termination fee and termination expenses described below and delivers to SAL a release signed by the parties to the acquisition agreement and any controlling entity of the parties, which irrevocably waives any right the releasing parties may have to challenge the payment to SAL of the termination fee and termination expenses.

#### Termination Fee and Termination Expenses



Under the terms of the merger agreement, Riverside must pay SAL a termination fee of \$1,200,000 (“Termination Fee”) and actual out-of-pocket expenses incurred by the other party (“Termination Expenses”) in an amount of up to \$500,000, if:

SAL terminates the merger agreement as a result of Riverside’s board of directors withdrawing, qualifying, modifying its recommendation to its shareholders to vote in favor of the merger agreement or making any statement, filing or release that is inconsistent with the recommendation.

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In addition, Riverside must pay SAL the Termination Fee and Termination Expenses if:

Riverside enters into an acquisition agreement with respect to a superior proposal prior to receipt of shareholder approval; or  
Riverside fails to recommend against acceptance of a tender offer or exchange offer for outstanding Riverside common stock that has been publicly disclosed (other than by SAL or a SAL affiliate) within ten (10) business days after the commencement of such tender or exchange offer; or  
Riverside recommends or endorses an acquisition proposal or fails to issue a press release announcing its opposition to such acquisition proposal within ten (10) business days after an acquisition proposal is publicly announced; or  
Riverside fails to take all steps necessary to duly call, given notice of convene and hold a special meeting of its shareholders as promptly as is practicable after this registration statement is declared effective by the SEC, for the purpose of considering the merge and merger agreement.

#### Amendment, Waiver and Extension of the Merger Agreement

Subject to compliance with applicable law, the merger agreement may be amended by the parties in writing at any time before or after approval of the matters presented in connection with merger by the shareholders of SAL and Riverside, except that after approval of the merger agreement by the shareholders of Riverside, there may not be, without further approval of Riverside shareholders, any amendment of the merger agreement that decreases or increases the amount or value or changes the form of the merger consideration to be delivered to Riverside shareholders.

At any time prior to the completion of the merger, the parties may, to the extent legally allowed, extend the time for the performance of any of the obligations or other acts of the other party, waive any inaccuracies in the representations and warranties contained in the merger agreement or in any document delivered pursuant to the merger agreement, and waive compliance with any of the agreements or satisfaction of any conditions contained in the merger agreement, except that after approval of the matters presented herein by the respective shareholders of SAL or Riverside, there may not be, without further approval of such shareholders, any extension or waiver of the merger agreement or any portion thereof that requires further approval under applicable law.

#### Expenses

Each party will pay all fees and expenses it incurs in connection with the merger agreement and the related transactions, except that SAL and Riverside will share equally any printing costs and SEC filing and registration fees.

#### Specific Performance

SAL and Riverside have agreed that they are each entitled to an injunction or other equitable relief to prevent breaches of the merger agreement and to enforce specifically the terms and provisions of the merger agreement, this being in addition to any other remedy to which the parties are entitled at law or in equity.

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## MARKET PRICES AND DIVIDEND INFORMATION OF SAL AND RIVERSIDE

## Market Prices

SAL common stock is listed on the NASDAQ Capital Market under the symbol "SAL." The following table shows the high and low sales prices as reported on the NASDAQ Capital Market during the periods indicated, as well as any dividends declared on SAL common stock.

Period	High	Low	Dividend Declared / Common Share
2014 First Quarter	\$27.79	\$25.80	\$0.28
Second Quarter	\$32.10	\$26.88	\$0.28
Third Quarter (through September 5, 2014)	\$30.70	\$27.50	
2013 First Quarter	\$26.00	\$23.55	\$0.28
Second Quarter	\$28.00	\$25.18	\$0.28
Third Quarter	\$29.95	\$25.59	\$0.28
Fourth Quarter	\$28.00	\$25.50	\$0.28
2012 First Quarter	\$26.95	\$22.51	\$0.28
Second Quarter	\$26.48	\$23.25	\$0.28
Third Quarter	\$25.75	\$23.50	\$0.28
Fourth Quarter	\$28.40	\$22.98	\$0.28

As of September 5, 2014, SAL had approximately 1,739 shareholders of record. The number of shareholders does not reflect the number of persons or entities who held their stock in nominee or street name through various brokerage firms.

The Riverside common stock is not traded or quoted on any established exchange or broker's market. Riverside has not paid cash dividends since it commenced operations.

The following table presents the closing sales prices of shares of SAL common stock, as reported on the NASDAQ Capital Market, on (i) March 18, 2014, the last trading day for which market information is available prior to the public announcement of the execution of the merger agreement and (ii) September 5, 2014, the latest practicable date prior to the date of this joint proxy statement/prospectus. The following table also presents the equivalent per share value of the SAL common stock that Riverside shareholders would receive for each share of their Riverside common

stock if the merger was completed on those dates.

	<b>SAL</b>	<b>Riverside Common Stock</b>
	<b>Common Stock Equivalent Per Share<sup>(1)</sup></b>	
March 18, 2014	\$26.90	\$36.32
September 5, 2014	\$28.09	\$37.92

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<sup>(1)</sup> Calculated by multiplying the closing price of SAL common stock as of the specified date by the merger exchange ratio of 1.35.

You are advised to obtain current market quotations for SAL common stock. The market price of SAL common stock will fluctuate between the date of this joint proxy statement/prospectus and the completion of the merger. No assurance can be given concerning the market price of SAL common stock.

## Dividends

SAL has historically paid regular quarterly cash dividends on its common stock of \$0.28 per quarter, and SAL's board of directors presently intends to continue the payment of regular quarterly cash dividends, subject to the need for those funds for debt service and other purposes. However, because substantially all of the funds available for the payment of dividends are derived from SBT, future dividends will depend upon the earnings of SBT, its financial condition and its need for funds. Furthermore, there are a number of federal and state banking policies and regulations that potentially restrict SAL's ability to pay dividends. In particular, because SBT is a depository institution whose deposits are insured by the FDIC, it may not pay dividends or distribute capital assets if it is in default on any assessment due the FDIC. In addition, under Federal Reserve policy, SAL is required to maintain adequate regulatory capital, and is expected to serve as a source of financial strength to SBT and to commit resources to support SBT. Furthermore, Connecticut law restricts a Connecticut bank from declaring, in any calendar year, dividends in excess of the bank's total net profits of that year, combined with its retained net profits of the preceding two years, unless approved by the Connecticut Banking Commissioner. These policies and regulations may have the effect of reducing the amount of dividends that SAL can declare to its shareholders.

Riverside has not paid dividends in 2013, 2012, or 2011.

## INFORMATION ABOUT RIVERSIDE

### Business

Riverside is a New York State chartered commercial bank serving small and medium sized businesses, professionals and individuals in the Hudson Valley with branches in Poughkeepsie, Red Oaks Mill, Newburgh and Fishkill. Riverside's primary business focus is serving the banking needs of small- and medium-size businesses. Riverside focuses almost exclusively on commercial lending. As of June 30, 2014, Riverside had total assets of approximately \$224 million and deposit liabilities of approximately \$197 million. Riverside has no subsidiaries. Since opening for business in 1988, Riverside has always been committed to providing outstanding products and service to its customers focusing on serving small to medium sized businesses and professionals within its markets.

### General

Riverside is required to file reports and otherwise comply with the rules and regulations of the NYFS and the FDIC.

Riverside is subject to extensive regulation by the NYFS, as its chartering agency, and by the FDIC, as its deposit insurer. Riverside is required to file reports with, and is periodically examined by, the FDIC and the NYFS concerning its activities and financial condition. It must obtain regulatory approvals prior to entering into certain transactions.

The following discussion of the laws, regulations and policies material to the operations of Riverside is a summary and is qualified in its entirety by reference to such laws, regulations and policies. Such statutes, regulations and policies are continually under review by Congress and the New York State Legislature and federal and state regulatory agencies. Any change in such laws, regulations, or policies could have a material adverse impact on Riverside.

### ***Financial Modernization***

The Gramm-Leach Bliley Act ("GLBA") permits greater affiliation among banks, securities firms, insurance companies, and other companies under a type of financial services company known as a "financial holding company". A financial holding company essentially is a bank holding company with significantly expanded powers. Financial holding companies are authorized by statute to engage in a number of financial activities previously impermissible for bank holding companies, including securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; and merchant banking activities. The act also permits the FRB and the Treasury to authorize additional activities for financial holding companies if they are "financial in nature"

or “incidental” to financial activities. A bank holding company may become a financial holding company if each of its subsidiary banks is “well capitalized” and “well managed” as defined in the FRB’s Regulation Y, and has at least a “satisfactory” Community Reinvestment Act rating. A financial holding company must provide notice to the FRB within 30 days after commencing activities previously determined to be permissible by statute or by the FRB and the Treasury.

All financial institutions are required to establish policies and procedures with respect to the ability to share nonpublic customer data with nonaffiliated parties and to protect customer data from unauthorized access. Riverside has developed policies and procedures, and believes it is in compliance with all privacy, information sharing, and notification provisions of GLBA and the Fair and Accurate Credit Transactions Act.

#### New York Banking Laws and Supervision

Riverside derives its lending, investment, and other authority primarily from the applicable provisions of the New York State Banking Law and the regulations of the NYFS, as limited by FDIC regulations. Under these laws and regulations, banks, such as Riverside, may invest in real estate mortgages, consumer and commercial loans, certain types of debt securities (including certain corporate debt securities, and obligations of federal, state, and local governments and agencies), certain types of corporate equity securities, and certain other assets. The lending powers of New York State-chartered savings banks and commercial banks are not subject to percentage-of-assets or capital limitations, although there are limits applicable to loans to individual borrowers.



The exercise by an FDIC-insured commercial bank of the lending and investment powers under the New York State Banking Law is limited by FDIC regulations and other federal laws and regulations. In particular, the applicable provisions of the New York State Banking Law and regulations governing the investment authority and activities of an FDIC-insured state-chartered savings bank and commercial bank have been effectively limited by the Federal Deposit Insurance Corporation Improvement Act (the “FDICIA”) and the FDIC regulations issued pursuant thereto.

With certain limited exceptions, a New York State-chartered bank may not make loans or extend credit for commercial, corporate, or business purposes (including lease financing) to a single borrower, the aggregate amount of which would be in excess of 15% of the bank’s net worth or up to 25% for certain loans. Riverside currently complies with all applicable loans-to-one-borrower limitations.

Under the New York State Banking Law, New York State-chartered stock-form banks and commercial banks may declare and pay dividends out of their net profits, unless there is an impairment of capital, but approval of the Superintendent is required if the total of all dividends declared by the bank in a calendar year would exceed the total of its net profits for that year combined with its retained net profits for the preceding two years less prior dividends paid.

The New York State Banking Law gives the New York Superintendent of Banking (“Superintendent”) authority to issue an order to a New York State-chartered banking institution to appear and explain an apparent violation of law, to discontinue unauthorized or unsafe practices, and to keep prescribed books and accounts. Upon a finding by the NYFS that any director, trustee, or officer of any banking organization has violated any law, or has continued unauthorized or unsafe practices in conducting the business of the banking organization after having been notified by the Superintendent to discontinue such practices, such director, trustee, or officer may be removed from office after notice and an opportunity to be heard. The Superintendent also has authority to appoint a conservator or a receiver for a commercial bank under certain circumstances.

### ***Interstate Branching***

Federal law allows the FDIC, and the New York State Banking Law allows the Superintendent, to approve an application by a state banking institution to acquire interstate branches by merger, unless, in the case of the FDIC, the state of the target institution has opted out of interstate branching. The New York State Banking Law authorizes commercial banks to open and occupy de novo branches outside the state of New York. Pursuant to the Dodd-Frank Act, the FDIC is authorized to approve a state bank’s establishment of a de novo interstate branch if the intended host state allows de novo branching by banks chartered by that state.

### ***New York State Change in Control Restrictions***

In addition to the Change in Bank Control Act and the Bank Holding Company Act (“BHCA”), the New York State Banking Law generally requires prior approval of the New York State Banking Board before any action is taken that causes any company to acquire direct or indirect control of a banking institution which is organized under New York law.

Federal Regulations

### ***Capital Requirements***

Under FDIC regulations, federally insured state-chartered banks, such as Riverside, that are not members of the Federal Reserve System (“state non-member banks”) are required to comply with minimum leverage capital requirements. For most institutions, the minimum leverage capital ratio is not less than 4%. Tier 1 capital is the sum of common shareholders’ equity, noncumulative perpetual preferred stock (including any related surplus) and minority investments in certain subsidiaries, less intangible assets (except for certain servicing rights and credit card relationships) and certain other specified items.

The FDIC regulations require state non-member banks to maintain certain levels of regulatory capital in relation to regulatory risk-weighted assets. The ratio of regulatory capital to regulatory risk-weighted assets is referred to as a bank’s “risk-based capital ratio”. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet items (including recourse obligations, direct credit substitutes and residual interests) to four risk-weighted categories ranging from 0% to 100%, and in some instances 200% or assets subject to dollar-for-dollar capital requirements, with higher levels of capital being required for the categories perceived as representing greater risk.

To be considered “well capitalized”, banks are generally expected to maintain a minimum ratio of total capital to risk-weighted assets of at least 8%, of which at least one-half must be Tier 1 capital. Total capital consists of Tier 1 capital plus Tier 2 or supplementary capital items, which include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, cumulative preferred stock and certain other capital instruments, and a portion of the net unrealized gain on equity securities. The includable amount of Tier 2 capital cannot exceed the amount of the institution’s Tier 1 capital. Banks that engage in specified levels of trading activities are subject to adjustments in their risk based capital calculation to ensure the maintenance of sufficient capital to support market risk.

In December 2010, the Basel Committee, a group of bank regulatory supervisors from around the world, released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as “Basel III.” Basel III, when fully implemented by the U.S. bank regulatory agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity.

In July 2013, the Federal Reserve Board, Office of the Comptroller of the Currency and Federal Deposit Insurance Corporation approved final rules to implement the Basel III capital framework. The rules will be effective on January 1, 2015 and phased-in over a multiple year period through 2019. The new capital rules call for greater reliance upon equity capital with higher minimum capital level requirements.

### ***Prompt Corrective Regulatory Action***

Federal law requires, among other things, that federal bank regulatory authorities take “prompt corrective action” with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories:

- Well capitalized – at least 5% leverage capital, 6% Tier 1 risk based capital and 10% total risk based capital.
- Adequately capitalized – at least 4% leverage capital, 4% Tier 1 risk based capital and 8% total risk based capital.
- Undercapitalized – less than 4% leverage capital, 4% Tier 1 risk based capital and less than 8% total risk based capital. “Undercapitalized” banks must adhere to growth, capital distribution (including dividend) and other limitations and are required to submit a capital restoration plan. A bank’s compliance with such a plan is required to be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5% of the institution’s total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized.
- Significantly undercapitalized – less than 3% leverage capital, 3% Tier 1 risk based capital and less than 6% total risk-based capital. “Significantly undercapitalized” banks must comply with one or more of a number of additional restrictions, including but not limited to an order by the FDIC to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, cease receipt of deposits from correspondent banks or dismiss directors or officers, and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company.
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Critically undercapitalized – less than 2% tangible capital. “Critically undercapitalized” institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

As of March 31, 2014, Riverside was “well capitalized”.

*Transactions with Affiliates*

Under federal law, transactions between depository institutions and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act (“FRA”). In a holding company context, at a minimum, the parent holding company of a bank and any companies which are controlled by such parent holding company are affiliates of the bank. Generally, Sections 23A and 23B are intended to protect insured depository institutions from suffering losses arising from transactions with non-insured affiliates, by limiting the extent to which a bank or its subsidiaries may engage in covered transactions with any one affiliate and with all affiliates of the bank in the aggregate, and by requiring that such transactions be on terms that are consistent with safe and sound banking practices.

The FRA and Regulation O restrict loans to directors, executive officers, and principal shareholders (“insiders”). Loans to insiders and their related interests may not exceed, together with all other outstanding loans to such persons and affiliated entities, the institution’s total capital and surplus. Loans to insiders above specified amounts must receive the prior approval of the board of directors and must be made on terms substantially the same as offered in comparable transactions to other persons. The FRA imposes additional limitations on loans to executive officers.

### ***Enforcement***

The FDIC has extensive enforcement authority over insured banks, including Riverside. This enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease and desist orders and remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and unsafe or unsound practices.

### ***Standards for Safety and Soundness***

The FDIC, together with the other federal bank regulatory agencies, prescribe standards of safety and soundness by regulations or guidelines, relating generally to operations and management, asset growth, asset quality, earnings, stock valuation and compensation. The federal bank regulatory agencies have adopted a set of guidelines prescribing safety and soundness standards, which establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, the federal bank regulatory agencies adopted regulations that authorize, but do not require, the agencies to order an institution that has been given notice that it is not satisfying the safety and soundness guidelines to submit a compliance plan. The federal bank regulatory agencies have also adopted guidelines for asset quality and earning standards. As a state-chartered bank, Riverside is also subject to state statutes, regulations and guidelines relating to safety and soundness, in addition to the federal requirements.

### ***Insurance of Deposit Accounts***

Riverside’s deposit accounts are insured by the Deposit Insurance Fund (“DIF”) of the FDIC up to applicable legal limits (generally, \$250,000 per depositor for each account ownership category and \$250,000 for certain retirement plan accounts) and are subject to deposit insurance assessments. The FDIC insurance coverage limit applies per depositor, per insured depository institution for each account ownership category.

The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating. The FDIC assigns an institution to one of the following capital categories based on the institution's financial condition consisting of (1) well capitalized, (2) adequately capitalized or (3) undercapitalized, and one of three supervisory subcategories within each capital group. The supervisory subgroup to which an institution is assigned is based on a supervisory evaluation provided to the FDIC by the institution's primary federal regulator and information which the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds. An institution's assessment rate depends on the capital category and supervisory category to which it is assigned.

FDIC insured institutions are required to pay assessments to the FDIC to fund the DIF. From time to time, the FDIC may impose a supplemental special assessment in addition to other special assessments and regular premium rates to replenish the deposit insurance funds during periods of economic difficulty. The amount of an emergency special assessment imposed on a bank will be determined by the FDIC if such amount is necessary to provide sufficient assessment income to repay amounts borrowed from the Treasury; to provide sufficient assessment income to repay obligations issued to and other amounts borrowed from insured depository institutions; or for any other purpose the FDIC may deem necessary.

The FDIC may terminate insurance of deposits, after notice and a hearing, if it finds that the institution is in an unsafe or unsound condition to continue operations, has engaged in unsafe or unsound practices, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The management of Riverside does not know of any practice, condition or violation that might lead to termination of deposit insurance.

***The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”)***

The Dodd-Frank Act, enacted in July 2010, significantly changed the bank regulatory landscape and has impacted lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act revised the statutory authorities governing the FDIC’s management of the DIF. The Dodd-Frank Act granted the FDIC new DIF management tools: maintaining a positive Fund balance even during a banking crisis and maintaining moderate, steady assessment rates throughout economic and credit cycles.

Among other things, the Dodd-Frank Act: (1) raised the minimum Designated Reserve Ratio (DRR), which the FDIC must set each year, to 1.35% (from the former minimum of 1.15%) and removed the upper limit on the DRR (which was formerly capped at 1.5%) and therefore on the size of the DIF; (2) required that the DIF reserve ratio reach 1.35% by September 30, 2020 (rather than 1.15% by the end of 2016, as formerly required); (3) required that, in setting assessments, the FDIC offset the effect of requiring that the reserve ratio reach 1.35% by September 30, 2020 (rather than 1.15% by the end of 2016) on insured depository institutions with total consolidated assets of less than \$10 billion; (4) eliminated the requirement that the FDIC provide dividends from the Fund when the reserve ratio is between 1.35% and 1.50%; and (5) continued the FDIC’s authority to declare dividends when the reserve ratio at the end of a calendar year is at least 1.50%, but granted the FDIC sole discretion in determining whether to suspend or limit the declaration or payment of dividends.

The Dodd-Frank Act also required that the FDIC amend its regulations to redefine the assessment base used for calculating deposit insurance assessments. Under the Dodd-Frank Act, the assessment base must, with some possible exceptions, equal average consolidated total assets minus average tangible equity.

The FDIC amended 12 CFR 327 to implement revisions to the Federal Deposit Insurance Act made by the Dodd-Frank Act by modifying the definition of an institution’s deposit insurance assessment base; to change the assessment rate adjustments; to revise the deposit insurance assessment rate schedules in light of the new assessment base and altered adjustments; to implement the Dodd-Frank Act’s dividend provisions; to revise the large insured depository institution assessment system to better differentiate for risk and better take into account losses from large institution failures that the FDIC may incur; and to make technical and other changes to the FDIC’s assessment rules. The FDIC Board of Directors adopted the final rule, which redefined the deposit insurance assessment base as required by the Dodd-Frank Act; made changes to assessment rates; implemented the Dodd-Frank Act’s DIF dividend provisions; and revised the risk-based assessment system for all large insured depository institutions, generally, those institutions with at least \$10 billion in total assets. Nearly all of the 6,700-plus institutions with assets less than \$10 billion, including SBT, have benefited from a reduction in their assessments as a result of this final rule.

The Dodd-Frank Act adopts various mortgage lending and predatory lending provisions and requires loan originators to retain 5% of any loan sold and securitized, unless it is a “qualified residential mortgage”, which includes standard 30 and 15-year fixed rate loans.

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### ***Consumer Protection and the Consumer Financial Protection Bureau***

The Dodd-Frank Act created the Consumer Financial Protection Bureau (“CFPB”). As required by the Dodd-Frank Act, jurisdiction for all existing consumer protection laws and regulations has been transferred to the CFPB. In addition, the CFPB is granted authority to promulgate new consumer protection regulations for banks and nonbank financial firms offering consumer financial services or products to ensure that consumers are protected from “unfair, deceptive, or abusive” acts or practices.

Riverside is subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, various state law counterparts, and the Consumer Financial Protection Act of 2010, which constitutes part of the Dodd-Frank Act and establishes the CFPB, as described above.

On January 10, 2013, the CFPB issued a final rule implementing the ability-to-repay and qualified mortgage (“QM”) provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act (the “QM Rule”). The ability-to-repay provision requires creditors to make reasonable, good faith determinations that borrowers are able to repay their mortgages before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. Under the Dodd-Frank Act and the QM Rule, loans meeting the definition of “qualified mortgage” are entitled to a presumption that the lender satisfied the ability-to-repay requirements. The presumption is a conclusive presumption/safe harbor for prime loans meeting the QM requirements and a rebuttable presumption for higher-priced/subprime loans meeting the QM requirements. The definition of a “qualified mortgage” incorporates the statutory requirements, such as not allowing negative amortization or terms longer than 30 years. The QM Rule also adds an explicit maximum 43% debt-to-income ratio for borrowers if the loan is to meet the QM definition.

### ***Federal Reserve System***

All depository institutions must hold a percentage of certain types of deposits as reserves. Reserve requirements currently are assessed on the depository institution’s net transaction accounts (mostly checking accounts). Depository institutions must also regularly submit deposit reports of their deposits and other reservable liabilities.

For net transaction accounts in 2013, the first \$12.4 million (which may be adjusted by the FRB) will be exempt from reserve requirements. A 3% reserve ratio will be assessed on net transaction accounts over \$12.4 million up to and including \$79.5 million (which may be adjusted by the FRB). A 10% reserve ratio will be assessed on net transaction accounts in excess of \$79.5 million (which may be adjusted by the FRB). Riverside is in compliance with these requirements.

*USA PATRIOT Act*

Under the USA PATRIOT Act, all financial institutions are required to take certain measures to identify their customers, prevent money laundering, monitor customer transactions and report suspicious activity to U.S. law enforcement agencies. Financial institutions also are required to respond to requests for information from federal banking regulatory authorities and law enforcement agencies. Information sharing among financial institutions for the above purposes is encouraged by an exemption granted to complying financial institutions from the privacy provisions of GLBA and other privacy laws. Financial institutions that hold correspondent accounts for foreign banks or provide private banking services to foreign individuals are required to take measures to avoid dealing with certain foreign individuals or entities, including foreign banks with profiles that raise money laundering concerns, and are prohibited from dealing with foreign “shell banks” and persons from jurisdictions of particular concern. The primary federal banking regulators and the Secretary of the Treasury have adopted regulations to implement several of these provisions. All financial institutions are also required to establish internal anti-money laundering programs. The effectiveness of a financial institution in combating money laundering activities is a factor to be considered in any application submitted by the financial institution under the Bank Merger Act or the BHCA. SBT has in place a Bank Secrecy Act and USA PATRIOT Act compliance program, and engages in very few transactions of any kind with foreign financial institutions or foreign persons.

### ***Community Reinvestment Act and Fair Lending Laws***

Riverside has a responsibility under the CRA to help meet the credit needs of our communities, including low and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. In connection with its examination, the FDIC assesses Riverside's record of compliance with the CRA. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit discrimination in lending practices on the basis of characteristics specified in those statutes. Riverside's failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on our activities. Riverside's failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions against Riverside by the FDIC as well as other federal regulatory agencies and the Department of Justice. Riverside's most recent FDIC CRA rating was "satisfactory".

Riverside is also subject to provisions of the New York State Banking Law referred to as the New York Community Reinvestment Act that impose continuing and affirmative obligations upon a banking institution organized in New York State to serve the credit needs of its local community (the "NYCRA"). Such obligations are substantially similar to those imposed by the CRA. The NYCRA requires the NYFS to make a periodic written assessment of an institution's compliance with the NYCRA, utilizing a four-tiered rating system, and to make such assessment available to the public. The NYCRA also requires the Superintendent of the NYFS (the "Superintendent") to consider the NYCRA rating when reviewing an application to engage in certain transactions, including mergers, asset purchases, and the establishment of branch offices or ATMs, and provides that such assessment may serve as a basis for the denial of any such application. The latest NYCRA rating received by Riverside was "satisfactory".

### ***The Electronic Funds Transfer Act, Regulation E and Related Laws***

The Electronic Funds Transfer Act (the "EFTA") provides a basic framework for establishing the rights, liabilities, and responsibilities of consumers who use electronic funds transfer ("EFT") systems. The EFTA is implemented by the Federal Reserve's Regulation E, which governs transfers initiated through ATMs, point-of-sale terminals, payroll cards, automated clearing house ("ACH") transactions, telephone bill-payment plans, or remote banking services. Regulation E requires consumers to opt in (affirmatively consent) to participation in a bank's overdraft service program for ATM and one-time debit card transactions before overdraft fees may be assessed on the consumer's account. Notice of the opt-in right must be provided to all new customers who are consumers, and the customer's affirmative consent must be obtained, before charges may be assessed on the consumer's account for paying such overdrafts.

Regulation E also provides bank customers with an ongoing right to revoke consent to participation in an overdraft service program for ATM and one-time debit card transactions and prohibits banks from conditioning the payment of overdrafts for checks, ACH transactions, or other types of transactions that overdraw the consumer's account on the consumer's opting into an overdraft service for ATM and one-time debit card transactions. For customers who do not affirmatively consent to overdraft service for ATM and one-time debit card transactions, a bank must provide those

customers with the same account terms, conditions, and features that it provides to consumers who do affirmatively consent, except for the overdraft service for ATM and one-time debit card transactions.

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND**

### **RESULTS OF OPERATIONS OF RIVERSIDE**

*You should read the following discussion and analysis of Riverside's financial condition and results of operations in conjunction with its financial statements and notes thereto included elsewhere in this document.*

The purpose of this discussion and analysis is to provide the reader with information pertinent to understanding and assessing Riverside's results of operations and financial condition for each of the past two years, including the interim six months ended June 30, 2014, as well as selected data for the past five years. This section contains forward-looking statements with respect to Riverside's financial condition, results of operations and business. These forward-looking statements involve certain risks and uncertainties. See "Cautionary Note Concerning Forward Looking Statements" located elsewhere in this document.

#### **Overview**

Riverside is a New York state-chartered commercial bank that began operations in February, 1988. Riverside is headquartered in Poughkeepsie in Dutchess County, New York, with total assets of \$224.1 million, total deposits of \$196.9 million and total stockholders' equity of \$26.2 million at June 30, 2014. Riverside provides a traditional set of lending, deposit and other financial products with an emphasis on commercial real estate and commercial and industrial loans to small- to mid-sized businesses and individuals. Its targeted markets are primarily in the Counties of Dutchess, Orange and Ulster, New York. As of June 30, 2014, Riverside operated four full-service branches, including its headquarters in Poughkeepsie.

#### **Critical Accounting Policies and Estimates**

Riverside's consolidated financial statements have been prepared in accordance with U.S. GAAP. In the preparation of its consolidated financial statements Riverside is required to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Riverside's significant accounting policies are fundamental to understanding management's discussion and analysis of financial condition and results of operations. Riverside's significant accounting policies are more fully described in Note 1 to its consolidated financial statements included elsewhere in this document.

Riverside defines its critical accounting policies as those accounting principles generally accepted in the United States of America that require Riverside to make subjective estimates and judgments about matters that are uncertain and are likely to have a material impact on its financial condition and results of operations as well as the specific manner in which it applies those principles. Riverside believes its critical accounting policies governing the determination of the

allowance for loan losses, assessment of other than temporary impairment of securities and the determination of income taxes are critical accounting policies. Riverside management has reviewed and approved these critical accounting policies and has discussed these policies with Riverside's audit committee. Riverside believes the critical accounting policies used in the preparation of its financial statements that require significant estimates and judgments are as follows:

***Allowance for Loan Losses.*** The allowance for loan losses represents Riverside's best estimate of probable credit losses inherent in the loan portfolio. Riverside regularly evaluates the adequacy of its allowance for loan losses. The allowance for loan losses has been determined in accordance with U.S. GAAP, under which Riverside is required to maintain an adequate allowance for loan losses. The allowance for loan losses is based upon Riverside's management's assessment of several factors including an assessment of probable losses included in the portfolio, giving consideration to the size and composition of the loan portfolio, actual loan loss experience, level of delinquencies, detailed analysis of specific loans for which full collectability may not be assured, the existence and estimated net realizable value of any underlying collateral and guarantees securing the loans, and current economic and market conditions. Although Riverside's management uses the best information available, the level of the allowance for loan losses remains an estimate which is subject to significant judgment and short-term change. Various regulatory agencies, as an integral part of their examination process, periodically review Riverside's allowance for loan losses. Such agencies may require Riverside to make additional provisions for loan losses based upon information available to them at the time of their examination. Furthermore, the majority of Riverside's loans are secured by real estate in New York. Accordingly, the collectability of a substantial portion of the carrying value of its loan portfolio is susceptible to changes in local market conditions and may be adversely affected by declines in real estate values. Future adjustments to the allowance for loan losses may be necessary due to economic, operating, regulatory and other conditions beyond Riverside's control. Riverside believes that its allowance for loan losses is adequate to cover probable loan losses which are specifically identifiable, as well as losses inherent in its portfolio which are probable but not specifically identifiable.

**Assessment of Other than Temporary Impairment.** Certain of Riverside's assets are carried in the consolidated statements of financial condition at fair value or at the lower of cost or fair value. Valuation allowances are established when necessary to recognize impairment of such assets. Riverside periodically performs analyses to test for impairment of various assets. In addition to its impairment analyses related to loans and other real estate owned ("OREO"), another significant analysis relates to other than temporary declines in the value of Riverside's securities. Riverside conducts a quarterly review and evaluation of the investment securities portfolio, restricted stocks and other investments to determine if the value of any security has declined below its carrying value and whether such decline is other than temporary. If such decline is deemed other than temporary Riverside would adjust the carrying value of the security by writing down the security to fair value through a charge to current period earnings. At June 30, 2014, Riverside has determined that all unrealized losses were temporary in nature.

**Income Taxes.** Riverside is subject to the income tax laws of the United States and New York where it conducts business. Riverside accounts for income taxes by recognizing the amount of taxes payable or refundable for the current year and deferred tax assets and liabilities for estimated future tax consequences, which require judgment with respect to events that have been recognized in Riverside's consolidated financial statements or tax returns. Fluctuations in the actual outcome of future tax consequences, including the recoverability of deferred tax assets, could materially impact its consolidated financial condition or results of operations.

### **Overview of Results of Operations**

Net income for the three months ended June 30, 2014 and 2013 was \$470 thousand and \$333 thousand, respectively, or \$0.63 and \$0.45 per diluted share. Net income for the first six months of 2014 and 2013 was \$934 thousand and \$726 thousand, respectively, or \$1.26 and \$0.98 per diluted share. The increase in net income for the three months ended June 30, 2014 and the first six months in 2014 reflect an increase in net interest income, a reduction in the provision for loan losses and a decrease in non-interest expense.

Net income for the years ended December 31, 2013 and 2012 was \$1.8 million and \$2.0 million, respectively, a decrease of 7.96%. Riverside's diluted earnings per share for year-ended 2013 were \$2.44, a decrease of \$0.21 over diluted earnings per share of \$2.65 for year-ended 2012. The decline in year over year income reflects a decline in non-interest income as service charges on deposit accounts and other service charges both declined. In addition, in 2012, Riverside recorded a \$120 thousand gain on the sale of foreclosed assets, while it had no such gains in 2013. Other factors affecting the year to year comparisons included a decline in total interest income, reflecting the continuing low interest rate environment, offset by decreases in interest expense and the provision for loan losses. In addition, non-interest expense increased in 2013 due to higher employee related expenses, loan related expenses and other operating expenses, commensurate with growth, which have also contributed to the decline of net interest margin.

## Net Interest Income

Net interest income for the three months ended June 30, 2014 was \$2.2 million, an increase of \$96 thousand, or 4.6%, compared to net interest income of \$2.1 million for same time period in 2013. Net interest income for the six months ended June 30, 2014 was \$4.4 million, an increase of \$190 thousand, or 4.5%, compared to net interest income of \$4.2 million for the first six months of 2013. Net interest income for the year ended December 31, 2013 was \$8.6 million, an increase of \$163 thousand, or 1.9%, compared to net interest income of \$8.4 million in the year ended December 31, 2012.

The increase in net interest income was largely attributable to a decrease in Riverside's interest expense, which was \$275 thousand for the three months ended June 30, 2014, a decrease of \$68 thousand compared to interest expense of \$343 thousand in the same period in 2013. Interest expense was \$541 thousand for the first six months of 2014, a decrease of \$160 thousand compared to interest expenses of \$701 thousand for the first six months of 2013, and \$1.3 million for the year ended December 31, 2013, a decrease of \$195 thousand compared to the year ended December 31, 2012. During 2013, Riverside's total interest bearing deposits decreased to \$139 million at December 31, 2013 from \$154 million at December 31, 2012, while noninterest-bearing deposits increased from \$46.1 million at December 31, 2012 to \$55.4 million at December 31, 2013. The change in the composition of the deposit portfolio, combined with the continuing low interest rate environment, resulted in the decline in interest expense and the increase in net interest income.



Riverside's total interest income increased by \$29 thousand to \$2.49 million for the three months ended June 30, 2014 from \$2.44 million in the same time period of 2013. For the first six months of 2014 total interest income was \$4.90 million, an increase of \$30 thousand from \$4.87 million in the same time period in 2013. For the year ended December 31, 2013, total interest income declined by \$32 thousand to \$9.8 million from \$9.9 million for the prior year. The marginal increase in interest income in 2014 and the decline in 2013 reflects the continued low rate environment and its impact on both newly originated assets and assets which reprice. Riverside's yield on earning assets was 4.71%, 5.04%, 5.00% and 5.47% for the first six months of 2014 and 2013 and for the years ended December 31, 2013 and 2012, respectively.

### **Provision for Loan Losses**

Riverside provides for loan losses by a charge to current income to maintain the allowance for loan losses at an adequate level to absorb probable losses inherent in Riverside's loan portfolio, determined according to Riverside's documented allowance adequacy methodology.

The provision for loan losses was \$210 thousand for the three months ended June 30, 2014, compared to \$240 thousand for the same period in 2013. The provision for loan losses was \$420 thousand for the six months ended June 30, 2014, compared to \$540 thousand for the same period in 2013. For the year ended December 31, 2013, the provision for loan losses was \$820 thousand compared to \$1.0 million for 2012. The reduction in the provision for loan losses reflects the continued reduction in charged off loans during all periods as well as year over year improvement in loan portfolio credit quality. While non-performing assets increased over the first six months of 2014, management believes these loans are well collateralized and/or guaranteed by the SBA and Riverside's loss exposure is limited. The allowance for loan losses to total loans ratio was 1.34% and 1.46% at June 30, 2014 and 2013, respectively. At December 31, 2013 and December 31, 2012, the allowance to total loans ratio was 1.40% and 1.37 %, respectively.

### **Non-Interest Income**

Non-interest income consists primarily of income on bank-owned life insurance ("BOLI"), service charges and related fees on deposit accounts, and other banking services. For the year ended December 31, 2013, non-interest income represented only 7.8% of Riverside's total revenues. With Riverside's focus on net interest income generation, non-interest income is expected to remain a minor portion of its total revenues.

Non-interest income amounted to \$175 thousand for the three months ended June 30, 2014 versus \$167 thousand for the same time period in 2013. Non-interest income amounted to \$353 thousand for the first six months of 2014 versus \$343 thousand for the first six months of 2013.

Non-interest income for the full year 2013 totaled \$827 thousand compared to \$1.0 million in 2012, a decrease of \$173 thousand in 2013 compared to 2012. In 2012, Riverside recognized \$120 thousand of gains on the sale of foreclosed assets, while Riverside did not recognize any gains on the sale of foreclosed assets during 2013. For the year ended December 31, 2013, income on bank-owned life insurance increased by \$25 thousand, partially offsetting reduced service charges on deposit accounts and other services charges and fees, which decreased \$46 thousand and \$35 thousand, respectively. The increase in BOLI income during 2013 was due to the purchase of \$1.5 million of BOLI in 2013. BOLI income is exempt from Federal and state income taxes.

### **Non-Interest Expense**

Non-interest expense consists of salaries and employee benefits, occupancy, equipment and other expenses related to conducting Riverside's operations and growing Riverside's business. Other expenses include expenses associated with the management of problem assets, including OREO.

For the three months ended June 30, 2014, non-interest expense totaled \$1.42 million, a decrease of \$65 thousand from \$1.49 million in the same time period of 2013. For the six months ended June 30, 2014, non-interest expense totaled \$2.83 million, a decrease of \$10 thousand from the \$2.84 million in the prior year period. Non-interest expense for the six month period reflects a reduction of \$74 thousand in salaries and employee benefit expense, to \$1.7 million in the first six months of 2014, a reduction of \$34 thousand in OREO expense to \$4 thousand in the first six months of 2014, a reduction of \$27 thousand in premises and equipment expense to \$325 thousand in the first six months of 2014, and an increase in additional non-interest expenses, consisting of directors' fees of \$23 thousand and professional services, consultants, legal, and accounting expenses of \$120 thousand.

For year-ended 2013, non-interest expense totaled \$5.7 million, a 7.5% increase from \$5.3 million in year-ended 2012. The year over year increase was primarily due to higher salaries and wages, OREO expense, and professional expenses. These categories were higher by \$188 thousand, \$95 thousand, and \$68 thousand, respectively, for 2013 compared to 2012. The increase in salaries and employee benefits was due to normal raises for employees, additional staffing due to Riverside's growth and the related benefits costs, which have also been increasing. The higher OREO expenses, net, for the yearly comparative period reflects property taxes and upkeep on the bank owned properties. The higher professional and legal expenses resulted primarily from consulting and compliance expense related to new and increasing regulations.

Riverside's efficiency ratio, a non-U.S. GAAP financial measure that Riverside believes is a widely followed metric in the banking industry, measures operating expenses as a percentage of net revenue, and is computed by dividing total non-interest expense by the sum of net interest income and non-interest income less net gains or losses on sales of securities and loans held for sale. Riverside's efficiency ratio was 60.1% for the three months ended June 30, 2014 and 60.00% for the first six months of 2014 compared to 65.73% and 62.88% for the comparable time periods in 2013. Riverside's efficiency ratio for 2013 was 60.15% compared to 56.46% for 2012.

## **Income Taxes**

Income tax expense was \$235 thousand for the three months ended June 30, 2014 and \$532 thousand for the first six months ended June 30, 2014 versus \$203 thousand and \$411 thousand for the same time periods in 2013, and \$1.1 million for the year ended December 31, 2013 versus \$1.1 million for the year ended December 31, 2012. The effective tax rate, which is derived from both federal and New York statutory income tax rates, is approximately 37.2% for 2013; an increase from 36.6% for 2012. The actual tax expense for the years ended December 31, 2013 and 2012 differs from the statutory Federal tax rate due principally to New York State taxes, tax-exempt investment income and income from BOLI.

## **Overview of Financial Condition**

### **General**

At June 30, 2014, Riverside's total assets were \$224.1 million, total loans were \$191.9 million and total deposits were \$196.9 million, compared to total assets of \$221.3 million, total loans of \$184.1 million and total deposits of \$195.0 million at December 31, 2013 and total assets of \$227.0 million, total loans of \$173.0 million and total deposits of \$201.0 million at December 31, 2012.

## Loans

Riverside's primary source of income is interest on loans. Riverside's loan portfolio consists primarily of commercial real estate loans secured by commercial properties and commercial and industrial loans. Riverside's loan portfolio is the highest yielding component of its interest earning asset base.

For the first six months of 2014, total (net) loans grew \$7.9 million, or 4.3% to \$191.9 million. Total (net) loans at December 31, 2013, were \$184.1 million, an increase of 6.53% compared to \$173 million at year end 2012. Growth for the comparative periods has been primarily in commercial real estate and commercial and industrial loans, and reflects an increase of new customers to Riverside through continued marketing and calling efforts by Riverside's senior management.

Riverside is experiencing increased competition reflected in aggressive pricing and terms offered by its competitors. Riverside continues to focus its efforts on building new relationships and providing quality service to its established loan customers who value Riverside's relationship banking philosophy.

The following table sets forth the classification of our gross loans by loan portfolio class as of the periods indicated:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Commercial real estate	\$ 113,131,244	\$ 106,468,173	\$ 99,056,158
Commercial and industrial	77,335,309	75,158,343	69,401,863
Commercial construction	3,958,285	4,688,008	6,420,700
Consumer	290,682	544,704	407,387
Total loans	194,715,520	186,859,228	175,286,108
Net deferred loan fees/costs	(157,203 )	(151,507 )	(81,764 )
Allowance for loan losses	(2,603,387 )	(2,622,811 )	(2,409,979 )
Loans receivable, net	\$ 191,954,930	\$ 184,084,910	\$ 172,794,365

At June 30, 2014, total commercial loans represented 99.9% of total loans. Riverside manages risk associated with Riverside's commercial portfolio through underwriting policies and procedures, diversification and loan monitoring efforts. Riverside's underwriting standards include requiring independent third-party appraisals, periodic property inspections, analyses of the quality and experience of the organization or developer managing each property, and evaluations of the cash flow capability of borrowers to repay loans. In addition to real estate collateral, the majority of Riverside's commercial loans are secured by business assets and many are supported by personal guarantees and other assets of the principals or the borrower.

Commercial and industrial loans are comprised of general purpose commercial and industrial lending including term loans, time notes and lines of credit. Commercial and industrial loans generally involve a higher degree of credit risk because the collateral underlying the loans may be in the form of intangible assets and/or inventory subject to market obsolescence. Commercial and industrial loans can also involve relatively large loan balances to single borrowers or groups or related borrowers, with the repayment of such loans typically dependent on the successful operation and income stream of the borrower. Such risks can be significantly affected by economic conditions. Commercial and industrial loans increased \$2.2 million, or 2.9%, to \$77.3 million at June 30, 2014, compared to \$75.2 million at December 31, 2013. Commercial and industrial loans grew \$5.8 million, or 8.3%, in 2013 compared to 2012.

Commercial real estate primarily consists of mortgages to finance the purchase of commercial property. Commercial real estate lending generally involves a high degree of risk because payments on loans secured by commercial real estate properties are often dependent on the successful operation or management of the properties, and/or the collateral value of the real estate securing the loan. Repayment of such loans may be subject to adverse conditions in the real estate market or economic conditions in the local economy. Also, commercial real estate loans typically involve large loan balances to single borrowers or groups or related borrowers. Commercial real estate loans increased by \$6.7 million, or 6.3%, for the six months ended June 30, 2014, to \$113.1 million compared to \$106.5 million at December 31, 2013. Commercial real estate loans grew \$7.4 million, or 7.4%, in 2013 compared to 2012.

Commercial construction primarily consists of loans to finance the construction of commercial property that normally convert to a permanent mortgage at the end of the construction phase. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion compared to the estimated cost of construction. Commercial construction loans decreased by \$730 thousand or 15.6%, for the six months ended June 30, 2014, to \$4 million compared to \$4.7 million at December 31, 2013. Commercial construction loans declined \$1.8 million, or 27.0%, in 2013 compared to 2012.

Consumer loans consist of secured and unsecured personal loans and overdraft protection lines. Consumer loans tend to have a higher credit risk due to the loans being either unsecured or secured by rapidly depreciable assets. Furthermore, consumer loan payments are dependent on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Consumer loans decreased by \$254 thousand, or 46.6%, for the six months ended June 30, 2014, to \$290.7 thousand compared to \$544.7 thousand at December 31, 2013. Consumer loans increased \$137 thousand, or 33.7%, in 2013 compared to 2012.

For further discussion on the composition of Riverside's loan portfolio, see Note 3 to its consolidated financial statements located elsewhere in this document.

## Asset Quality

Extending credit to its borrowers exposes Riverside to credit risk, which is the risk that the principal balance of a loan and related interest will not be collected due to the inability of the borrower to repay the loan. Riverside seeks to manage credit risk by carefully analyzing both the debt service capacity of a borrower and the underlying collateral securing their loan. Riverside manages credit risk in its loan portfolio through written loan policies, which establish underwriting standards or limits deemed necessary or prudent. These guidelines are approved by Riverside's board of directors.

Nonperforming assets totaled \$1.85 million, or 0.83% of total assets, at June 30, 2014, an increase from nonperforming assets of \$1.4 million, or 0.64% of total assets, at year-end 2013. The allowance for loan losses was \$2.6 million, representing 1.34% of loans receivable and 141% of nonaccrual loans at June 30, 2014. At year-end 2013, the allowance was \$2.6 million representing 1.40% of loans receivable and 1,873% of nonaccrual loans. There were \$433 thousand in net charge-offs recorded during the first six months of 2014.

## Asset Classification

Federal regulations and Riverside's policies require that Riverside utilizes an internal asset classification system as a means of reporting and tracking problem and potential problem assets. Federal banking regulations set forth a classification grid for problem and potential problem assets as "substandard," "doubtful" or "loss" assets. Loans classified as "substandard" have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. An asset is considered "substandard" if it is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly improbable. Assets classified as "loss" are those considered uncollectible and are charged to the allowance for loan losses. Assets which do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated "other assets especially mentioned." Loans not classified are rated pass.

Riverside formally reviews the ratings on all criticized and classified loans. The table below sets forth information on its classified assets and assets designated special mention at the dates indicated:

June 30, 2014	December 31, 2013	2012	2011
(in thousands)			

Classified Loans:

Substandard	\$3,923	\$4,328	\$2,371	\$3,975
Doubtful	134	59	215	182
Loss	—	—	—	—
Total classified loans	4,057	4,388	2,586	4,157
Special mention loans	2,239	1,909	2,769	3,703
Total classified and special mention loans	\$6,296	\$6,296	\$5,355	\$7,860

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**Delinquent Loans**

The following tables show the delinquencies in Riverside's loan portfolio as of the dates indicated.

June 30, 2014												
	Loans Delinquent 30-89 Days				Loans Delinquent 90 Days or More				Total Delinquent Loans			
	Number	Amount	% of Total		Number	Amount	% of Total		Number	Amount	% of Total	
Commercial real estate	—	—	—	%	2	\$1,199,963	65	%	2	\$1,199,963	61.2	%
Commercial & industrial	2	\$109,150	100	%	—	—	—	%	2	\$109,150	5.6	%
Commercial construction	—	—	—	%	1	\$650,000	35	%	1	\$650,000	33.2	%
Consumer	—	—	—	%	—	—	—	%	—	—	—	%
Total	2	\$109,150	100	%	3	\$1,849,963	100	%	5	\$1,959,113	100	%

December 31, 2013												
	Loans Delinquent 30-89 Days				Loans Delinquent 90 Days or More				Total Delinquent Loans			
	Number	Amount	% of Total		Number	Amount	% of Total		Number	Amount	% of Total	
Commercial real estate	2	\$1,557,654	100	%	1	\$140,000	100	%	3	\$1,697,654	100	%
Commercial & industrial	—	—	—	%	—	—	—	%	—	—	—	%
Commercial construction	—	—	—	%	—	—	—	%	—	—	—	%
Consumer	—	—	—	%	—	—	—	%	—	—	—	%
Total	2	\$1,557,654	100	%	1	\$140,000	100	%	3	\$1,697,654	100	%

**Nonperforming Assets and Troubled Debt Restructured Loans (TDRs)**

The following table sets forth information concerning Riverside's nonperforming assets and troubled debt restructured loans as of the dates indicated:

	June 30, 2014	December 31, 2013	2012	2011	2010	2009		
Nonaccrual loans:								
Commercial real estate	\$ 1,199,963	\$ 140,000	\$ 1,458,342	\$ 1,547,119	\$ 241,653	\$ 1,080,000		
Commercial & industrial	—	—	—	\$ 449,203	\$ 330,841	—		
Commercial construction	\$ 650,000	—	—	\$ 450,000	\$ 185,000	—		
Consumer	—	—	—	—	—	\$ 75,000		
Total nonaccrual loans	\$ 1,849,963	\$ 140,000	\$ 1,458,342	\$ 2,446,322	\$ 757,494	\$ 1,155,000		
Loans past due 90 days or more and still accruing	—	—	—	—	\$ 834,240	—		
Total nonperforming loans	\$ 1,849,963	\$ 140,000	\$ 1,458,342	\$ 2,446,322	\$ 1,591,734	\$ 1,155,000		
Other real estate owned	—	\$ 375,000	—	—	—	—		
Total non-performing assets	\$ 1,849,963	\$ 515,000	\$ 1,458,342	\$ 2,446,322	\$ 1,591,734	\$ 1,155,000		
Performing troubled debt restructured loans	\$ 924,063	\$ 1,846,669	\$ 1,845,763	\$ 926,420	\$ 2,353,000	\$ 2,395,000		
Nonaccrual loans to total loans	.95	% .07	% .83	% 1.58	% .52	% .81	%	%
Non-performing loans to total loans	.96	% .07	% .83	% 1.58	% 1.08	% .81	%	%
Non-performing assets to total assets	.83	% .23	% .64	% 1.31	% .86	% .67	%	%

Nonperforming assets include nonperforming loans and OREO. Nonperforming loans consist of loans on a nonaccrual basis and loans past due 90 days or more and still accruing. Nonperforming loans totaled \$1.85 million, or 0.96% of total loans, at June 30, 2014, compared to \$140 thousand, or .07% of total loans, at December 31, 2013, and \$1.46 million, or 0.83% of total loans, at December 31, 2012.

The accrual of interest is discontinued on a loan, meaning the loan is placed on nonaccrual status, when the contractual payment of principal or interest has become 90 days past due or management has serious doubt about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed. Interest income is not accrued on these loans until the loan is brought current, is performing in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of principal and interest is no longer in doubt.

There were no loans 90 days or more past due and still accruing at June 30, 2014, December 31, 2013, or December 31, 2012.

Real estate that is acquired through foreclosure or deed in lieu of foreclosure in partial or total satisfaction of loans is classified as OREO. The properties are recorded at fair value less estimated costs to sell at the date acquired. When a property is acquired, the excess of the loan balance over the fair value is charged to the allowance for loan losses. Any subsequent write downs that may be required to the carrying value of the property are recorded in non-interest expense. Riverside had no OREO at June 30, 2014. At December 31, 2013, OREO totaled \$375 thousand. Riverside had no OREO at December 31, 2012.

A loan is classified as a troubled debt restructuring ("TDR") when a concession that Riverside would not otherwise have considered is granted to a borrower experiencing financial difficulty. All of Riverside's current TDRs involve the restructuring of loan terms to reduce the total payment. At June 30, 2014, Riverside had 2 TDRs totaling \$924 thousand. At December 31, 2013, Riverside had three TDRs with a recorded balance of \$1,846,669 and a specific reserve allocation of \$390 thousand, all of which were performing pursuant to the terms of their modification. At December 31, 2012, Riverside had two performing TDRs with a recorded investment of \$1,845,763 and a specific reserve allocation of \$221 thousand. Through March 31, 2014, none of Riverside's TDRs have subsequently defaulted.

Riverside accounts for its impaired loans in accordance with U.S. GAAP. An impaired loan generally is one for which it is probable, based on current information and events, that Riverside will not collect all the amounts due under the contractual terms of the loan agreement. Impairment is measured on a loan-by-loan basis for commercial and industrial loans and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Total impaired loans amounted to \$3.6 million at June 30, 2014, compared to \$2.8 million and \$2.7 million at December 31, 2013 and 2012, respectively.

### Allowance for Loan Losses (“ALL”)

The allowance for loan losses is a reserve established through charges to earnings in the form of a provision for loan losses. Riverside maintains an allowance for loan losses at a level considered adequate to provide for all known and probable incurred losses in the portfolio. The level of the allowance is based on management's evaluation of estimated losses in the portfolio, after consideration of risk characteristics of the loans and prevailing and anticipated economic conditions. Loan charge-offs (i.e., loans judged to be uncollectible) are charged against the reserve and any subsequent recovery is credited. Riverside's officers analyze risks within the loan portfolio on a continuous basis and through an external independent loan review function, and the results of the loan review function are also reviewed by Riverside's audit committee. A risk system, consisting of multiple grading categories for each portfolio class, is utilized as an analytical tool to assess risk and appropriate reserves. In addition to the risk system, management further evaluates risk characteristics of the loan portfolio under current and anticipated economic conditions and considers such factors as the financial condition of the borrower, past and expected loss experience, and other factors which management feels deserve recognition in establishing an appropriate reserve. These estimates are reviewed at least quarterly and, as adjustments become necessary, they are recognized in the periods in which they become known. Although management strives to maintain an allowance it deems adequate, future economic changes, deterioration of borrowers' creditworthiness, and the impact of examinations by regulatory agencies all could cause changes to Riverside's allowance for loan losses.

At June 30, 2014, the allowance for loan losses totaled \$2.6 million, unchanged from \$2.6 million at December 31, 2013. The allowance for loan losses at December 31, 2013 reflected an increase of \$213 thousand, or 8.8%, from \$2.4 million at December 31, 2012. The ratio of the allowance for loan losses to total loans was 1.52%, 1.40% and 1.38%, at March 31, 2014, December 31, 2013 and December 31, 2012, respectively.

The following table provides information regarding loans charged off, loan recoveries, the provision for loan losses and the allowance for loan losses for each of the periods presented:

	Six months ended June 30			Years ended December 31		
	2014	2013	2012	2011	2010	2009
Balance – beginning of period	\$2,622,811	\$2,409,979	\$2,624,518	\$2,590,919	\$2,190,794	\$1,870,526
Loans charged off:						
Commercial real estate	—	\$430,764	\$310,379	\$379,732	\$165,000	\$432,825

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Commercial & industrial	\$218,227	\$233,283	\$1,191,893	\$847,127	\$544,693	\$1,366,103
Commercial Construction	\$257,900	—	—	—	—	—
Consumer	—	—	\$204	\$25,892	\$6,471	\$100,135
Total charge offs	\$476,127	\$664,047	\$1,502,836	\$1,252,751	\$716,164	\$1,901,063
Recoveries on loans previously charged off:						
Commercial real estate	\$17,000	\$10,038	\$241,000	\$81,234	\$2,933	\$63,370
Commercial & industrial	\$25,631	\$46,588	\$46,960	\$154,355	\$13,356	\$350,661
Commercial construction	—	—	—	—	—	\$7,300
Consumer	\$72	\$253	\$337	\$761	—	
Total recoveries	\$42,703	\$56,879	\$288,297	\$236,350	\$16,289	\$421,331
Net charge offs	\$433,424	\$607,168	\$1,214,539	\$1,016,401	\$699,875	\$1,479,732
Provision for loan losses	\$420,000	\$820,000	\$1,000,000	\$1,050,000	\$1,100,000	\$1,800,000
Balance- end of period	\$2,609,387	\$2,622,811	\$2,409,979	\$2,624,518	\$2,590,919	\$2,190,794

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**Allocation of the Allowance for Loan Losses**

The following tables describe the allocation of the allowance for loan losses among the various categories of loans and certain other information as of the dates indicated. The general allocation of the loan loss allowance is important to maintain the overall allowance at a level that is adequate to absorb credit losses inherent in the total loan portfolio. The allocation is made for analytical purposes only and is not necessarily indicative of the categories in which future loan losses may occur. The total allowance is available to absorb losses from any category of loans.

	June 30, 2014			December 31, 2013		
	ALL Amount	% of Total ALL	% of Total loans	ALL Amount	% of Total ALL	% of Total loans
Commercial real estate	\$1,534,221	58.8%	0.79%	\$1,485,801	56.6%	0.01%
Commercial and industrial	1,000,117	38.3%	0.51%	1,002,508	38.2%	0.01%
Commercial construction	36,309	1.4 %	0.2 %	44,256	1.7 %	— %
Consumer	1,720	.1 %	— %	1,391	.1 %	— %
Unallocated	37,020	1.4 %	N/A	88,855	3.4 %	N/A
Total	\$2,609,387	100 %	1.34%	\$2,622,811	100 %	1.4 %

	December 31, 2012			December 31, 2011		
	ALL Amount	% of Total ALL	% of Total loans	ALL Amount	% of Total ALL	% of Total loans
Commercial real estate	\$1,356,140	56.3%	0.01%	\$1,427,551	54.4%	
Commercial and industrial	679,503	28.2%	— %	983,660	37.5%	
Commercial construction	47,280	2.0 %	— %	82,969	3.2 %	
Consumer	15,242	.6 %	— %	3,051	.1 %	
Unallocated	311,814	12.9%	N/A	127,287	4.8 %	N/A
Total	\$2,409,979	100 %	1.5 %	\$2,624,518	100 %	

**Investment Securities**

The investment securities portfolio is used principally to manage liquidity. The portfolio is generally structured to provide consistent cash flows to enhance liquidity and provide funding for loan growth. At June 30, 2014, the portfolio was composed of obligations of U.S. government agencies, agency mortgage-backed securities, and tax-exempt obligations of state and political subdivisions.

Investment securities are classified as “held to maturity” (“HTM”), “available for sale” (“AFS”), or “trading” at time of purchase. Securities are classified as HTM based upon Riverside’s intent and ability to hold them to maturity. Such securities are stated at amortized cost or book value and adjusted for unamortized purchase premiums and discounts. Securities which are bought and held principally for resale in the near term are classified as trading securities, which are carried at market value. Realized gains and losses as well as gains and losses from marking the portfolio to fair value are included in trading revenue. Riverside has no trading securities. Securities not classified as HTM are classified as AFS. AFS securities are those securities that Riverside intends to hold for an indefinite period of time but not necessarily to maturity and are carried at fair value. Unrealized gains and losses on AFS securities are reported as a component of accumulated other comprehensive income, net of tax, which is included in stockholders’ equity. Any decision to sell a security classified as AFS would be based on various factors, including significant movements in interest rates, changes in the maturity mix of assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. At both June 30, 2014 and December 31, 2013, all of Riverside’s securities were classified as AFS.

The carrying value of Riverside’s investment securities portfolio at June 30, 2014 was \$16.5 million, a decrease of \$3.9 million, or 19.1%, from \$20.4 million at December 31, 2013. The securities portfolio at December 31, 2012 totaled \$14.3 million. The decrease in Riverside’s securities portfolio in the first six months of 2014 reflects the conversion of securities to cash to fund the loan growth, while the year over year increase was primarily due to increased cash from deposits based on the continued marketing and calling efforts by Riverside’s senior management.

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## Deposits

Deposits are Riverside's primary source of funds to support Riverside's earning assets. Total deposits reached \$196.9 million at June 30, 2014, an increase of 1.1% from \$194.7 million at December 31, 2013. Total deposits were \$201.0 million at December 31, 2012.

The increase in Riverside's deposits over the first six months of 2014 reflects a combined \$8.9 million increase in time deposits and money market accounts partially offset by a combined \$7.2 million decline in demand and NOW accounts. The increase reflects an increase in deposits needed to fund first six months of 2014 loan demand. The year over year decline reflects declines of \$10.3 million in money market accounts from \$58.5 million at December 31, 2012 to \$48.2 million at December 31, 2013, as well as of \$7.5 million in total time deposits from \$72.7 million at December 31, 2012 to \$65.1 million at December 31, 2013, offset partially by gains in noninterest-bearing deposits of \$9.3 million from \$46.1 million at December 31, 2012 to \$55.4 million at December 31, 2013. The decrease in money market accounts and time deposits was a result of one large deposit that was received in December and withdrawn in January, while the increase in noninterest-bearing deposits was a result of an increase in customers through the ongoing marketing and calling efforts by Riverside's senior management.

## Lines of Credit

Riverside has two overnight Fed Funds lines of credit. One is a \$5.0 million secured line and the other is a \$1.5 million unsecured line. Available for sale securities are pledged as collateral for the secured line. Riverside did not have any outstanding borrowings at June 30, 2014, and December 31, 2013 and 2012, respectively.

## Liquidity

Liquidity is a measure of a bank's ability to fund loans, withdrawals or maturities of deposits, and other cash outflows in a cost-effective manner. Riverside's principal sources of funds include deposit growth, scheduled amortization and prepayments of loan principal, and funds provided by operations. While scheduled loan payments are relatively predictable sources of funds, deposit flow and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

At June 30, 2014, the amount of liquid assets remained at a level management deemed adequate to ensure that, on a short- and long-term basis, contractual liabilities, depositors' withdrawal requirements, and other operational and customer credit needs could be satisfied. As of June 30, 2014, liquid assets (cash and due from banks, and federal funds sold) were \$8.6 million, which represented 3.8% of total assets, compared to \$9.4 million at December 31,



2013, which represented 4.3% of total assets on such date, or \$34.2 million at December 31, 2012, which represented 15.1% of total assets on such date.

Riverside's cash and cash equivalents decreased to \$8.6 million at June 30, 2014 from \$9.4 million at December 31, 2013, a decrease of 8.5%. Riverside's cash and cash equivalents decreased by \$24.8 million from \$34.2 million at December 31, 2012, to \$9.4 million at December 31, 2013. The year over year decline in Riverside's cash and cash equivalents reflect the opportunity to invest cash in securities and loans to gain a higher interest rate return.

### **Off-Balance Sheet Arrangements**

Riverside is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of Riverside's customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. Riverside's exposure to credit loss in the event of non-performance by the counter party to these instruments is represented by the contractual amount of those instruments. Riverside uses the same credit analyses in making commitments and conditional obligations as it does for on-balance-sheet instruments. Commitments under performance standby letters of credit do not necessarily represent future cash requirements, in that these commitments often expire without being drawn upon.

## **Asset and Liability Management**

Asset and liability management involves the evaluation, monitoring, and managing of market risk, interest rate risk, liquidity risk and the appropriate use of capital, while maximizing profitability. Riverside's Asset and Liability Committee ("ALCO") provides oversight to the asset and liability management process. ALCO recommends policy guidelines regarding exposure to interest rates, and liquidity and capital limits for approval by Riverside's board of directors.

The primary goals of Riverside's interest rate risk management process are to control exposure to interest rate risk inherent in Riverside's balance sheet, determine the appropriate risk level given Riverside's strategic objectives, and manage the risk consistent with limits and guidelines approved by ALCO and Riverside's board of directors. On a quarterly basis, Riverside provides a detailed review of Riverside's interest rate risk position to ALCO and the Riverside board of directors.

Riverside manages and controls interest rate risk by identifying and quantifying interest rate risk exposures through the use of net interest income simulation and economic value at risk models. Various assumptions are used to produce these analyses, including, but not limited to, the level of new and existing business, loan and investment prepayment speeds, deposit flows, interest rate curves and competitive pricing.

## **Interest Rate Sensitivity Analysis**

At June 30, 2014, and December 31, 2013 and 2012, the results of the models were within guidelines prescribed by Riverside's board of directors. If model results were to fall outside prescribed ranges, action plans, including additional monitoring and reporting to the Riverside board, would be required by ALCO and management until guidelines were back within prescribed limits.

Riverside's simulation model measures the volatility of net interest income to changes in market interest rates. Riverside measures the sensitivity of net interest income over 12- and 24-month time horizons. Policy guidelines have been established for rate shocks, positive and negative, ranging from -200 to +400 basis points. Rates are shocked immediately in year 1 with rates remaining stable in year 2. Yield curve shifts are parallel and instantaneous. For example, ALCO has established a policy that net interest income sensitivity is acceptable if net interest income in the +/- 200 basis points scenarios are within a 20% change in net interest income in the first twelve months and within a 20% change over the two year time frame. The net interest income simulation models for June 30, 2014 and December 31, 2013 show that over the next 12-month period, a +200 basis points rate shock will increase Riverside's net interest income by 1% and 2%, respectively. For the -200 basis points rate shock net interest income over the next year is estimated to decrease -12% and -12 %, respectively. As of June 30, 2014 and December 31, 2013, net interest income is projected over the next 24-month period in a +200 basis points rate to increase 3% and 4%, respectively. Riverside believes its interest rate risk position to be relatively balanced in an increasing or decreasing rate

environment at June 30, 2014.

Riverside measures long-term interest rate risk through an Economic Value of Equity (“EVE”) model. This model involves projecting Riverside’s asset and liability cash flows to their maturity dates, discounting those cash flows at appropriate interest rates, and then aggregating the discounted cash flows. Riverside’s EVE is the estimated net present value of these discounted cash flows. The variance in the economic value of equity is measured as a percentage of the present value of equity. The sensitivity of EVE to changes in the level of interest rates is a measure of the sensitivity of long-term earnings to changes in interest rates. Riverside uses the sensitivity of EVE principally to measure the exposure of equity to changes in interest rates over a relatively long time horizon. Based on the underlying assumptions, Riverside was within its policy guidelines at June 30, 2014, and December 31, 2013. Riverside’s EVE as of June 30, 2014 would decline by -18% with a rate shock of +200 basis points and increase by 17% with a rate shock of -200 basis points. Riverside’s EVE as of December 31, 2013 would decline by 19% with a rate shock of +200 basis points and increase by 19% with a rate shock of -200 basis points. Riverside believes its EVE market risk at these dates is within acceptable ranges.

Modeling changes in the simulation and EVE analyses require the making of certain assumptions, which may or may not reflect the manner in which actual yields or costs respond to changes in market interest rates. Although the models discussed above provide an indication of Riverside’s interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on Riverside’s net interest income or economic value of equity and may differ from actual results.

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## Capital

Riverside's capital management is designed to assure that Riverside always meets capital targets set by regulatory authorities and has the necessary capital for future growth. A significant measure of the strength of a financial institution is its capital base. The Federal regulators of Riverside have classified and defined capital into the following components: (1) Tier 1 capital, which includes tangible stockholders' equity for common stock, qualifying preferred stock and certain qualifying hybrid instruments, and (2) Tier 2 capital, which includes a portion of the allowance for loan losses, certain qualifying long-term debt, and preferred stock which does not qualify for Tier 1 capital. Minimum capital levels are regulated by risk-based capital adequacy guidelines that require certain capital as a percent of Riverside's assets and certain off-balance sheet items adjusted for predefined credit risk factors (risk-weighted assets). Risk-based capital standards require all banks to have Tier 1 capital as a percentage of risk-weighted assets of at least 4.0% and combined Tier 1 and Tier 2 capital as a percentage of risk-weighted assets of at least 8.0%.

In addition to the risk-based guidelines, the regulators require that an institution which meets the regulator's highest performance and operation standards maintain a minimum leverage ratio (Tier 1 capital as a percentage of average tangible assets) of 4.0%. For those institutions with higher levels of risk or that are experiencing or anticipating significant growth, the minimum leverage ratio will be evaluated through the ongoing regulatory examination process.

The following table summarizes Riverside's risk-based and leverage capital ratios as well as the required minimum regulatory capital ratios:

	<b>Actual Ratio</b>	<b>Minimum Requirement</b>	<b>Well Capitalized Requirement</b>
<b>June 30, 2014</b>			
Tier 1 leverage capital	10.55%	4.00%	5.00%
Tier 1 risk based capital	12.91%	4.00%	6.00%
Total risk based capital	14.16%	8.00%	10.00%
<b>December 31, 2013</b>			
Tier 1 leverage capital	11.53%	4.00%	5.00%
Tier 1 risk based capital	12.83%	4.00%	6.00%
Total risk based capital	14.08%	8.00%	10.00%

## Impact of Inflation and Changing Prices

Riverside's consolidated financial statements and notes thereto, located elsewhere in this document, have been prepared in accordance with U.S. GAAP which requires the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and

due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike most industrial companies, nearly all of Riverside's assets and liabilities are monetary. Therefore, interest rates have a greater impact on Riverside's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

#### Employees

At September 5, 2014, Riverside had a total of 37 full-time employees and 1 part-time employee. These employees are not represented by collective bargaining agents. Riverside believes that its relationship with its employees is good.

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Properties

All properties held by Riverside are leased with the exception of the main office, which is owned by Riverside:

Description	Location	Square Owned/		
		Feet	Leased	Lease Expiration
Main Office	11 Garden Street, Poughkeepsie, NY		Owned	N/A
Red Oaks Mill Branch	2064 New Hackensack Road, Poughkeepsie, NY	1,220	Leased	February, 2023
Fishkill Branch	1004 Main Street, Fishkill, NY	2,000	Leased	December 31, 2020
Newburgh Branch	52 Route 17K, Suite 201, Newburgh, NY	2,550	Leased	December 31, 2018

Legal Proceedings

Other than routine litigation, incidental to its business, there are no material legal proceedings pending to which Riverside or its properties are subject.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Riverside has had no disagreements with its accountants on accounting or financial disclosures.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

## Riverside

The following table sets forth information as of September 5, 2014, regarding the number of shares of common stock beneficially owned by all directors, executive officers described in the compensation table, and by all directors and executive officers as a group. Beneficial ownership includes shares, if any, held in the name of the spouse, minor children or other relatives of the nominee living in such person's home, as well as shares, if any, held in the name of another person under an arrangement whereby the Director or executive officer can vest title in himself at once or within sixty (60) days. Beneficially owned shares also include shares over which the named person has sole or shared voting or investment power, shares owned by corporations controlled by the named person, and shares owned by a partnership in which the named person is a partner.

Name	Shares of Common Stock Beneficially Owned <sup>(1)</sup>	Percent of Class
Charles M. Andola	18,255	2.46 %
George E. Banta	72,393	9.76 %
John Davies	4,500	(2) 0.60 %
Thomas C. DeBenedictus	5,000	0.67 %
Ira Effron	16,062	2.17 %
Michael D. Gordon	25,697	3.46 %
Austin E. Hodgkins, Jr.	22,542	3.04 %
P. Diane Hoe	31,000	4.18 %
Paul S. Hoffner	4,250	0.57 %
Stephen P. Lumb	5,100	0.69 %
David S. MacFarland	21,813	(3) 2.88 %
John O'Shea	48,548	6.54 %
David Petrovits	3,960	0.53 %
Steven R. Turk	2,500	0.34 %
Carl S. Wolfson	16,100	2.17 %
Gil Dilg	5,125	(4) 0.69 %
Todd Rubino	200	0.03 %
Total Directors and Officers as a Group	303,045	39.52 %

<sup>(1)</sup>Beneficial ownership is based on 741,876 shares of common stock outstanding as of September 5, 2014. Unless otherwise indicated, includes shares held directly by the individual as well as by such individual's spouse, shares

held in trust and in other forms of indirect ownership over which shares the individual effectively exercises sole voting and investment power.

- (2) Includes 4,000 vested options to purchase shares of common stock.
- (3) Includes 16,000 vested options to purchase shares of common stock.
- (4) Includes 5,000 vested options to purchase shares of common stock.

## **SAL**

The table below sets forth information concerning beneficial ownership of SAL's common stock by each of SAL's directors and named executive officers and all of SAL's directors and executive officers as a group. Unless otherwise indicated, all persons listed below have sole voting and investment power with respect to their shares, except to the extent spouses share authority under applicable law. Beneficial ownership is determined in accordance with the rules of the SEC. At the close of business on September 5, 2014, SAL had 1,713,281 shares of common stock outstanding. Management is not aware of any person (including any "group" as that term is used in Section 13(d)(3) of the Exchange Act) who beneficially owns more than 5% of SAL's common stock as of September 5, 2014.

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Name of Beneficial Owner	Amount and Nature of Beneficial Ownership <sup>(1)</sup>	Percent of Class <sup>(10)</sup>	
Richard J. Cantele, Jr. <sup>(2)</sup> , President and Chief Executive Officer	8,930.77	*	
Donald E. White <sup>(3)</sup> , Executive VP and Chief Financial Officer	2,400	*	
Louis E. Allyn II	2,848.61	*	
Arthur J. Bassin <sup>(4)</sup>	11,411	*	
Louise F. Brown	3,798	*	
Robert S. Drucker <sup>(5)</sup>	9,338	*	
David B. Farrell	2,138.49	*	
Nancy F. Humphreys <sup>(6)</sup>	3,910	*	
Holly J. Nelson <sup>(7)</sup>	3,241.71	*	
John F. Perotti <sup>(8)</sup>	11,867.01	*	
Michael A. Varet <sup>(9)</sup>	67,356	3.93	%
Total Directors and Officers as a Group	127,240	7.43	%

\* Percent ownership is less than 1%.

(1) Information is provided based on information as of September 5, 2014. The shareholdings also include, in certain cases, shares owned by or in trust for the individual's spouse and/or children or grandchildren, and in which all beneficial interest has been disclaimed. The shareholdings also include shares the individual has the right to acquire within sixty (60) days of September 5, 2014. 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.

(2) Includes 1,623 shares owned jointly by Richard J. Cantele, Jr. and his spouse, 6 shares owned by Richard J. Cantele, Jr. as custodian for his daughter, 5,000 shares of restricted stock granted in 2013 to Richard J. Cantele, Jr. in accordance with the 2011 Long Term Incentive Plan of Salisbury Bancorp, Inc., and 235.76 shares of ESOP.

(3) Includes 2,000 shares of restricted stock granted in 2014 to Donald E. White in accordance with the 2011 Long Term Incentive Plan of Salisbury Bancorp, Inc.

(4) Includes 10,791 shares owned jointly by Arthur J. Bassin and his spouse.

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

(6) Includes 2,200 shares owned jointly by Nancy F. Humphreys and her spouse.

(7) Includes 7 shares owned by Holly J. Nelson as guardian for a minor child.

(8) Includes 9,514 shares owned jointly by John F. Perotti and his spouse. Also includes 1,113 shares owned by his spouse with respect to which John F. Perotti has disclaimed beneficial ownership.

(9) Includes 18,540 shares owned by Michael A. Varet's spouse and 18,546 shares owned by his adult children, for which shares Michael A. Varet has disclaimed beneficial ownership.

(10) Percentages are based upon the 1,713,281 shares of SAL common stock outstanding and entitled to vote on September 5, 2014.

BOARD OF DIRECTORS AND MANAGEMENT OF THE COMBINED COMPANY FOLLOWING THE MERGER

Directors and Executive Officers of the Combined Company Following the Merger

Pursuant to the terms of the merger agreement, the board of directors of the combined company will consist of all of the directors of SAL immediately prior to the effective time of the merger and five (5) other individuals who are currently directors or principal shareholders of Riverside. SAL's current executive officers will serve as executive officers of the combined company along with John M. Davies, the current President and Chief Executive Officer of Riverside who will become the President of the New York Region of SBT.

The following tables list certain information regarding the individuals who are expected to serve as directors and executive officers of the combined company upon completion of the merger:

*Executive Officers*

The following table sets forth information regarding the executive officers of SAL followed by certain biographical information as of September 5, 2014.

<b>Officer's Name</b>	<b>Age</b>	<b>Title/Position with SBT and/or SAL</b>	<b>Years of Service</b>
Richard J. Cantele, Jr.	55	President and Chief Executive Officer of SBT and SAL	33
Donald E. White	50	Executive Vice President and Chief Financial Officer of SBT and SAL	1

Mr. Cantele has been a director of SAL and SBT since 2005. Mr. Cantele graduated from Fairfield University in 1981 with a Bachelor of Science degree in Finance; and graduated from the Stonier Graduate School of Banking in 1997. Mr. Cantele became President and Chief Executive Officer of SAL and SBT in 2009, prior to which he served as President and Chief Operating Officer of SAL and SBT since 2005. Mr. Cantele has been an executive officer of SAL since 2001 and SBT since 1989, serving as Executive Vice President, Treasurer and Chief Operating Officer of SBT and SAL and Secretary of SAL.

Effective April 1, 2013, Donald E. White joined SAL and SBT as Executive Vice President and Chief Financial Officer. Mr. White is a graduate of the University of Connecticut, Storrs, CT with a Master of Business

Administration and a Bachelor of Science in Finance. Mr. White previously served as a Managing Director of Sandler O'Neill + Partners, L.P., New York, NY, since January 2002. Prior to that time, Mr. White served as an officer of two other community-based depository institutions.

### ***Directors***

The following table sets forth certain information regarding the individuals who are expected to serve as directors of SAL upon completion of the merger:

<b>Director's Name</b>	<b>Age</b>	<b>Title/Position with SBT and SAL</b>
Richard J. Cantele, Jr.	55	President and Chief Executive Officer of SBT and SAL
Louis E. Allyn II	66	President, Allyndale Corporation
Charles M. Andola	70	President, United Apple Sales
George E. Banta	79	Beekman Arms Properties
Arthur J. Bassin	69	Town Supervisor, Ancram, NY
Louise F. Brown	70	Attorney, Ackerly Brown, LLP
Robert S. Drucker	72	Owner, Barrington Outfitters
David B. Farrell	58	CEO, Nappi International and Founder, Farrell & Co., LLC
Michael D. Gordon	68	President, Zimmer Bros., Inc.
Polly Diane Hoe	69	President, Mardi-Bob Management, Inc.
Nancy F. Humphreys	72	Retired
Holly J. Nelson	60	Member and Tour Operator, Iceland Adventure, LLC; Sales and Marketing Director, Iceland Tours and Travel
John F. Perotti	67	Retired
Rudolph P. Russo	84	Attorney
Michael A. Varet	72	Senior Counsel, DLA Piper LLP (US)

### *Information About Directors*

The board of directors of SAL is composed of a diverse group of persons with a variety of experience, qualifications, attributes and skills that enable it to meet the needs of SAL's governance. In particular, the board of directors consists of a group of individuals who collectively bring a mix of skills and knowledge in the areas of banking, finance, accounting and business. All members of the board of directors have an understanding of finance and accounting, are able to read and understand fundamental financial statements and generally accepted accounting principles and their application to the accounting of SAL. Each of the director's previous experience, analytical aptitude and leadership provide SAL with a wealth of knowledge from which it may draw. In addition, members of the board of directors are active in, and knowledgeable about, the local communities in which SAL and SBT operate. These are valuable skills and attributes for service as a director of SAL and SBT.

### *Class of 2017*

Charles M. Andola was one of the fifteen founders of Riverside. He has served on the board of Riverside since 1988, and was elected chairman in August 2012. Mr. Andola graduated from Cornell University in 1965, returning to the Hudson Valley to become the Chief Operating Officer of Costa Apple Products, a family owned company. After purchasing Costa Apple from the family in 1974, he joined two others as a partner in United Apple Sales. Campbell Soup bought Costa Apple from United for its Pepperidge Farm division in 1982. Mr. Andola served as a consultant to Pepperidge Farm for three years. During this period he led United Apple's efforts establishing direct routes for their export sales division worldwide. Mr. Andola founded the US Apple Export Council and served as the New York State representative from 1988 until 2004. He was elected chairman in 1996, and again in 2004. He has also served on the board of the Processed Apples Institute in Washington, DC, and on the board of Saint Francis Hospital in Poughkeepsie, NY. Mr. Andola's extensive experience in business and corporate management, as well as his service on the Riverside board, provide him with qualifications and skills to serve as a director of SAL.

George E. Banta has over 25 years of experience in the restaurant, hotel, and real estate businesses. He serves as President of Banta Properties, Inc., which owns and operates three restaurants. Mr. Banta is also President of Banta Motel Co. Inc., which owns and operates 20 franchise hotels in New York, Connecticut, Pennsylvania, and New Jersey. He also is a partner in several real estate holdings. Mr. Banta, who owns the Beekman Arms Inn in Rhinebeck, New York, is a graduate of Cornell University, School of Hotel Administration. Mr. Banta's expansive knowledge of real estate and related business experience are valuable to the SAL board's overall capabilities.

Louise F. Brown has been a director of SBT since 1992. Mrs. Brown graduated from Harvard cum laude in 1965 with a B.A.; Columbia Teachers College in 1966 with an M.A.; and cum laude from Boston University School of Law in 1972. She is a partner in the Sharon, CT office of the law firm of Ackerly Brown, LLP. Mrs. Brown's education and experience in real estate, as well as trust and estate administration, provide an additional set of skills to the board.

Richard J. Cantele, Jr. has been a director of SAL and SBT since 2005. Mr. Cantele graduated from Fairfield University in 1981 with a Bachelor of Science degree in Finance; and graduated from the Stonier Graduate School of Banking in 1997. Mr. Cantele became President and Chief Executive Officer of SAL and SBT in 2009, prior to which he served as President and Chief Operating Officer of SAL and SBT since 2005. Mr. Cantele has been an executive officer of SAL since 2001 and SBT since 1989, serving as Executive Vice President, Treasurer and Chief Operating Officer of SBT and SAL and Secretary of SAL. Mr. Cantele's positions as President and Chief Executive Officer along with his extensive years of service to SAL and SBT provide him with thorough knowledge of SBT and the markets which it serves.

Nancy F. Humphreys has been a director of SBT since 2001. Mrs. Humphreys graduated from Chatham College in 1963 and from Syracuse University, Maxwell Graduate School in 1965. Mrs. Humphreys retired from Citigroup New York, Citibank, in February of 2000 as Managing Director and Treasurer of Global Corporate Investment Bank North America. Mrs. Humphreys' finance and treasury knowledge and experience are great assets, particularly in the area of asset and liability management as well as with respect to the financial services industry generally.

*Class of 2016*

Louis E. Allyn, II has been a director of SBT since 2004. Mr. Allyn is a 1972 graduate of the University of Connecticut School of Business and has been President and General Manager of Allyndale Corporation, Canaan, CT since 1990. Allyndale Corporation mines and processes limestone into a variety of agricultural and lawn and garden products that are distributed throughout southern New England and New York state. Mr. Allyn was a Director of Canaan National Bank for approximately 13 years prior to its acquisition by SAL in 2004. Mr. Allyn has served as a member of the Board of Finance for the Town of North Canaan and previously served as its Chair. Mr. Allyn's experience as a small business owner, as well as his service to the Board of Finance, brings a unique and valuable perspective to his position on the board.

Robert S. Drucker has been a director of SBT since 2004. Mr. Drucker studied Accounting at Pace College and has been in the retail business for more than 45 years. He is presently proprietor of Barrington Outfitters, Great Barrington, MA and former proprietor of Bob's Clothing and Shoes, Canaan, CT. Mr. Drucker was a Director of Canaan National Bank for approximately 10 years prior to its acquisition by SAL in 2004. Mr. Drucker's experience operating successful businesses in Connecticut and Massachusetts and his prior experience as a director of another financial institution provide valuable knowledge to the board.

David B. Farrell has been a director of SBT since June, 2012. Mr. Farrell graduated from St. Bonaventure University, NY, cum laude, in 1977 with a B.S. degree in Business and Accounting. Mr. Farrell is the Chief Executive Officer of NAPPI International, an organization providing behavioral training through customized counseling and support. Mr. Farrell is also Chief Executive Officer and Founder of Farrell & Company, LLC, a management consulting firm. Mr. Farrell previously served as President and Chief Executive Officer and member of the board of directors of Bob's Stores (1999-2008) and previously served as an officer and director of Berkshire Hills Bancorp (2005-2009). Mr. Farrell's education and experience in the retail and financial services industries as well as his prior experience as a director of another financial institution provides valuable knowledge and insight to SAL and SBT. In particular, his extensive background in accounting and financial oversight provides a unique set of skills to the board.

Michael D. Gordon attended Merrimack College and the Connecticut School of Broadcasting. Following his graduation from broadcasting school he joined radio station WKIP in Poughkeepsie and later WHVW in Hyde Park. In July 1970 he married Debby Zimmer and joined Zimmer Brothers Jewelers. Currently he is President of the firm. Michael is a founding director of Riverside Bank in Poughkeepsie and serves on the Director's Loan Committee, the Compensation Committee and is Chairman of the Marketing Committee. He is co-founder and past President of the Arlington Business Improvement District and a current board member. He is a ten year member of the Pleasant Valley Planning Board. He is a member of the Dutchess County Historical Society and is Chairman of the Society's two year endowment fund campaign. Mr. Gordon's experience on Riverside's board and board committees, as well as his community service, will bring valuable insight and experience to the board.

P. Diane Hoe has been a director of Riverside since 2000. Ms. Hoe graduated cum laude from Vassar College in 1966 and later from NYU School of Law, where she served as an editor of the Law Review. In the early 1990s, after practicing banking law with a prominent New York City firm, she returned to Dutchess County as president and chief executive officer of a family bowling and real estate business. Her experience as a lawyer and businesswoman, as well as her involvement in the local community, enables her to provide valuable insight into regulatory issues, corporate governance, customer and financial service, and business opportunities.

Michael A. Varet has been a director of SBT since 1997. Mr. Varet graduated with a B.S. in Economics from the University of Pennsylvania, Wharton School in 1962 and from Yale Law School with an LL.B. in 1965. Mr. Varet was elected Chairman of the Board in 2010 before which Mr. Varet had served as Presiding Director since 2007. Mr. Varet is a Senior Counsel to the law firm of DLA Piper LLP (US), New York, NY. Mr. Varet's education and experience enables him to provide valuable knowledge to the board and his legal background and analytical skills provide insight into financial services and corporate governance matters.

*Class of 2015*

Arthur J. Bassin has been a director of SBT since June, 2010. Mr. Bassin has spent 25 years in consumer, commercial and mortgage banking at Citibank (1969-1983) and Dime Savings Bank of New York (1983-1992), followed by 10 years in private equity, most recently as President and Chief Executive Officer of TVData Technologies (1994-2001). He earned his MBA from Harvard Business School in 1969 and his AB from Harvard College in 1965. Mr. Bassin took office as Ancram Town Supervisor in January 2010. Mr. Bassin has served as a Director on several boards and currently serves on the Boards of Cricket Hill Farm, Inc. and Cricket Hill Academy, Inc. Mr. Bassin previously served on the Board of Amputee Coalition of America. Mr. Bassin also serves on the Ancram Town Board and the Columbia County Board of Supervisors. Mr. Bassin's experience in board and community service, consumer, commercial and mortgage banking as well as in private equity, in addition to his demonstrated leadership skills, provide valuable insight and skills to SAL and SBT.

Holly J. Nelson has been a director of SBT since 1995. Ms. Nelson graduated from Cornell University with a B.A. in 1979. Ms. Nelson is a member of Iceland Adventure, LLC, a tour operator, and Sales and Marketing Director for Iceland Tours and Travel. Ms. Nelson has been involved in a variety of public government positions in the Town of North East, New York. Ms. Nelson's education and experience in successfully operating small businesses in the New York market area served by SBT provide valuable perspective and leadership skills to the board.

John F. Perotti has been a director of SBT since 1985. Mr. Perotti attended University of Connecticut at Storrs; graduated from Hartford Institute of Accounting in 1972; and graduated from Williams College New England School of Banking and Bank Management. During 2009, he retired as Chairman and Chief Executive Officer of SAL and SBT, in which capacity he had served since 2005. Prior to that, he served as President and Chief Executive Officer of SAL and SBT, Executive Vice President and Chief Operating Officer of SBT and Vice President and Treasurer of SBT. Mr. Perotti's lifetime of valuable experience with SBT and SAL, its shareholders, customers and communities served by SBT provide SBT and SAL with valuable experience.

Rudolph P. Russo graduated from Manhattan College with a B.A. in 1950 and from Columbia Law School in 1953 with an LLB. Since 1957, Mr. Russo has engaged in the general practice of law in Dutchess County. During that time, he has served at various times as a town judge, as a member of the Dutchess County Legislature, counsel to the Dutchess County Legislature, and counsel to Dutchess Community College, as well as Town Attorney to the Towns of Beekman and Pawling. From 1993 to 2003, Mr. Russo served as Chairman and CEO of Colorocs Information Technologies, Inc., a public company engaged in the color imaging business. Mr. Russo's legal background, municipal government and public company experience will provide the board with valuable insight into corporate finances and governance.

SAL's Board of Directors Independence



As required under the NASDAQ listing standards, a majority of the members of the SAL board of directors must qualify as “independent,” as affirmatively determined by the SAL board of directors. The SAL board of directors consults with SAL’s counsel to ensure that the board’s determinations are consistent with relevant securities and other laws and regulations regarding the definition of “independent,” including those set forth in pertinent listing standards of NASDAQ, as in effect from time to time. SAL has determined that all directors are considered “independent” within the meaning of the NASDAQ independent standards with the exception of Richard J. Cantele, Jr., who is an executive officer of SAL and SBT.

***Meetings and Committees of the Board of Directors of SAL***

The board of directors met thirteen (13) times during 2013, and has various committees including an Executive Committee, Human Resources and Compensation Committee, Nominating and Governance Committee and Audit Committee. The members of the committees are appointed by the board of directors at least annually.

During 2013, no director attended fewer than 75% of the aggregate of (1) the total number of meetings held by SAL’s board of directors during the period that the individual served; and (2) the total number of meetings held by all committees of SAL’s board of directors on which he/she served. SAL does not maintain a policy for directors’ attendance at SAL’s annual meetings of shareholders, but encourages all directors to attend. All directors of SAL attended SAL’s annual meeting of shareholders on May 14, 2014.

### *Executive Committee of SAL*

The Executive Committee has general supervision over the affairs of SAL between meetings of the board of directors. The members of the Executive Committee are Louis E. Allyn, II, Louise F. Brown, Richard J. Cantele, Jr. and Michael A. Varet (Chair). The Executive Committee met one (1) time during 2013.

### *Nominating and Governance Committee of SAL*

The Nominating and Governance Committee is responsible for assisting the board of directors in identifying and evaluating potential nominees for director and recommending qualified nominees to the board for consideration. The Nominating and Governance Committee selects the director nominees to stand for election at SAL's annual meetings of shareholders. The Nominating and Governance Committee's process for identifying and evaluating nominees for director, including nominees recommended by shareholders, has historically operated informally and without any differences in the manner in which nominees recommended by shareholders are evaluated. However, SAL's bylaws provide that if the Nominating and Governance Committee or board of directors proposes a nominee age 72 or greater, then such nomination requires two-thirds approval by the full board of directors.

The Nominating and Governance Committee and the board of directors consider factors such as those summarized below in evaluating director candidates, including any nominee submitted by shareholders, and believe that SAL's bylaws, Nominating and Governance Committee Charter and the qualifications and considerations such as those enumerated below provide adequate guidance and flexibility in evaluating candidates. The Nominating and Governance Committee does not have a policy with regard to the consideration of diversity in identifying director nominees.

• Sound business judgment and financial sophistication in order to understand SAL's financial and operating performance and to provide strategic guidance to management.

• Business management experience.

• Integrity, commitment, honesty and objectivity.

A general familiarity with (i) prudent banking principles; (ii) bank operations/technology; (iii) pertinent laws, policies and regulations; (iv) markets and trends affecting the financial services industry; and (v) local economic and business opportunities.

• Strong communication skills in order to function effectively with SAL's constituencies.

• A financial interest in SAL as a shareholder. Generally, candidates should not have relationships with SAL or SBT which would disqualify the candidate from being considered independent.

• Generally, candidates should be involved in philanthropic, education, business or civic leadership positions.

• Generally, candidates should be familiar with the geographic areas served by SAL.

Candidates should evidence a willingness and commitment to devote sufficient time and energy to prepare for and attend board of director and committee meetings and to diligently perform the duties and responsibilities of service as a director.

- Candidates should not have interests which conflict with those of SAL or SBT.

SAL has not paid a fee to any third party or parties to identify or assist in identifying or evaluating potential nominees. The board of directors and Nominating and Governance Committee do not discriminate on the basis of sex, race, color, gender, national origin, religion or disability in the evaluation of candidates.

A copy of SAL's Nominating and Governance Committee Charter is available on SAL's website at [www.salisburybank.com](http://www.salisburybank.com) under "Shareholder Relations."

Any shareholder who wishes to recommend a nominee for director should send the required information, as set forth in SAL's bylaws, to the attention of the Chair of the Nominating and Governance Committee at Salisbury Bancorp, Inc., 5 Bissell Street, P.O. Box 1868, Lakeville, CT 06039-1868. See also the information under "Deadline for Submission of Shareholder Proposals" below.

The members of the Nominating and Governance Committee are Louis E. Allyn, II, Louise F. Brown (Chair), Nancy F. Humphreys and Michael A. Varet. All such members are "independent" in accordance with the independence standards of the NASDAQ. The Nominating and Governance Committee met one (1) time during 2013. All nominees for directors at the 2014 Annual Meeting were nominated by the Nominating and Governance Committee and the board of directors.

### ***Audit Committee of SAL***

SAL has a separately-designated standing Audit Committee established by the board of directors in accordance with Section 3(a)(58)(A) of the Exchange Act for the purpose of overseeing the accounting and financial reporting process of SAL and audits of the financial statements of SAL. Subject to the Audit Committee Charter, the Audit Committee provides assistance to the board of directors in fulfilling its responsibility to the shareholders, potential shareholders and investment community relating to corporate accounting, reporting practices of SAL, and the quality and integrity of the financial reports of SAL. In so doing, it is the responsibility of the Audit Committee to appoint the independent auditors for SAL and to maintain free and open means of communication between the directors, the independent auditors, the internal auditors and the financial management of SAL.

The responsibilities of the Audit Committee are governed by SAL's Audit Committee Charter which was adopted by SAL's board of directors. Its members are Louis E. Allyn, II, Arthur J. Bassin, David B. Farrell, Nancy F. Humphreys, Holly J. Nelson (Chair) and Michael A. Varet. The Audit Committee met six (6) times during 2013. Each of the members of the Audit Committee is an "independent director" in accordance with the independence standards of the NASDAQ. The board of directors has determined that David B. Farrell qualifies as an "audit committee financial expert" as such term is defined by federal securities laws and regulations. Additionally, the board of directors believes the members of the Audit Committee bring diverse educational, business and professional experience that is beneficial to the Audit Committee function of SAL and SBT and enables the Audit Committee to fulfill its responsibility.

A copy of SAL's Audit Committee Charter is available on SAL's website at [www.salisburybank.com](http://www.salisburybank.com) under "Shareholder Relations".

### ***SAL's Board Leadership Structure***

Mr. Varet has served as chairman of the board of SAL and SBT since April 30, 2010, before which he served as presiding director of SAL and SBT, performing the functions of chair, since June 2007.

The board of directors regularly reviews and assesses the effectiveness of its leadership structure and will implement any changes as it deems appropriate. The current leadership structure is comprised of a ten-member board of directors consisting of: a chairman, who is independent; the Chief Executive Officer, who also serves as President; the former Chief Executive Officer; and seven other independent directors. SAL has established responsibilities for the chair and, if warranted, presiding director to ensure that the board of directors is adequately informed about the affairs of SAL and SBT. SAL believes that this leadership structure ensures appropriate and effective governance of SAL and SBT.

SAL's bylaws provide that the board shall elect from among its members a chair of the board, who shall preside at all board meetings. If the chair is an officer of SAL or SBT, the board shall elect an independent presiding director and shall by resolution set forth the duties and responsibilities of the presiding director. The board will elect a chair, and, if warranted, a presiding director, at SAL's organizational meeting following the annual meeting of shareholders.

Corporate governance guidelines describe responsibilities for the chair. The primary responsibilities of the chair are to be responsible for the leadership of the board meetings, preparing the agenda and presiding over meetings.

Further, to assess effective independent oversight, the board of directors has adopted several governance practices, including regular executive sessions of independent directors and annual performance evaluations of the chair and Chief Executive Officer by the independent directors.

SAL recognizes that no single leadership model is right for all companies at all times. The board of directors recognizes that, depending upon the circumstances, other leadership models might be appropriate at some point, and the board of directors periodically reviews its leadership structure in this regard.

### ***SAL's Board Role in Risk Oversight***

The board oversees the risk management of SAL through its committees, management committees and the Chief Executive Officer. The Audit Committee monitors: (1) the effectiveness of SAL's internal controls; (2) the integrity of its consolidated financial statements; and (3) compliance with legal and regulatory requirements. In addition, the Audit Committee coordinates with the internal audit function and the independent registered public accountant.

At the monthly meetings, the board receives the minutes from each committee meeting as well as various reports from key members of senior management. The board reviews and discusses these reports with senior managers. The board also reviews the policies and practices of SAL and SBT on a regular basis. In addition, the board reviews corporate strategies and objectives and evaluates business performance. Two separate individuals serve in the positions of chief executive officer and chairman of the board.

### ***SAL's Code of Ethics***

SAL has adopted a Code of Ethics that applies to SAL's Directors, officers and employees, including SAL's Chief Executive Officer and Chief Financial Officer. A copy of such Code of Ethics is available upon request, without charge, by writing to Shelly L. Humeston, Secretary, Salisbury Bank and Trust Company, 5 Bissell Street, P. O. Box 1868, Lakeville, Connecticut 06039-1868.

### ***SAL's Board of Directors' Communications with Shareholders***

SAL's board of directors does not have a formal process for shareholders to send communications to the board of directors. However, the volume of such communications has historically been de minimus. Accordingly, the board of directors considers SAL's informal process to be adequate to address SAL's needs. Historically, such informal process has functioned as follows: any shareholder communication is forwarded to the President and Chief Executive Officer for appropriate discussion by the board of directors and the formulation of an appropriate response. Shareholders may forward written communications to the board of directors by addressing such comments to the Board of Directors of Salisbury Bancorp, Inc., 5 Bissell Street, P. O. Box 1868, Lakeville, Connecticut 06039-1868.

### ***SAL's Audit Committee Report***

The Audit Committee has reviewed and discussed SAL's audited financial statements for the fiscal year ended December 31, 2013 with management and has discussed the matters that are required to be discussed by Auditing

Standard No. 16 as adopted by the Public Company Accounting Oversight Board, with Shatswell, MacLeod & Company, P.C. (“Shatswell”), SAL’s independent registered public accounting firm.

The Audit Committee has received the written disclosures and the letter from Shatswell required by applicable requirements of the Public Company Accounting Oversight Board for communications with Audit Committees concerning independence, and has discussed Shatswell’s independence with respect to SAL with Shatswell.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in SAL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for filing with the Securities and Exchange Commission (the “SEC”).

SAL Audit Committee members are Louis E. Allyn, II, Arthur J. Bassin, David B. Farrell, Nancy F. Humphreys, Holly J. Nelson (Chair) and Michael A. Varet.

## Executive Compensation of SAL

The Dodd-Frank Act requires publicly traded companies to give shareholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the date of enactment and at least every three years thereafter and on so-called “golden parachute” payments in connection with approvals of mergers and acquisitions. At the SAL 2014 annual meeting of shareholders held on May 14, 2014, SAL’s shareholders voted on a non-binding, advisory basis to hold a non-binding, advisory vote on the compensation of the named executive officers of SAL annually. In light of the results, the board of directors determined to hold the vote annually and will do so at its 2015 annual meeting.

*Summary Compensation Table*

The following table shows, for the fiscal years ended December 31, 2013 and 2012, the compensation of the persons who served as Chief Executive Officer of SBT and Chief Financial Officer of SBT, who are the only executive officers of SBT. For purposes of this joint proxy statement/prospectus, these persons are referred to as our “Named Executive Officers.”

Name and Principal Position	Year	Salary(5) (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
(a) Richard J. Cantele, Jr., President and Chief Executive Officer (1)	2013	308,102	75,000	124,900	—	21,792	529,794
	2012	305,973	60,400	—	—	8,390	374,763
B. Ian McMahon, Chief Financial Officer (2)	2013	57,644	—	—	—	12,721	70,365
	2012	235,182	33,000	—	—	15,064	283,246
Donald E. White, Executive Vice President and Chief Financial Officer (3)	2013	146,808	23,690	—	—	4,260	174,758
	2012	—	—	—	—	—	—

(1) Mr. Cantele assumed the additional role of Interim Chief Financial Officer upon Mr. McMahon’s resignation as Chief Financial Officer effective March 1, 2013 until Mr. White’s appointment, effective April 1, 2013.

(2) Mr. McMahon resigned as Chief Financial Officer of SAL and SBT, effective March 1, 2013.

(3) Donald E. White was appointed Executive Vice president and Chief Financial Officer of SAL and SBT, effective April 1, 2013.



- (4) Salary represents amounts reflected as compensation on IRS Forms W-2 for each calendar year, reduced by the amounts set forth as "All Other Compensation" in Column (g) of the Summary Compensation Table.
- (5) Bonuses are accrued in the year indicated and paid in the succeeding fiscal year. Thus, the bonus earned in 2013 will be paid in 2014 and the bonus earned in 2012 was paid in 2013.
- (6) Reflects the aggregate grant date fair value of restricted stock awards granted during the year. The value is the amount recognized for financial statement purposes in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718.
- (7) Includes for 2013 and 2012, respectively: Mr. Cantele: \$14,780 and \$7,516 in 401(k) matching contributions and \$996 and \$874 in imputed income on life insurance benefits; Mr. McMahon: \$12,192 and \$13,806 in 401(k) matching contributions and \$529 and \$1,258 in imputed income on life insurance benefits; Mr. White: \$4,125 and \$0 in 401(k) matching contributions and \$135 and \$0 in imputed income on life insurance benefits. The imputed income on life insurance benefits for Mr. Cantele and Mr. McMahon reflects purchases by SBT of bank-owned life insurance ("BOLI") policies on the lives of such officers. Includes for 2013, an ESOP contribution of \$6,016 for Mr. Cantele.

***Severance Agreement for Richard J. Cantele, Jr.***

On February 11, 2013, the Bank and Richard J. Cantele, Jr., President and Chief Executive Officer of SBT (or the “Executive”), entered into a Severance Agreement, effective as of January 1, 2013, to provide benefits to Mr. Cantele in the event of his termination of employment for the reasons set forth in the agreement. The Severance Agreement has a two-year term and, thereafter, is automatically renewable annually. In the event of Mr. Cantele’s (i) involuntary termination of employment by SBT for reasons other than “cause” (as defined in the agreement) or his death or disability, or (ii) his voluntary termination of employment for “good reason” (as defined in the agreement). In either case, other than on or after a change in control, the Executive will be entitled to a severance benefit equal to two times the greater of his annual base salary rate in effect on the date of termination or his average annual base salary rate for the twelve-month period ending on the last day of the calendar month immediately before the date of termination. Such benefit will be paid in a lump sum within 60 days following Mr. Cantele’s separation from service. In addition, Mr. Cantele generally will be entitled to continued participation in SBT’s group health plan for two years following separation from service, subject to the Executive’s payment of a premium portion substantially equal to the premium portion paid by executive employees of SBT for comparable coverage. Payment of the severance benefits will be conditioned upon the execution by the Executive of a general release within 60 days of the date of termination of Mr. Cantele’s employment. The Severance Agreement requires Mr. Cantele to comply with non-compete, non-solicitation and non-disclosure provisions for a period of one year following his separation from service.

In the event of a change in control followed by Mr. Cantele’s involuntary termination of employment for reasons other than cause or voluntary termination of employment for good reason, he will be entitled to a lump sum cash payment equal to 2.9 times the greater of his annual base salary rate in effect on the date of termination or his average annual base salary rate for the twelve-month period ending on the last day of the month preceding the date of termination, payable within 60 days following termination. SBT will also provide him with life insurance coverage and non-taxable medical and dental coverage, at no cost to him, substantially comparable to the coverage maintained by SBT for the Executive prior to his date of termination, for a period of three years. In addition, Mr. Cantele will be entitled to the payment of unpaid compensation and benefits, unreimbursed expenses incurred on behalf of SBT and unused vacation accrued through the date of his termination of employment.

***Change in Control Agreement for Donald E. White***

SBT entered into a one year Change in Control Agreement with Mr. White (the “Agreement”) on April 1, 2013 which will automatically renew for additional one-year terms, unless either party elects not to renew the Agreement by providing notice of non-renewal to the other party at least thirty (30) days prior to the renewal date. In the event SAL or SBT at any time during the term of the Agreement effects a transaction which would be a “change in control” (as defined in the Agreement), then the Agreement shall be automatically extended for twelve (12) months following the date a change in control occurs.

Pursuant to the Agreement, Mr. White is eligible to receive benefits subject to certain conditions set forth in the Agreement in the event that Mr. White is involuntarily terminated on or after a change in control for reasons other

than “cause” (as defined in the Agreement) (or due to his death or disability), or is voluntarily terminated for “good reason” (as defined in the Agreement) on or after a change in control. Such change in control benefits include a lump sum cash payment equal to one and one-half times Mr. White’s annual base salary in effect on his date of termination, or if greater, his average annual base salary rate for the twelve (12) months immediately prior to his termination date. In addition, Mr. White would be entitled to the continuation of current Bank-provided dental, medical and life insurance coverage and other benefits as set forth in the Agreement for eighteen (18) months. In no event will any compensation payable under the Agreement constitute an “excess parachute payment” under Section 280G or violate Section 409A of the Internal Revenue Code.

Payment of change in control benefits under the Agreement are conditioned upon Mr. White’s covenant to comply with non-compete, non-solicitation and non-disclosure provisions for a period of eighteen (18) months following his termination of employment. Notwithstanding any provision in the Agreement, Mr. White will serve as an employee-at-will.

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*New Employment Agreement with John M. Davies*

SBT and Mr. Davies have entered into an employment agreement, which is effective upon consummation of the merger. Pursuant to such agreement, Mr. Davies, currently the Chief Executive Officer and President of Riverside will become President of the New York Region of SBT.

Mr. Davies' initial base salary will be \$225,000.00 per year, payable in installments in accordance with SBT's normal payroll practices, less such deductions or withholdings as are required by law. Such base salary will be subject to at least annual evaluations and shall be not less than \$225,000.00. SBT shall pay, or shall direct Riverside to pay immediately prior to the effective time of the merger, Mr. Davies an initial cash success bonus of \$70,000.00, contingent upon (i) the happening of the effective time at or prior to December 31, 2014, and (ii) as of the effective time, the dollar amount of the gross loan portfolio of Riverside will equal at least 90% of the dollar amount of the gross loan portfolio of Riverside as of December 31, 2013.

In addition, Mr. Davies shall be entitled to receive the following cash payments, subject to the vesting requirements set forth below. Upon the vesting of each award, the cash award shall be paid to Mr. Davies:

\$100,000 awarded in 2015 on the anniversary of the effective date and fully vested and paid to Mr. Davies in 2016 on the anniversary of the effective date;

\$100,000 awarded in 2016 on the anniversary of the effective date and fully vested and paid to Mr. Davies in 2018 on the anniversary of the effective date; and

\$100,000 awarded in 2017 on the anniversary of the effective date and fully vested and paid to Mr. Davies in 2018 on the anniversary of the effective date.

In order for the foregoing awards to vest and be paid over to Mr. Davies, Mr. Davies must be employed by SBT on both the award date and the vesting date; provided however, that (i) in the event Mr. Davies' employment is terminated by SBT for any reason other than "cause", (ii) Mr. Davies terminates his employment with SBT for "good reason" (as defined in the employment agreement), or (iii) there occurs a change in control, then in that case (x) any award set forth above which has not yet been awarded to Mr. Davies shall be awarded to Mr. Davies, and (y) all such awards shall be deemed fully vested and paid to Mr. Davies, all as of his termination date or the effective date of such change in control, whichever is applicable.

Pursuant to the employment agreement, SBT shall also grant to Mr. Davies 3,000 shares of restricted SAL common stock on the effective time of the merger, which shall vest at a rate of 750 shares on the effective date and on each of the subsequent three anniversaries of the effective date, provided Mr. Davies is still employed by SBT on such anniversary date; provided however, that (i) in the event Mr. Davies' employment is terminated by SBT for any reason other than "cause", (ii) Mr. Davies terminates his employment with SBT for "good reason", or (iii) there occurs a change in control, then in that case any unvested shares of restricted stock then held by Mr. Davies shall be deemed fully vested as of his termination date or the effective date of such change in control, whichever is applicable.

The employment agreement also provides for change in control protection. In the event of Mr. Davies' involuntary termination of employment for reasons other than cause or a voluntary termination of employment for good reason occurring on or after a change in control, he shall be entitled to the following:

(a) A lump sum cash payment equal to two (2.0) times his annual rate of base salary in effect on the date of termination or, if greater, his average annual base salary rate for the twelve (12) month period ending on the last day of the calendar month immediately prior to the date of such termination. Such amount shall be paid to Mr. Davies within sixty (60) days following his separation from service.

(b) Life insurance coverage and non-taxable medical and dental coverage, at no cost to Mr. Davies, that is substantially comparable (and on substantially the same terms and conditions) to the coverage maintained by SBT for Mr. Davies immediately prior to his date of termination. Such life insurance and non-taxable medical and dental coverage shall be provided by SBT to the Mr. Davies for two (2) years following his separation from service and subject to the same terms and conditions as other benefits provided.

(c) Unpaid compensation and benefits, and unused vacation, accrued through the date of his termination of employment. Mr. Davies shall also be entitled to be reimbursed by SBT for final expenses that he reasonably and necessarily incurred on behalf of SBT prior to his termination of employment.

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“Change in control” shall mean (i) a change in the ownership of SAL or SBT, (ii) a change in the effective control of SAL or SBT, or (iii) a change in the ownership of a substantial portion of the assets of SAL or SBT, as described below.

A change in the ownership of a corporation occurs on the date that any one person, or more than one person acting as a group (as defined in Treasury Regulation §1.409A-3(i)(5)(v)(B)), acquires ownership of stock of SAL or SBT (i) that, together with stock held by such person or group, constitutes more than fifty (50) percent of the total fair market value or total voting power of the stock of such corporation. For these purposes, a change in ownership will not be deemed to have occurred if no stock of SAL or SBT is outstanding.

A change in the effective control of SAL or SBT occurs on the date that either (A) any one person, or more than one person acting as a group (as defined in Treasury Regulation §1.409A-3(i)(5)(vi)(D)) acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of SAL or SBT possessing thirty (30) percent or more of the total voting power of the stock of (ii) SAL or SBT, or (B) a majority of the members of SAL’s or SBT’s board of directors is replaced during any twelve (12)-month period by directors whose appointment or election is not endorsed by a majority of the members of SAL’s or SBT’s board of directors prior to the date of the appointment or election, provided that this definition of change in control is inapplicable where a majority shareholder of the entity that experiences the change in control is another corporation.

A change in a substantial portion of SAL’s or SBT’s assets occurs on the date that any one person or more than one person acting as a group (as defined in Treasury Regulation §1.409A-3(i)(5)(vii)(C)) acquires (or has acquired (iii) during the twelve (12)-month period ending on the date of the most recent acquisition by such person or persons) assets from SAL or SBT that have a total gross fair market value equal to or more than forty (40) percent of the total gross fair market value of (A) all of the assets of SAL or SBT, or (B) the value of the assets being disposed of, either of which is determined without regard to any liabilities associated with such assets.

The employment agreement also includes typical confidentiality and non-compete and non-solicitation provisions.

### ***Non-qualified Deferred Compensation Plan***

On February 11, 2013, Mr. Cantele also entered into a participation agreement with SBT evidencing his participation in a non-qualified deferred compensation plan (the “NQDC Plan”). The NQDC Plan, which was approved by SBT’s Board of Directors on January 25, 2013, permits the Board of Directors to select certain key employees of SBT to participate in the NQDC Plan, provided that such employees also evidence their participation by execution of a participation agreement. The only Named Executive Officer participating in the NQDC Plan at this time is Mr. Cantele. The NQDC Plan was effective as of January 1, 2013.

At the end of each NQDC Plan year, if SBT's Board of Directors has approved a discretionary contribution for Mr. Cantele, the NQDC Plan administrator will credit his account with such contribution. As of the last day of each NQDC Plan year, the NQDC Plan administrator will credit each account with interest on the account balance equal to SBT's highest certificate of deposit rate for that year, compounded annually. Additional earnings may be credited based on the achievement of performance metrics established by the Board of Directors on the first business day of the calendar year. Mr. Cantele's benefits under the NQDC Plan will be subject to the vesting schedule set forth in his participation agreement. Notwithstanding the vesting schedule, his account balance will become automatically 100% vested upon involuntary termination without cause, death, disability or a change in control.

In the event Mr. Cantele has a separation from service other than due to "cause" (as defined in the NQDC Plan), death, disability or a change in control, he will be entitled to the amount of his vested account balance under the NQDC Plan, payable within 60 days after his separation from service. In the event a change in control occurs and Mr. Cantele has an involuntary separation from service (other than for cause) or resigns for good reason, he will be entitled to benefits under the NQDC Plan, payable in a lump sum within 60 days after his termination of employment, subject to the requirements of Section 409A of the Internal Revenue Code. If Mr. Cantele dies while employed at SBT or after his termination but during the payout period, his beneficiary will be paid a death benefit in a lump sum payment within 30 days after his death. The death benefit will be equal to his account balance at such time. In the event Mr. Cantele becomes disabled while employed at SBT, he will be paid a disability benefit in a lump sum within 30 days after the determination of his disability unless Mr. Cantele elects another form of payment in his participation agreement. The disability benefit will be equal to his account balance as of the date of disability. Payment of benefits under the NQDC Plan are conditioned on Mr. Cantele's covenant to comply with non-compete, non-solicitation and non-disclosure provisions for a period of one year following separation from service.

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**Outstanding Equity Awards at Fiscal Year End - SBT**

The following table sets forth the outstanding equity awards held by SBT's Named Executive Officers at its fiscal year ended December 31, 2013.

## Outstanding Equity Awards at Fiscal Year End

Name	Option Awards			Equity incentive plan awards:		Stock Awards		
	Number of securities underlying unexercised options (#)	Number of securities underlying unexercised options (#)	Number of securities underlying unexercised options (#)	number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration price (\$)	Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested (\$)(1)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	
Richard J. Cantele, Jr.	—	—	—	—	—	—	5,000	134,450

(1) Reflects the value of Mr. Cantele's restricted stock award as of the fiscal year ended December 31, 2013.

## Supplemental Retirement Agreement

As the former Chief Executive Officer of SAL and SBT, Mr. Perotti is receiving benefits under a supplemental retirement agreement that was established for his benefit during his employment. Following his retirement, Mr. Perotti commenced receiving monthly payments in January 2010 and these payments will continue through December 2019. The monthly payments are adjusted annually to reflect the lesser of a five percent (5%) increase or "The Monthly Consumer Price Index for All Urban Consumers, United States City Average, All Items" published by the Bureau of Labor Statistics and are paid for a period of ten (10) years. The aggregate monthly payments in 2013 were \$23,637. The supplemental retirement agreement includes provisions that prevent Mr. Perotti from working for a competitor in the proximity of SBT.

## Executive Compensation of Riverside



*Summary Compensation Table*

The following table shows, for the fiscal years ended December 31, 2013 and 2012, the compensation of the persons who served as Chief Executive Officer of Riverside and Chief Financial Officer of Riverside, who are the only executive officers of Riverside. For purposes of this joint proxy statement/prospectus, these persons are referred to as Riverside's "Named Executive Officers".

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	All Other Compensation	Total
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
John M. Davies, President and Chief Executive Officer	2013	190,511	25,000	—	—	21,383	236,894
	2012	182,352	25,000	—	—	16,131	223,483
Gil Dilg, Chief Financial Officer	2013	125,064	17,000	—	—	—	142,064
	2012	120,692	14,000	—	—	—	134,692

**Outstanding Equity Awards - Riverside**

The following table sets forth the outstanding equity awards held by Riverside's Named Executive Officers at its fiscal year ended December 31, 2013.

<b>Outstanding Equity Awards</b>						
<b>Option Awards</b>						
<b>Name</b>	<b>Year Granted</b>	<b>Number of shares underlying unexercised options (#) exercisable</b>	<b>Number of shares underlying unexercised options (#) unexercisable</b>	<b>Incentive awards</b>	<b>Option exercise price</b>	<b>Option expiration price</b>
John M. Davies, President and Chief Executive Officer	2007	2,000	0	0	\$35.00	\$35.00
	2008	2,000	0	0	\$42.00	\$42.00
Gil Dilg, Chief Financial Officer	2005	1,000	0	0	\$25.00	\$25.00
	2006	1,000	0	0	\$29.00	\$29.00
	2007	1,000	0	0	\$35.00	\$35.00
	2008	2,000	0	0	\$42.00	\$42.00
	2013	0	2,500	0	\$23.00	\$23.00

The following table sets forth the aggregate information of Riverside's equity compensation plans in effect as of December 31, 2013:

<b>Plan category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>
Equity compensation plans approved by security holders	59,000	\$29.27	41,000
Equity compensation plans not approved by security holders	0	0	0

Total	59,000	\$29.27	41,000
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## Board of Directors Compensation - SAL

The following table summarizes the compensation paid to non-employee directors for the fiscal year ended December 31, 2013. Directors who are employees receive no additional compensation for board service. The compensation received by Mr. Cantele, who is the only director employee of SBT, is reflected in the Summary Compensation Table.

Name	Fees				Total
	Earned or Paid in Cash	Stock Awards	Option Awards	All Other Compensation	
	(\$)	\$(6)	(\$)	(\$)	(\$)
Louis E. Allyn, II	23,275	3,975	—	—	27,250
Arthur J. Bassin	32,738 (1)	3,975	—	—	36,713
Louise F. Brown	17,300	3,975	—	—	21,275
Robert S. Drucker	20,650	3,975	—	—	24,625
David B. Farrell	23,225	3,445	—	—	26,670
Nancy F. Humphreys	27,400 (2)	3,975	—	—	31,375
Holly J. Nelson	27,725 (3)	3,975	—	—	31,700
John F. Perotti	24,000 (4)	3,975	—	23,637 (7)	51,966
Michael A. Varet	41,663 (5)	3,975	—	—	45,638

(1) Includes a \$3,958 retainer paid to Mr. Bassin for his services as Chairperson of the Compensation Committee.

(2) Includes a \$5,000 retainer paid to Mrs. Humphreys for her services as Chairperson of the ALCO/Investment Committee.

(3) Includes a \$5,000 retainer paid to Ms. Nelson for her services as Chairperson of the Audit Committee.

(4) Includes a \$2,500 retainer paid to Mr. Perotti for his services as Chairperson of the Trust Committee.

(5) Includes a \$18,458 retainer paid to Mr. Varet for his services as Chairman.

Represents the grant date fair value of 150 shares of SBT's common stock issued on May 15, 2013 pursuant to the (6)2011 Long Term Incentive Plan, valued at \$26.50 per share. Mr. Farrell received a pro-rata portion of 130 shares as he joined the Board on June 29, 2012.

(7) Represents supplemental retirement payments paid to Mr. Perotti.

## Directors' Fees - SAL

During 2013, each non-employee director received an annual retainer of \$7,500. In addition, non-employee directors received \$500 for each Board of Directors meeting attended and \$350 for each committee meeting attended. Effective May 2013, the annual retainer for the Chairman increased from \$17,000 to \$19,500 and the annual retainer for the Chairperson of the Compensation Committee increased from \$2,500 to \$5,000. The Chairman received an annual retainer of \$18,458 (pro-rated), the Chairpersons of the Audit Committee and the ALCO/Investment Committee received an annual retainer of \$5,000, the Chairperson of the Compensation Committee received an annual retainer of \$3,958 (pro-rated) and the Chairperson of the Trust Committee received an annual retainer of \$2,500.



## Board of Directors Compensation - Riverside

The following table summarizes the compensation paid to non-employee directors for the fiscal year ended December 31, 2013. Directors who are employees receive no additional compensation for board service. The compensation received by Mr. Davies, who is the only director employee of Riverside, is reflected in the Summary Compensation Table.

Name	Fees	
	Earned or Paid in Cash	Total
	(\$)	(\$)
Charles M. Andola	18,300	18,300
John M. Davies	0	0
Thomas DeBenedictus	15,700	15,700
P. Diane Hoe	13,200	13,200
Paul S. Hoffner	13,900	13,900
Michael D. Gordon	14,850	14,850
Steven R. Turk	9,900	9,900
Steven P. Lumb	18,800	18,800
David S. MacFarland	15,950	15,950
Austin E. Hodgkins	11,700	11,700
David Petrovits	15,950	15,950

## Directors' Fees - Riverside

During 2013, each non-employee director of Riverside received \$600 for each Board of Directors meeting attended and \$250 for each committee meeting attended. Non-employee directors also received \$600 for attending Riverside's annual meeting in 2013.

## Transactions with Management and Others - SBT and SAL

SAL and SBT have had, and expect to have in the future, transactions in the ordinary course of business with certain directors, officers and their associates on substantially the same terms as those available for comparable transactions with others not related to SAL or SBT.

## Transactions with Management and Others - Riverside

Riverside has had transactions in the ordinary course of business with certain directors, officers and their associates on substantially the same terms as those available for comparable transactions with others not related to Riverside.

#### Indebtedness of Management and Others - SBT and SAL

Some of the directors and executive officers of SAL and SBT, as well as firms and companies with which they are associated, are or have been customers of SBT and, as such, have had banking transactions with SBT. As a matter of policy, loans to directors and executive officers were, and in the future will be, made in the ordinary course of business on substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing at the time for comparable transactions with other persons not related to SAL and SBT and did not, and in the future will not, involve more than the normal risk of collectability or present other unfavorable features.

#### Indebtedness of Management and Others - Riverside

Some of the directors and executive officers of Riverside, as well as firms and companies with which they are associated, are or have been customers of Riverside and, as such, have had banking transactions with Riverside. As a matter of policy, loans to directors and executive officers were, and in the future will be, made in the ordinary course of business on substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing at the time for comparable transactions with other persons not related to Riverside and did not involve more than the normal risk of collectability or present other unfavorable features.

## DESCRIPTION OF CAPITAL STOCK AND COMPARISON OF SHAREHOLDER RIGHTS

Set forth below is a description of SAL's capital stock, as well as a summary of the material differences between the rights of holders of Riverside's common stock and their prospective rights as holders of SAL's common stock. If the merger agreement is approved and the merger takes place, the holders of Riverside's common stock will become holders of SAL's common stock. As a result, SAL's certificate of incorporation and bylaws, as amended, and the applicable provisions of the Connecticut Business Corporation Act, referred to in this section as the "Connecticut corporation law," will govern the rights of current holders of Riverside's common stock. The rights of those shareholders are governed at the present time by the certificate of incorporation and the bylaws of Riverside and the applicable provisions of the New York Banking Law.

The following comparison is based on the current terms of the governing documents of SAL and Riverside and on the provisions of the Connecticut corporation law and the New York Banking Law. The discussion is intended to highlight important similarities and differences between the rights of holders of SAL's common stock and Riverside's common stock.

### SAL's Common Stock

SAL is authorized to issue 3,000,000 shares of common stock, par value \$.10 per share. As of September 5, 2014, 1,713,281 shares of SAL's common stock were outstanding. Each share of SAL's common stock has the same relative rights and is identical in all respects to each other share of SAL's common stock. SAL's common stock is non-withdrawable capital, is not of an insurable type and is not insured by the FDIC or any other governmental entity. In connection with the proposed merger, SAL proposes to increase its authorized common stock to 5,000,000 shares.

Holders of SAL's common stock are entitled to one vote per share on each matter properly submitted to shareholders for their vote, including the election of directors. SAL's common stock is not subject to additional calls or assessments by SAL, and all shares of SAL's common stock currently outstanding are fully paid and nonassessable. For a discussion of the voting rights of SAL's common stock, its lack of preemptive rights, the classification of SAL's Board of Directors and provisions of SAL's certificate of incorporation and bylaws that may prevent a change in control of SAL or that would operate only in an extraordinary corporate transaction involving SAL or its subsidiaries, see "Certificate of Incorporation and Bylaw Provisions".

Holders of SAL's common stock and any class or series of stock entitled to participate with it are entitled to receive dividends declared by the Board of Directors of SAL out of any assets legally available for distribution. No dividends or other distributions may be declared or paid, however, unless all accumulated dividends and any sinking fund, retirement fund or other retirement payments have been paid, declared or set aside on any class of stock having preference as to payments of dividends over SAL's common stock.



In the unlikely event of any liquidation, dissolution or winding up of SAL, the holders of SAL's common stock and any class or series of stock entitled to participate with it would be entitled to receive all remaining assets of SAL available for distribution, in cash or in kind, after payment or provision for payment of all debts and liabilities of SAL and after the liquidation preferences of all outstanding shares of any class of stock having preference over SAL's common stock have been fully paid or set aside.

#### Riverside's Common Stock

The organization certificate of Riverside authorizes 1,500,000 shares of Riverside's common stock, par value \$1.00 per share, of which 741,876 shares were outstanding as of September 5, 2014. In addition, as of such date, there were outstanding options to purchase Riverside's common stock granted to officers and other employees of Riverside for 55,000 shares of Riverside's common stock.

Each share of Riverside's common stock has the same relative rights and is identical in all respects with all other shares of Riverside's common stock. As with SAL's common stock, Riverside's common stock is non-withdrawable capital, is not of an insurable type and is not insured by the FDIC or any other governmental entity.

Holders of Riverside's common stock are entitled to one vote per share on each matter properly submitted to shareholders for their vote, including the election of directors. Holders of Riverside's common stock have distribution and liquidation rights similar to those of holders of SAL's common stock. All shares of Riverside's common stock currently outstanding are fully paid and nonassessable. For a discussion of the voting rights of Riverside's common stock, its lack of preemptive rights and provisions in Riverside's organization certificate, which may prevent a change in control of Riverside, see "Certificate of Incorporation and Bylaw Provisions."

#### Certificate of Incorporation and Bylaw Provisions

The following discussion is a general summary of provisions of SAL's certificate of incorporation and bylaws, and a comparison of those provisions to similar types of provisions in the organization certificate and bylaws of Riverside. The discussion is necessarily general and, for provisions contained in SAL's certificate of incorporation and bylaws or in Riverside's certificate of incorporation and bylaws, reference should be made to the documents in question. Certain provisions in SAL's certificate of incorporation and bylaws are intended to enhance the negotiating ability of the Board of Directors in order to serve the best interests of the shareholders and may make it more difficult for third parties to acquire or to exercise control of SAL, even if some shareholders consider an acquisition to be in their own interest. The Board of Directors is not aware at this time of any attempt by any person or entity to gain control of SAL.

Directors. Certain provisions of SAL's certificate of incorporation and bylaws impede change in majority control of SAL's Board of Directors. SAL's certificate of incorporation provides that the Board of Directors will consist of not less than seven (7) members and not more than twelve (12) members and will be divided into three (3) classes, with directors in each class elected for three (3) year terms. The Board of Directors may increase the number of directors by no more than two (2) in each fiscal year, and may decrease the number of directors at any time (but to not less than seven (7) directors). No decrease in the number of directors will shorten the term of any incumbent director. SAL's certificate of incorporation and bylaws also impose restrictions on the ability of shareholders to nominate candidates for the Board of Directors, requiring, in general, not less than thirty (30) nor more than fifty (50) days prior written notice of such nominations which contains specified information about the proposed nominee and about the person making the nomination. The certificate of incorporation and the bylaws provide that vacancies created by an increase in the number of directorships can be filled for the unexpired term by the Board of Directors. Vacancies occurring for any other reasons, such as death or resignation, would be filled by the remaining directors. The effect of these provisions would prevent a new majority shareholder from increasing the size of the Board of Directors and from then filling the vacancies created by such increase. They would also prevent a new majority shareholder from filling any vacancies on the Board of Directors arising by resignation, death or other reason.

SAL's certificate of incorporation and bylaws provide that any director of SAL may be removed from office at any time with cause by the affirmative vote of at least two-thirds (  $\frac{2}{3}$  ) of the Directors then in office.

Riverside's bylaws provide that the Board of Directors shall consist of not less than seven (7) nor more than fifteen (15) members, with the exact number of directors to be fixed from time to time within the minimum and maximum

limitations by resolution of a majority of the entire Board of directors. As with SAL, the Riverside directors are divided into three (3) classes, with directors in each class elected for three (3) year terms.

Riverside's bylaws provide that any vacancy on the Board of Directors or a newly created directorship resulting from an increase in the number of directorships shall be filled by an election of shareholders, however, vacancies not exceeding one-third ( ) of the entire board may be filled by a majority of the directors then in office, and the directors so elected shall hold office for the balance of the unexpired term.

Riverside's bylaws provide that directors may be removed only for cause by a majority vote of the total votes eligible to be voted by shareholders at a meeting called for that purpose.

### *Call of Special Meetings*

SAL's certificate of incorporation provides that a special meeting of shareholders may be called at any time but only by the Chairman, the President or by the Board of Directors. Shareholders are not authorized to call a special meeting. Riverside's bylaws provide that a special meeting of the shareholders may be called by the Chairman of the Board or the President or by the Board of Directors or by a majority of the outstanding shares entitled to vote at the meeting.

### ***Shareholder Action without a Meeting***

SAL's certificate of incorporation provides that shareholders may act by written consent without a meeting but only if the consent is unanimous. Riverside's bylaws are silent as to whether shareholder action may be taken by a consent in writing.

### ***Limitation on Liability of Directors and Indemnification***

SAL's certificate of incorporation provides that to the fullest extent permitted by law, no director shall have any personal liability to the corporation or its shareholders for monetary damages for breach of their fiduciary duty as a director, provided that the provisions will not eliminate or limit the liability of a director in certain circumstances. Specifically, liability will not be eliminated or limited (i) for any breach of the director's duty of loyalty to the corporation or its shareholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violations of law; (iii) for any unlawful payment of dividends, unlawful stock purchase or unlawful redemption; or (iv) for any transaction from which the director derived an improper personal benefit.

SAL's certificate of incorporation and bylaws provide that the corporation shall indemnify its directors, officers, employees and agents to the maximum extent permitted by the Connecticut Business Corporation Act. The Connecticut Business Corporation Act provides for four (4) types of indemnification: permissible; mandatory; obligatory; and court ordered. Permissible indemnification for a director requires the director's conduct to have been taken in good faith and in the reasonable belief that such conduct was in the best interest of SAL. Mandatory indemnification is required under the Connecticut Business Corporation Act regardless of the provisions of a corporation's certificate of incorporation or bylaws only when the director has been "wholly successful on the merits or otherwise, in the defense of an action to which he was a party because he is or was a director." Obligatory indemnification occurs by reason of specific provisions in a certificate of incorporation, bylaw, board resolution or contract. Court ordered indemnification arises when a court orders indemnification based upon its finding that mandatory indemnification or obligatory indemnification exists or because the court concludes that it would be fair and reasonable to indemnify the director. The indemnification provisions of SAL provide indemnification to directors, except with regard to the following five (5) exceptions: (a) knowing and culpable violations of law; (b) receipt of improper personal economic gain; (c) lack of good faith and conscious disregard for duty under circumstances in which the director was aware that his or her conduct or omission created an unjustifiable risk of serious injury to SAL; (d) sustained and unexcused inattention that amounts to an abdication of duty; or (e) unlawful distributions.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the corporation pursuant to the foregoing provisions, or otherwise, SAL has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by SAL of expenses incurred or paid by a director, officer or controlling person of SAL in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the

securities being registered, SAL will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the questions whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Likewise, Riverside's bylaws provide for indemnification of directors and officers of Riverside in the event that the person is made a party to any action by or in the right of Riverside to procure judgment in its favor, by reason of the fact that he/she, his/her testator or intestate, is or was a director or officer of Riverside, against the reasonable expenses, (including attorneys' fees), incurred by him/her in connection with the defense of such action unless such person is adjudged to have breached his/her fiduciary duty to Riverside under New York Banking Law.

Riverside will also indemnify any person made, or threatened to be made, a party to an action or proceeding other than one by or in the right of Riverside, whether civil or administrative, including an action by or in the right of any other corporation or any type or kind or partnership, joint venture, trust, employee benefit plan or other enterprise, which any director or officer served in any capacity at the request of Riverside by reason of being a director or officer of Riverside, or served such other entity in any capacity if the person acted in good faith, for a purpose which he/she reasonably believed to be in, or, in the case of service to another entity, not opposed to, the best interest of Riverside and, in criminal proceedings, in addition, had no reasonable cause to believe his/her conduct was unlawful.

### ***Cumulative Voting***

Neither SAL nor Riverside shareholders have cumulative voting rights in the election of directors.

### ***Preemptive Rights***

SAL's certificate of incorporation provides that shareholders do not have any preemptive rights regarding SAL's securities. Similarly, Riverside shareholders do not have any preemptive rights regarding Riverside securities.

### ***Notice of Meetings***

SAL's bylaws require that notice be given not less than ten (10) nor more than sixty (60) days prior to each annual or special meeting of shareholders. Riverside's bylaws require that notice of an annual or special meeting be given not less than ten (10) nor more than fifty (50) days prior to a meeting.

### ***Record Date***

SAL's bylaws provide that the record date for determination of shareholders entitled to notice of or to vote at a meeting and for other specified purposes may not be less than ten (10) nor more than sixty (60) days before the date of the meeting or other action. Riverside's bylaws provide that the Board of Directors may set a record date for determination of shareholders entitled to notice of or to vote at a meeting and for other specified purposes which shall not be more than fifty (50) days before such meeting.

### ***Quorum***

SAL's bylaws provide that the holders of a majority of the capital stock issued and outstanding and entitled to vote at a meeting constitutes a quorum. Riverside's bylaws provide that the presence of the holders of a majority of the issued and outstanding shares of stock of the company entitled to vote at a meeting constitutes a quorum.

*General Vote*

SAL's bylaws provide that any matter brought before a meeting of shareholders will be decided by the affirmative vote of a majority of the votes cast on the matter except as otherwise required by law or SAL's certificate of incorporation or bylaws. Riverside's bylaws provide that any matter brought before any meeting of shareholders will be decided by the vote of the holders of a majority of the votes cast on the matter, except as otherwise required by law or Riverside's certificate of incorporation or bylaws.

*SAL - Fair Price Provision*

SAL's certificate of incorporation requires that, unless otherwise required by law, certain "business combinations" with a holder (hereinafter referred to as an "Interested Shareholder") of ten percent (10%) or more of the voting power of common stock (hereinafter referred to as the "Voting Stock") must be approved by "super-majority" votes of shareholders. The purpose of this provision is to discourage "front load" or two-tier acquisitions. In this type of acquisition, one price is offered in a tender offer for a controlling block of stock and then a much lower price and/or less desirable form of consideration is offered for the remainder of the outstanding stock.

Under the provisions of SAL's certificate of incorporation, three (3) votes are necessary before a business combination with an Interested Shareholder can occur. First, the Board of Directors must approve the transaction. Second, the holders of at least eighty percent (80%) of the voting power of the outstanding Voting Stock must approve the transaction. Third, the holders of at least two-thirds (  ) of the voting power of the outstanding Voting Stock other than that controlled by the Interested Shareholder must approve the transaction.

The term “business combination” encompasses six categories of transactions. The first includes any merger, consolidation or share exchange by SAL or any subsidiary with any Interested Shareholder or related persons. The second category includes any sale, lease, exchange, mortgage or other disposition of assets to an Interested Shareholder within any twelve month period which is not in the usual and regular course of business, if the assets have a book value of ten percent (10%) or more of either the total market value of the outstanding stock of SAL or SAL’s net worth as of the end of the most recent fiscal quarter. The third category is the issuance or transfer to an Interested Shareholder, on a non-pro rata basis, of stock having a market value equal to five percent (5%) or more of the total market value of all shares of stock of SAL. The fourth category is a liquidation or dissolution proposed by or on behalf of an Interested Shareholder or related person. The fifth category is any reclassification of securities or recapitalization which increases an Interested Shareholder’s proportionate ownership of SAL’s equity or convertible securities. The sixth category is the receipt by an Interested Shareholder of loans, advances, guarantees, pledges or other financial assistance from SAL.

SAL’s certificate of incorporation exempts from the super-majority voting requirements described above any business combination with an Interested Shareholder if the transaction is approved by SAL’s Board of Directors before the Interested Shareholder first becomes an Interested Shareholder.

SAL’s certificate of incorporation also exempts from the foregoing, super-majority voting requirements for business combinations described in the first category set forth above (that is, mergers, consolidations and share exchanges) which satisfy certain “fair price” and procedural provisions. Five (5) basic conditions must be met in order for this exemption to apply. The first condition requires that shareholders whose stock is acquired in the second or later stage of an acquisition must receive at least as much as the highest price the Interested Shareholder paid for shares within the prior two years, and in some cases a higher price, as determined by various formulas specified in the exemptive provision. These prices may bear no relation to the then-current market value of SAL’s stock. The second condition is that the consideration in the business combination must be cash or the same form of consideration as the Interested Shareholder previously paid. The requirement prevents the use of cash in the “first tier” of an acquisition and less valuable securities in the “second tier”. The third condition provides that prior to the business consolidation, there was no reduction in the annual rate of dividends paid on SAL’s stock and/or increase in the annual rate of dividends paid should there be a reverse stock split or any similar transaction unless the Interested Shareholder voted as a director of the corporation against such action. In addition, the third condition provides that the Interested Shareholder shall not have become the beneficial owner of any additional shares of stock. The fourth condition is designed to ensure that an Interested Shareholder has not, through the exercise of influence over SAL, enhanced his position or brought about actions detrimental to the other shareholders. Thus, any receipt by the Interested Shareholder of specified financial or tax benefits (such as loan, advances, pledges or guarantees provided by SAL), will prevent the use of the “fair price” exemption. The fifth condition requires that a proxy or information statement complying with the provisions of the Exchange Act be mailed to SAL’s shareholders at least thirty (30) days prior to the consummation of the business combination, whether or not such proxy or information statement is required under the Exchange Act.

In the event that the requisite approval of the Board of Directors was given or the “fair price” and procedural requirements were met with respect to a particular business combination, the normal voting requirements of law would apply. Under Connecticut law, a merger, consolidation, sale of all or substantially all of the assets of SAL or the adoption of a plan of dissolution of SAL would require the approval of the holders of a majority of the outstanding shares of SAL’s common stock. A reclassification of SAL’s securities involving an amendment to its certificate of



incorporation would require the approval of the holders of a majority of SAL's capital stock entitled to vote thereon. A sale of less than substantially all of the assets of SAL, a merger of SAL with a company in which it owns ninety percent (90%) of the outstanding capital stock, or a reclassification of SAL's securities not involving an amendment to its certificate of incorporation would not require shareholder approval.

***SAL - Board of Director Approval of a Business Combination or Stock Purchase***

SAL's certificate of incorporation prevents an Interested Shareholder from engaging in any "business combination" with SAL for a period of five (5) years following the date on which it first became an Interested Shareholder (i.e., the date on which it first acquired ten percent (10%) or more of the Voting Stock). A "business combination" is defined in the same way as for the purposes of the fair price provision discussed above. Nevertheless, a business combination with an Interested Shareholder may occur before the termination of the five (5) year period if the Board of Directors of SAL gives its approval, before the date on which the Interested Shareholder becomes an Interested Shareholder, to either the proposed business combination or the proposed acquisition of the Voting Stock. Moreover, the majority of the non-employee members of the Board of Directors (of which there must be at least two) must also give their prior approval. The purpose of this provision is to effectively require any potential acquiror of SAL to seek the approval of the Board of Directors of SAL before launching a takeover attempt.

In the event that the requisite prior Board of Director approval is obtained with respect to a particular business combination, the normal voting requirements of Connecticut law would apply. Under such law, a merger, consolidation, or sale of all or substantially all of the assets of SAL or the adoption of the plan of dissolution of SAL would require the approval of a majority of the outstanding shares of SAL's capital stock. A reclassification of SAL's securities involving an amendment to its certificate of incorporation would require the approval of the holders of a majority of SAL's capital stock entitled to vote thereon.

### ***SAL - Anti-Greenmail***

SAL's certificate of incorporation requires approval by the holders of a majority of the outstanding shares of voting stock before SAL may directly or indirectly purchase or otherwise acquire any voting stock beneficially owned by a holder of 5% or more of SAL's voting stock, if the holder has owned the shares for less than two years. Any shares beneficially held by the person are required to be excluded in calculating majority shareholder approval. This provision would not apply to a pro rata offer made by SAL to all of its shareholders in compliance with the Securities Exchange Act of 1934 and the rules and regulations under that statute or a purchase of voting stock by SAL if the Board of Directors has determined that the purchase price per share does not exceed the fair market value of that voting stock.

### ***Criteria for Evaluating Offers***

SAL's certificate of incorporation provides that the Board of Directors, when evaluating any acquisition offer, shall give due consideration to all relevant factors, including, without limitation, the economic effects of acceptance of the offer on depositors, borrowers and employees of its insured institution subsidiaries and on the communities in which its subsidiaries operate or are located, as well as on the ability of its subsidiaries to fulfill the objectives of insured institutions under applicable federal statutes and regulations.

### ***Amendment to Certificate of Incorporation and Bylaws***

Approval of an amendment to SAL's certificate of incorporation requires the approval of the holders of only a majority of the outstanding shares of SAL's capital stock entitled to vote thereon. However, Article Eighteenth of the certificate of incorporation requires that any amendment by the provisions of SAL's certificate of incorporation relating to various board of director provisions, provisions relating to restrictions on the acquisition of ten percent (10%) or more of SAL's common stock, business combinations with interested shareholders, meetings of shareholders, the removal of directors with cause, and the procedure for the amendment of the foregoing provisions be approved by eighty percent (80%) of the outstanding shares of SAL's capital stock entitled to vote thereon. If there is an interested shareholder, the amendment must also be approved by sixty percent (60%) of voting power of SAL's issued and outstanding shares of capital stock entitled to vote thereon held by shareholders other than the interested shareholder.

SAL's bylaws provide that, except as otherwise provided by law or the bylaws, SAL's bylaws may be amended or repealed by (i) the board by the affirmative vote of a majority of the directors then in office, or (ii) by the shareholders of SAL, at any annual meeting of shareholders or special meeting of shareholders called for such purpose, by the affirmative vote of at least a majority of the shares present in person or represented by proxy at such meeting and entitled to vote on such amendment or repeal, voting together as class; provided, however, that in order to amend or repeal or to adopt any provision inconsistent with certain provisions of the bylaws regarding shareholder meetings, directors and bylaw amendments the affirmative vote of sixty percent (60%) of the voting power of all the issued and outstanding shares is required to effectuate such amendments.

New York law requires that any proposed amendment to Riverside's organization certificate be approved by the affirmative vote of the holders of at least a majority of the shares entitled to vote thereon.

Riverside's bylaws provide that the bylaws may be adopted, altered, amended or repealed by the vote of at least a majority of the directors then in office or by the affirmative vote of the holders of at least a majority of the shares eligible to be voted thereon at a meeting duly called for such purpose.

## Applicable Law

The following discussion is a general summary of particular federal and state statutory and regulatory provisions that may be deemed to have an anti-takeover effect.

### *Connecticut Takeover Statute and Regulatory Restrictions on Acquisitions of Stock*

Section 33-844 of the Connecticut Business Corporation Act applies to Connecticut corporations, such as SAL, with a class of voting stock registered on a national securities exchange and restricts transactions which may be entered into by the corporation and some of its shareholders. Section 844 provides, in general, that a shareholder acquiring more than 10% of the outstanding voting stock of a corporation subject to the statute and that person's affiliates and associates, referred to in this section as an interested shareholder, may not engage in specified business combinations, as discussed below, with the corporation for a period of five years after the date on which the shareholder became an interested shareholder unless the business combination is approved by the corporation's board of directors and a majority of the non-employee directors of the Company. Section 843 defines the term business combination to include a wide variety of transactions with or caused by an interested shareholder or its affiliates in which the interested shareholder receives or could receive a benefit on other than a pro rata basis with other shareholders, including mergers, consolidations, specified types of asset sales, specified issuances of additional shares to the interested stockholder, transactions with the corporation which increase the proportionate interest of the interested shareholder or transactions in which the interested shareholder receives specified other benefits.

Connecticut banking statutes prohibit any person from directly or indirectly offering to acquire or acquiring voting stock of a Connecticut-chartered bank, like SBT, or a holding company of that kind of entity, like SAL, that would result in the person becoming, directly or indirectly, the beneficial owner of more than ten percent (10)% of any class of voting stock of that entity unless the person had previously filed an acquisition statement with the Connecticut Commissioner of Banking and the offer or acquisition has not been disapproved by the Connecticut Commissioner.

### *New York Business Combinations Statute*

New York corporation law restricts certain business combinations which may be entered into by New York banks, such as Riverside, and certain of its shareholders.

### *Federal Law*

Federal law provides that, subject to some exemptions, no person acting directly or indirectly or through or in concert with one or more other persons may acquire control of an insured institution or holding company of an insured institution, without giving at least sixty (60) days prior written notice providing specified information to the appropriate federal banking agency. In the case of SAL and SBT, the appropriate federal banking agency is the FRB and the FDIC, respectively, and in the case of Riverside, the appropriate federal banking agency is the FDIC. Control is defined for this purpose as the power, directly or indirectly, to direct the management or policies of an insured institution or to vote twenty-five percent (25%) or more of any class of voting securities of an insured institution. Control is presumed to exist where the acquiring party has voting control of at least ten percent (10%) of any class of the institution's voting securities and other conditions are present. The FRB or the FDIC may prohibit the acquisition of control if the agency finds, among other things, that:

- the acquisition would result in a monopoly or substantially lessen competition;
- the financial condition of the acquiring person might jeopardize the financial stability of the institution; or the competence, experience or integrity of any acquiring person or any of the proposed management personnel indicates that it would not be in the interest of the depositors or the public to permit the acquisition of control by that person.

Federal law also provides that, subject to some exceptions, a bank holding company may not acquire more than 5 percent of the voting stock of a bank, and a new holding company may not be formed to acquire control of a bank, without the prior approval of the FRB. Control is defined for this purpose in a similar manner as discussed in the preceding paragraph. The FRB may not approve the acquisition of control if it finds that the acquisition of control would result in a monopoly or would further an attempt to monopolize the business of banking in any part of the United States or if the acquisition of control would substantially lessen competition or tend to create a monopoly and the anticompetitive effects are not clearly outweighed by the public benefits of the proposed transaction. The FRB also may not approve the acquisition of control if the company fails to provide the FRB with adequate assurances regarding the availability of information concerning the operations or activities of the company and any affiliate of the company that the FRB determines to be appropriate. The FRB also must take into consideration:

- the financial resources and future prospects of the companies and banks concerned, and the convenience and needs of the community to be served;
- the managerial resources of a company or bank, including the competence, experience, and integrity of officers, directors, and principal shareholders;
- the company's record of meeting the credit needs of its entire community, including low-and moderate-income neighborhoods; and
  - the effectiveness of the company in combating money laundering activities.

## LEGAL MATTERS

The validity of the SAL common stock to be issued in connection with the merger will be passed upon for SAL by Cranmore, FitzGerald & Meaney, 49 Wethersfield Avenue, Hartford, Connecticut 06114. Certain U.S. federal income tax consequences relating to the merger will also be passed upon for SAL by Cranmore, FitzGerald & Meaney, 49 Wethersfield Avenue, Hartford, Connecticut 06114 and for Riverside by Windels Marx Lane & Mittendorf, LLP, 120 Albany Street Plaza, New Brunswick, NJ 08901.

## EXPERTS

### *SAL*

The consolidated financial statements of SAL as of December 31, 2013 and 2012 and each of the two years in the period ended December 31, 2013 have been incorporated by reference into this joint proxy statement/prospectus in reliance on the report of Shatswell, MacLeod & Company, P.C., an independent registered public accounting firm, upon the authority of said firm as experts in accounting and auditing in giving said reports.

### *Riverside*

The financial statements of Riverside as of December 31, 2013 and 2012 and each of the two years in the period ended December 31, 2013 are included in this joint proxy statement/prospectus in reliance on the report of Bonadio & Company, LLP, an independent certified public accounting firm, upon the authority of said firm as experts in accounting and auditing in giving said reports.

WHERE YOU CAN FIND MORE INFORMATION

SAL files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information on file with the SEC at the SEC's Public Reference Room located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F street, N.E., Washington, D.C. 20549, at prescribed rates, or from commercial documents retrieval services. The SEC also maintains a website that contains reports, proxy and information statements and other information about issuers, including SAL, that file electronically with the SEC. You can obtain any documents filed with the SEC at [www.sec.gov](http://www.sec.gov).

SAL also makes available, free of charge through its website at [www.salisburybank.com](http://www.salisburybank.com), its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and, if applicable, amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. The information contained on, or that can be accessed through, SAL's website is not part of this prospectus. Additionally, you can obtain such documents, without charge, by requesting them in writing or by telephone from SAL at the following address and telephone number:

Salisbury Bancorp, Inc.

Salisbury Bank and Trust Company

5 Bissell Street

P.O. Box 1868

Lakeville, CT 06039

Attn: Shelly L. Humeston, Secretary

Telephone: 860-435-9801



## FUTURE SHAREHOLDER PROPOSALS

### *SAL Deadline for Submission of Shareholder Proposals*

Any proposal that a SAL shareholder wishes to have included in SAL's proxy statement and form of proxy relating to SAL's 2015 Annual Meeting of Shareholders under Rule 14a-8 of the SEC must be received by SAL's Secretary at 5 Bissell Street, P.O. Box 1868, Lakeville, CT 06039-1868 by December 10, 2014. Nothing in this paragraph shall be deemed to require SAL to include in its proxy statement and form of proxy for such meeting any shareholder proposal which does not meet the requirements of the SEC in effect at the time.

In addition, under SAL'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 SAL (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 SAL's bylaws.

**Neither SAL nor Riverside has authorized anyone to give any information or make any representation about the merger, the companies, or the special meetings that is different from, or in addition to, that contained in this joint proxy statement/prospectus. Therefore, if anyone does give you information of this sort, you should not rely on it. This joint proxy statement/prospectus does not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this joint proxy statement/prospectus, or the solicitation of a proxy, in any jurisdiction to or from any person to whom or from whom it is unlawful to make such offer, solicitation of an offer or proxy solicitation in such jurisdiction. Neither the delivery of this joint proxy statement/prospectus nor any distribution of securities pursuant to this joint proxy statement/prospectus shall, under any circumstances, create any implication that there has been no change in the information set forth or in our affairs since the date of this joint proxy statement/prospectus. The information contained in this joint proxy statement/prospectus with respect to SAL was provided by SAL, and the information contained in this joint proxy statement/prospectus with respect to Riverside was provided by Riverside. The information contained in this joint proxy statement/prospectus speaks only as of the date of this joint proxy statement/prospectus unless the information specifically indicates that another date applies.**

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## INDEPENDENT AUDITOR'S REPORT

March 27, 2014

To the Board of Directors and Stockholders of

Riverside Bank:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Riverside Bank, which comprise the statements of financial condition as of December 31, 2013 and 2012, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on

the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Riverside Bank as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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## RIVERSIDE FINANCIAL STATEMENTS

RIVERSIDE BANK  
 Statements of Financial Condition  
 December 31, 2013 and 2012

	2013	2012
<b>Assets</b>		
Cash and due from banks	\$9,207,906	\$32,599,031
Federal funds sold	207,813	1,616,537
Cash and cash equivalents	9,415,719	34,215,568
Securities available for sale, at fair value	20,385,182	14,333,257
Loans receivable, net of allowance for loan losses	184,084,910	172,794,365
Accrued interest receivable	586,738	624,871
Bank premises and equipment, net	1,178,323	929,784
Bank-owned life insurance	4,322,489	2,705,694
Foreclosed assets	375,000	—
Other assets	994,252	1,371,903
Total assets	\$221,342,613	\$226,975,442
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Deposits	\$194,730,812	\$200,959,469
Official bank checks	526,767	1,463,858
Other liabilities	974,812	1,271,491
Total liabilities	196,232,391	203,694,818
<b>Stockholders' Equity:</b>		
Common stock, \$1 par value; 1,500,00 shares authorized; 741,876 shares issued and outstanding in 2013 and 737,876 shares issued and outstanding in 2012	741,876	737,876
Additional paid in capital	6,458,856	6,306,400
Retained earnings	18,053,542	16,247,775
Accumulated other comprehensive loss	(144,052 )	(11,427 )
Total stockholders' equity	25,110,222	23,280,624
Total liabilities and stockholders' equity	\$221,342,613	\$226,975,442

See accompanying notes to financial statements

## RIVERSIDE BANK

## Statements of Income

Years ended December 31, 2013 and 2012

	2013	2012
Interest, fee and dividend income:		
Loans receivable	\$9,685,739	\$9,744,828
Securities available for sale, taxable	126,384	105,080
Securities available for sale, tax exempt	17,354	10,712
Federal funds sold and interest bearing deposits with banks	654	1,636
Total interest, fee and dividend income	9,830,131	9,862,256
Interest expense:		
Deposits	1,263,258	1,458,138
Borrowings	2	4
Total interest expense	1,263,260	1,458,142
Net interest income	8,566,871	8,404,114
Provision for loan losses	820,000	1,000,000
Net interest income after provision for loan losses	7,746,871	7,404,114
Non interest income:		
Service charges on deposit accounts	547,017	593,417
Other service charges and fees	163,831	199,327
Income on bank owned life insurance	116,795	91,994
Gain on sale of foreclosed assets	—	120,000
Total non interest income	827,643	1,004,738
Non interest expenses:		
Salaries and wages	2,913,859	2,725,955
Other employee benefits	609,936	585,014
Occupancy	343,104	343,308
Furniture and equipment	353,008	359,395
Advertising and public relations	91,579	81,898
Professional and legal	266,966	198,561
FDIC Insurance	141,634	137,971
Other real estate owned expense	119,290	24,109
Other	860,371	855,748
Total non interest expenses	5,699,747	5,311,959
Income before income tax expense	2,874,767	3,096,893
Income tax expense	1,069,000	1,135,000
Net income	\$1,805,767	\$1,961,893

Earnings per share:

Basic:	\$2.44	\$2.66
Diluted:	\$2.44	\$2.65

See accompanying notes to financial statements.

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RIVERSIDE BANK

Statements of Comprehensive Income

Years ended December 31, 2013 and 2012

	2013	2012
Net Income	\$1,805,767	\$1,961,893
Other comprehensive (loss) income, before taxes:		
Unrealized (losses) gains on available for sale securities		
Unrealized holding (losses)/gains arising during the period	(228,664 )	1,777
Other comprehensive (loss) income, before taxes	(228,664 )	1,777
Income tax benefit (expense), net	96,039	(746 )
Other comprehensive (loss) income, net of tax	(132,625 )	1,031
Comprehensive Income	\$1,673,142	\$1,962,924

See accompanying notes to financial statements.

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## RIVERSIDE BANK

Statements of Changes in Stockholders' Equity  
Years ended December 31, 2013 and 2012

	Common Stock	Additional paid in capital	Retained earnings	Accumulated other comprehensive (loss)	Total stockholders' equity
Balance as of December 31, 2011	\$737,876	\$6,306,400	\$14,285,882	\$(12,458)	) \$21,317,700
Net income	—	—	1,961,893	—	1,961,893
Other comprehensive income	—	—	—	1,031	1,031
Balance as of December 31, 2012	737,876	6,306,400	16,247,775	(11,427)	) 23,280,624
Net income	—	—	1,805,767	—	1,805,767
Other comprehensive (loss)	—	—	—	(132,625)	) (132,625)
Stock-based compensation	—	84,456	—	—	84,456
Stock options exercised	4,000	68,000	—	—	72,000
Balance as of December 31, 2013	\$741,876	\$6,458,856	\$18,053,542	\$(144,052)	) \$25,110,222

See accompanying notes to financial statements.

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## RIVERSIDE BANK

## Statements of Cash Flows

Years ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Net income	\$1,805,767	\$1,961,893
Adjustments to reconcile net income to net cash flow from operating activities:		
Provision for loan losses	820,000	1,000,000
Provision for loss on foreclosed assets	49,311	—
Net realized gain on sale of foreclosed assets	—	(120,000 )
Net premium amortization on securities	130,304	127,392
Loss on the disposal of fixed assets	24,537	29,643
Income on bank-owned life insurance	(116,795 )	(91,994 )
Stock based compensation	84,456	—
Deferred tax (benefit) expense	(123,923 )	132,744
Depreciation expense	140,733	157,270
Net decrease (increase) in accrued interest receivable	38,133	(29,113 )
Net decrease (increase) in other assets	501,574	(17,787 )
Net (decrease) increase in other liabilities	(296,679 )	31,881
Net cash flow from operating activities	3,057,418	3,181,959
Cash flows from investing activities:		
Net loans made to customers	(12,438,819)	(22,158,221)
Purchases of securities available for sale	(13,150,966)	(17,065,046)
Proceeds from calls, maturities and principal pay downs of securities available for sale	6,740,076	13,413,729
Purchase of bank owned life insurance	(1,500,000 )	—
Purchases of bank premises and equipment	(413,810 )	(103,339 )
Proceeds from sale of foreclosed assets	—	420,000
Net cash flow from investing activities	(20,763,519)	(25,492,877)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(6,228,657 )	38,919,486
Net decrease in official bank checks	(937,091 )	(293,307 )
Stock options exercised	72,000	—
Net cash flow from financing activities	(7,093,748 )	38,626,179
Net change in cash and cash equivalents	(24,799,849)	16,315,261
Cash and cash equivalents at beginning of year	34,215,568	17,900,307
Cash and cash equivalents at end of year	\$9,415,719	\$34,215,568
Additional cash flow disclosures		
Interest paid	\$1,282,163	\$1,458,535
Taxes paid	\$1,352,767	\$1,073,070
Non-cash disclosure:		
Transfer from loans to foreclosed assets	\$424,311	\$300,000

See accompanying notes to financial statements.

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RIVERSIDE BANK

Notes to Financial Statements

December 31, 2013 and 2012

**(1) Summary of Significant Accounting Policies**

**(a) Nature of Operations**

Riverside Bank (the Bank) opened for business in February 1988 as a New York State chartered commercial bank. It is a publicly owned, Federal Deposit Insurance Corporation (FDIC) insured institution with an emphasis placed on providing services within a limited market area to small and medium sized businesses, professionals and individuals. The Bank's operations are conducted at its main office location in the city of Poughkeepsie and three other branch offices located in the towns of Poughkeepsie, Newburgh and Fishkill. The Bank is subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory agencies.

**(b) Basis of Presentation**

The accompanying financial statements of Riverside Bank conform, in all material respects, to accounting principles generally accepted in the United States of America (GAAP) and to general practice within the banking industry. The Bank utilizes the accrual method of accounting.

**(c) Use of Estimates**

Management of the Bank has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with GAAP. Actual results could differ from those estimates.

A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management obtains appraisals on properties which secure significant loans.

A substantial portion of the Bank's loans are secured by real estate located in the New York State counties of Dutchess, Orange, and Ulster. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio is dependent upon market conditions in these areas.

**(d) Securities**

Management determines the appropriate classification of securities at the time of purchase. If management has the positive intent and ability to hold debt securities to maturity, they are classified as investment securities held to maturity and are stated at amortized cost. If securities are purchased for the purpose of selling them in the near term, they are classified as trading securities and are reported at fair value with unrealized gains and losses reflected in current earnings.

All other debt and marketable equity securities are classified as securities available for sale and reported at fair value, with net unrealized gains or losses, net of deferred income taxes, recorded in accumulated other comprehensive income (loss) (a component of stockholders' equity). At December 31, 2013 and 2012 and during the years then ended, the Bank did not hold any securities considered to be trading or held to maturity.

Mortgage-backed securities, which are included in the available for sale portfolio, are guaranteed by Freddie Mac (FHLMC) or Fannie Mae (FNMA) (U.S. Government sponsored enterprises), and represent participating interests in direct pass-through pools of long-term first mortgage loans originated and serviced by the issuers of the securities. SBA securities which are included in the available for sale portfolio are guaranteed by the Small Business Administration (SBA), and represent participating interests in direct pass-through pools of the guaranteed portion of SBA business loans originated and serviced by the issuers of the securities.

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Gains or losses on the sale or call of securities are based on the net proceeds and the amortized cost of the securities sold or called, using the specific identification method. The gains or losses are determined as of the trade date. Unrealized losses on securities which reflect a decline in value which is other than temporary are split into two components. The first is the loss attributable to declining credit quality. Credit losses are recognized in earnings as realized losses in the period in which the impairment determination is made. The second component consists of all other losses, which are recognized in other comprehensive income (loss). Management evaluates securities for other-than-temporary impairment on a quarterly basis, and considers (1) the length of time and the extent to which fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) whether it is likely the Bank intends to sell or will have to sell the security prior to recovery. The cost of securities is adjusted for amortization of premiums and accretion of discounts, which is calculated using the effective interest method.

Securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain securities, it is at least reasonably possible that changes in the values of securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

#### **(e) Loans Receivable**

Loans receivable are reported at the principal amount outstanding, net of deferred loan origination fees and costs and the allowance for loan losses. Interest income on loans is not recognized when considered doubtful of collection by management (generally, when principal or interest payments are 90 days or more past due). For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. Interest received on nonaccrual loans including impaired loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Loans, including troubled debt restructurings, are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Fees received from loan originations and certain direct origination costs are deferred and amortized into interest income so as to provide for a level yield on the underlying loans.

#### **(f) Allowance for Loan Losses**

The allowance for loan losses (the allowance) is established through a provision for loan losses charged to operations. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Recoveries on loans previously charged off are credited to the allowance for loan losses when realized. The allowance is an amount that management believes is adequate to absorb probable losses inherent in the loan portfolio.

Management's evaluation of the adequacy of the allowance for loan losses is performed on a periodic basis and takes into consideration such factors as the historical loan loss experience, changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect borrowers' ability to repay.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying amount of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative risk factors. These qualitative risk factors include:

1. Loan review risk analysis
2. Underwriting standards and concentrations
3. Experience of lending management
4. Economic trends and market conditions

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Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when it is probable that the borrower will not make principal and interest payments according to the original contractual terms of the loan agreement, or the loan is restructured in a troubled debt restructuring. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. The allowance for loan losses related to impaired loans is based on the discounted cash flows using the loan's initial effective rate or the fair value of the collateral for loans where repayment of the loan is expected to be provided solely by the underlying collateral (collateral dependent loans). The Bank's impaired loans are generally collateral dependent. The Bank considers estimated costs to sell, on a discounted basis, when determining the fair value of collateral in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loans.

Management believes that the allowance for loan losses is adequate. While management uses available information with respect to these estimates, changes in economic conditions and other factors may occur that would result in future additions to the allowance for loan losses. In addition, various regulatory agencies periodically review the Bank's estimates in these areas. Such agencies may require the Bank to recognize additions to the allowance for loan losses, based on their judgments about information available to them at the time of their examination which may not be currently available to management.

#### **(g) Bank Premises and Equipment**

Bank premises and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is computed on a double declining basis over the estimated useful lives of the assets which are generally 10 to 39 years for buildings and 3 to 7 years for furniture, fixtures and equipment. Leasehold improvements are amortized on a double declining basis over the shorter of the term of the related leases or the estimated useful lives of the assets. Maintenance and repairs are typically charged to expenses when incurred.



**(h) Other Real Estate Owned**

Other real estate owned (“OREO”) consists of properties acquired through foreclosure or by acceptance of a deed in lieu of foreclosure. These assets are initially recorded at fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset’s fair value at the date of acquisition are charged to the allowance for loan losses. Any subsequent valuation write-downs are recorded as a charge to operations.

After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed as incurred. The Bank had \$375,000 and \$0 in OREO at December 31, 2013 and 2012, respectively.

**(i) Income Taxes**

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Bank determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities. Enacted changes in tax rates and laws are recognized in the period in which they occur.

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Deferred tax assets and liabilities are recognized for the future tax consequences attributable to “temporary differences” between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized subject to management’s judgment that those assets will more likely than not be realized. A valuation allowance is recognized if, based on an analysis of available evidence, management believes that all or a portion of the deferred tax assets will not be realized. Adjustments to increase or decrease the valuation allowance are charged or credited, respectively, to income tax expense. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

Uncertain tax positions are recognized if it is more likely than not, based on technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management’s judgment. The Bank has not identified any income tax uncertainties at December 31, 2013 and 2012.

The Bank recognizes interest and penalties on income taxes as a component of income tax expense. Tax years subject to examination by Federal and New York State tax authorities are the years ended December 31, 2013, 2012, 2011 and 2010.

#### **(j) Financial Instruments**

In the normal course of business the Bank is a party to certain financial instruments with off balance sheet risk such as commitments to extend credit, unused lines of credit and standby letters of credit. The Bank’s policy is to record such instruments when funded.

#### **(k) Cash and Cash Equivalents**

Cash and cash equivalents consists of cash and due from banks, federal funds sold, and short-term interest-bearing deposits with banks with an original maturity of 3 months or less.

#### **(l) Comprehensive Income**

Comprehensive income represents the sum of net income and items of other comprehensive income or loss, which are reported, net of tax, directly in stockholders' equity such as the change in the net unrealized gain or loss on securities available for sale. Accumulated other comprehensive income or loss, which is included in stockholders' equity, represents the net unrealized gain or loss on securities available for sale, net of tax, at the end of each respective year.

**(m) Bank-Owned Life Insurance (BOLI)**

The investment in bank-owned life insurance is carried at the policies' cash surrender value. Increases in the cash surrender value are recognized in non-interest income.

**(n) Supplemental Executive Retirement Plan (SERP)**

The Bank has two supplemental executive retirement plans. One entered into in 2013 covers the President and CEO of the Bank. The other entered into in 2004 covers the former President and CEO of the Bank. These benefits are unfunded. The details of the programs are described more fully in Note 8.

**(o) Stock-Based Compensation**

The Bank measures and records the cost of employee services received in exchange for stock compensation based on the vesting terms and grant-date fair value of the employee stock options. Incremental compensation costs arising from subsequent modifications of awards after the grant date are recognized.

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**(p) Advertising**

The Bank follows the policy of charging the costs of advertising to expense as incurred. Advertising expense amounted to approximately \$30,000 and \$29,000 for the years ended December 31, 2013 and 2012, respectively.

**(2) Securities Available for Sale**

The amortized cost and estimated fair value of securities available for sale at December 31 are as follows:

	<b>2013</b>			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. Treasury securities	\$1,228,516	\$3,359	\$—	\$1,231,875
U.S. Government Sponsored				
Enterprise obligations	14,259,647	1,058	(279,360 )	13,981,345
SBA securities	3,596,058	40,480	(11,496 )	3,625,042
Residential mortgage-backed securities	112,609	2,975	—	115,584
State and municipal obligations	1,437,845	5,655	(12,164 )	1,431,336
	\$20,634,675	\$53,527	\$(303,020 )	\$20,385,182

	<b>2012</b>			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. Treasury securities	\$1,248,607	\$3,518	\$—	\$1,252,125
U.S. Government Sponsored				
Enterprise obligations	7,897,934	5,465	(3,256 )	7,900,143
SBA securities	4,178,885	—	(39,981 )	4,138,904
Residential mortgage-backed securities	121,525	4,757	—	126,282
State and municipal obligations	907,139	9,298	(634 )	915,803
Total debt securities	\$14,354,090	\$23,038	\$(43,871 )	\$14,333,257

Information on temporarily impaired securities at December 31, 2013 and 2012, segregated according to the length of time such securities have been in a continuous unrealized loss position, is summarized as follows:

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	Less than 12 months		12 months or longer		Total	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized
	fair	losses	fair	losses	fair	losses
	value		value		value	
U.S. Government Sponsored						
Enterprise obligations	\$10,736,857	\$(273,533)	\$744,174	\$(5,827)	\$11,481,031	\$(279,360)
SBA securities	316,450	(6,056)	1,214,153	(5,440)	1,530,603	(11,496)
State and municipal obligations	747,385	(11,521)	50,560	(643)	797,945	(12,164)
	\$11,800,692	\$(291,110)	\$2,008,887	\$(11,910)	\$13,809,579	\$(303,020)

	2012 Less than 12 months		12 months or longer		Total	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized
	fair	losses	fair	losses	fair	losses
	value		value		value	
U.S. Government Sponsored						
Enterprise obligations	\$1,745,564	\$(3,256)	\$—	\$—	\$1,745,564	\$(3,256)
SBA securities	951,180	(4,069)	3,187,724	(35,912)	4,138,904	(39,981)
State and municipal obligations	105,139	(634)	—	—	105,139	(634)
	\$2,801,883	\$(7,959)	\$3,187,724	\$(35,912)	\$5,989,607	\$(43,871)

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The above table for 2013 includes 36 securities that have been in a continuous loss position for less than 12 months and five securities that have been in loss position more than 12 months. The unrealized losses on securities at December 31, 2013 were caused by increases in market interest rates. Because the Bank does not intend to sell or will not be required to sell the securities until a market price recovery, or possibly to maturity, these investments are not considered other-than-temporarily impaired at December 31, 2013.

The amortized cost and estimated fair value of debt securities available for sale as of December 31, 2013, by contractual maturity (mortgage backed securities are included by final contractual maturity), are as follows (actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties):

	<b>Amortized cost</b>	<b>Estimated fair value</b>
Over one to five years	\$9,123,570	\$9,060,654
Over five to ten years	11,075,990	10,892,494
Over ten years	435,115	432,034
	<b>\$20,634,675</b>	<b>\$20,385,182</b>

During the years ended December 31, 2013 and 2012, the Bank did not have any sales of securities available for sale. The carrying value of securities available for sale that were pledged to secure public deposits was approximately \$6,678,000 and \$4,940,000 at December 31, 2013 and 2012, respectively.

### **(3) Loans Receivable, net**

The Bank's loan portfolio is disaggregated into portfolio segments, commercial and consumer, to a level that allows management to monitor risk and performance. Commercial loans consist of the following classes: real estate, commercial and industrial, and construction. Commercial real estate primarily consists of mortgages to finance the purchase of commercial property. Commercial real estate lending generally involves a high degree of risk because payments on loans secured by commercial real estate properties are often dependent on the successful operation or management of the properties, and/or the collateral value of the real estate securing the loan. Repayment of such loans may be subject to adverse conditions in the real estate market or economic conditions in the local economy. Also, commercial real estate loans typically involve large loan balances to single borrowers or groups of related borrowers. Commercial and industrial is comprised of general purpose commercial and industrial lending including term loans, time notes and lines of credit. Commercial and industrial loans generally involve a higher degree of credit risk because the collateral underlying the loans may be in the form of intangible assets and/or inventory subject to market obsolescence. Commercial and industrial loans can also involve relatively large loan balances to single borrowers or groups of related borrowers, with the repayment of such loans typically dependent on the successful operation and income stream of the borrower. Such risks can be significantly affected by economic conditions. Commercial construction primarily consists of loans to finance the construction of commercial property that normally convert to a permanent mortgage at the end of the construction phase. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion compared to the estimated cost of construction. Consumer loans consist of secured and unsecured personal loans and overdraft protection lines. Consumer loans tend to have a higher credit risk due to the loans being either unsecured or secured by rapidly depreciable assets. Furthermore, consumer loan payments are dependent on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

Classification of loan receivable, net at December 31 is as follows:

	2013	2012
Commercial real estate	\$ 106,468,173	\$ 99,056,158
Commercial and industrial	75,158,343	69,401,863
Commercial construction	4,688,008	6,420,700
Consumer	544,704	407,387
Total loans	186,859,228	175,286,108
Net deferred loan fees/costs	(151,507 )	(81,764 )
Allowance for loan losses	(2,622,811 )	(2,409,979 )
Loans receivable, net	\$ 184,084,910	\$ 172,794,365

Loans serviced for others consist of commercial loan participations which are not included in the accompanying statements of financial condition. The amount of loans serviced for others were \$7,157,589 and \$3,376,332 at December 31, 2013 and 2012, respectively.

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## Credit Quality

The Bank uses several credit quality indicators to assess credit risk on an ongoing basis. Measurement of delinquency and past due status are based on the contractual terms of each. The Bank's primary credit quality indicator for its entire loan portfolio is an internal credit risk rating system that categorizes loans as "pass", "special mention", "substandard", "doubtful" or "loss". Credit risk ratings are applied individually to each loan in the portfolio. The following are the definitions of the Bank's credit quality indicators:

- Pass – in general, the condition of the borrower and the performance of the loans are satisfactory or better;
- Special Mention – does not currently expose the Bank to a sufficient degree of risk but does possess credit deficiencies or potential weaknesses deserving the Bank's close attention;
- Substandard - has one or more well defined weaknesses and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected;
- Doubtful - has all the weaknesses inherent in substandard loans with the additional characteristic that the weaknesses present make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss; and
- Loss - loan is considered uncollectible and of such little value that their continuance as a loan of the institution is not warranted.

The following tables present the classes of the loan portfolio summarized by the Bank's internal risk rating system as of December 31:

	2013				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate	\$102,729,066	\$497,691	\$3,241,416	\$—	\$106,468,173
Commercial & industrial	72,601,459	1,411,299	1,086,948	58,637	75,158,343
Commercial construction	4,688,008	—	—	—	4,688,008
Consumer	544,704	—	—	—	544,704
Total	\$180,563,237	\$1,908,990	\$4,328,364	\$58,637	\$186,859,228

At December 31, 2013 the Bank did not have any loans classified as loss.

	2012				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate	\$95,568,609	\$1,116,844	\$2,370,705	\$—	\$99,056,158
Commercial & industrial	67,555,603	1,651,870	—	194,390	69,401,863
Commercial construction	6,420,700	—	—	—	6,420,700
Consumer	387,316	—	—	20,071	407,387
Total	\$169,932,228	\$2,768,714	\$2,370,705	\$214,461	\$175,286,108



At December 31, 2012 the Bank did not have any loans classified as loss.

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*Non-accrual and Past Due Loans*

Management monitors the credit quality of its loan portfolio on an ongoing basis. Measurement of delinquency and past due status are based on the contractual terms of each loan. Past due loans are reviewed on a monthly basis to identify loans for non-accrual status. The following is an aged analysis of the Bank's past due loans, by classes as of December 31:

	2013			Total Past Due	Current	Total Loans Receivable
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days			
Commercial real estate	\$497,691	\$1,059,963	\$140,000	\$1,697,654	\$104,770,519	\$106,468,173
Commercial & industrial	—	—	—	—	75,158,343	75,158,343
Commercial construction	—	—	—	—	4,688,008	4,688,008
Consumer	—	—	—	—	544,704	544,704
Total	\$497,691	\$1,059,963	\$140,000	\$1,697,654	\$185,161,574	\$186,859,228

  

	2012			Total Past Due	Current	Total Loans Receivable
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days			
Commercial real estate	\$—	\$—	\$1,458,342	\$1,458,342	\$97,597,816	\$99,056,158
Commercial & industrial	52,855	113,880	—	166,735	69,235,128	69,401,863
Commercial construction	—	—	—	—	6,420,700	6,420,700
Consumer	—	—	—	—	407,387	407,387
Total	\$52,855	\$113,880	\$1,458,342	\$1,625,077	\$173,661,031	\$175,286,108

The Bank did not have any loans receivable more than 90 days past due and still accruing interest at December 31, 2013 and 2012, respectively.

All the non-accrual loans in the loan portfolio were commercial real estate as of December 31:

	2013	2012
Commercial real estate	\$140,000	\$1,458,342

Interest on non-accrual loans that would have been earned in accordance with the original contractual terms of the loans was approximately \$52,000 in 2013 and \$156,000 in 2012. Interest income recognized on non-accrual loans for the years ended December 31, 2013 and 2012 was \$0 and \$9,536, respectively.

### *Impaired Loans*

The following tables summarize information in regards to impaired loans by loan portfolio class as of December 31:

	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	2013 <b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
With no related allowance recorded: Commercial real estate	\$567,558	\$567,558	\$—		