



North Middlesex

SAVINGS BANK

Smart banking made easy.™

North Middlesex Savings Bank is an independent community bank operated by and for the benefit of local people and businesses. We succeed in providing for the long-term financial needs of our community by being financially strong, socially responsible, and by providing a quality of customer service that encourages customers to return to our Bank. We concentrate on doing those things we can do particularly well and maintain a corporate culture that encourages excellence.



PRESIDENT'S LETTER

A friend of mine commented recently: “If you keep doing what you always did, you’ll get what you always got.”

When it comes to banking, however, in the face of ever-increasing competition, rapidly changing technology, rising operating costs, and a massive and intensifying regulatory burden, I don't think we can even count on that much.

If we keep doing what we always did, we'll be going backwards. That is really the reason behind some of the changes we've been making at NMSB over the past few years.

In 2013, we established four key priorities for the Bank: *Improve Asset Quality; Expand Relationships; Maintain or Improve Profitability; and Strengthen the Culture.* I am pleased to say that we've made real strides in each of these areas.

Asset Quality: While we continue to carry higher levels of delinquent loans than we would prefer, the numbers are improving. In keeping with our mutual charter, we are committed to working with our struggling borrowers as much as possible, and foreclosure is truly considered a last resort.

Expand Relationships: With minimal population growth in our core market area, growing deposits has been a challenge for NMSB. During 2013, we took a number of steps to be more proactive about bringing in new business. First, we did a thorough evaluation of our product line-up to ensure that we've got competitive account offerings that meet customers' needs. Second, we examined our delivery systems to allow customers to bank with us however, wherever, and whenever they want. A good example of this is our mobile apps; for anyone who hasn't explored these yet, I am certain you'd be impressed. Third, working with our marketing vendors,

we've developed a program to identify customers and prospects most likely to benefit from our offerings and bring more business to the Bank. Finally, we've invested time and money preparing our people to have helpful conversations that add value to the relationship.

Maintain or Improve Profitability: Mike Noble's Treasurer's letter will provide more detail, but I am pleased to say that we had another good year.

Strengthening Culture: Basically, this means reinforcing our core STAR Values. Our efforts in 2013 went beyond that to focus on two other key areas: Training and Continuous Improvement. The Board made a serious commitment last year, significantly increasing the training budget for such things as sales, compliance, management, and certain technical skills. Our NorthSTAR process improvement teams also made recommendations to create efficiencies and/or improved customer experience in diverse areas ranging from account opening to wire transfers to consumer loans. This culture of continuous improvement will be a cornerstone to our future success.

We've established a strong foundation to build on, but in 2014 and beyond, the challenge will be to bring in more customers who understand the value of relationship banking that we do best at NMSB.

WALTER J. DWYER, IV
President and CEO



TREASURER'S LETTER

Last year was one of positive financial developments for North Middlesex Savings Bank.

Management entered 2013 looking to build on 2012's success with continued profitability and strong core capital levels. I'm pleased to say we exceeded our goals.

We carefully grew the assets in the balance sheet to generate earnings, allowing modest growth in the investment portfolio and more substantial growth in the loan portfolio. A mixture of deposits and borrowings was used to fund the growth.

Loan growth was more heavily weighted in Commercial Loans, but we also improved our footings in Residential and Consumer Loans. We posted solid gains in Savings and Money Market Accounts, as well as in Time Deposits, aided by the use of brokered Time Deposits (which we added to help control funding costs). Capital stability and improved profitability allowed us to grow the balance sheet by 6.5% year-over-year.

While increasing assets to generate earnings, we continue to manage interest expense, directing resources to customers with broad relationships. This allows us to compete in the market and reward customers who choose us as their primary financial services provider.

Our strong earnings resulted in a 6.1% increase in Undivided Profits for the year. This allowed us to further bolster our Tier 1 Leverage Capital Ratio, reaching 8.75% by year-end. While the regulatory minimum is 5%, we feel it essential to the long-term health of the Bank to maintain a solid capital base for the future.

We continued to focus on problem assets, working with customers through difficult times to achieve the most

favorable outcome for all parties. This persistence led to some improvement over 2012's delinquency levels and a reduction in loan-loss related expenses.

Expense control remained a focus for 2013, with Operating Expense growth held to just over 2.5% over 2012. Non-interest income was aided by our ability to originate and sell mortgages at a profit despite a market slowdown caused by rising interest rates.

We booked some gains from investment sales at year-end (\$300,000 after taxes) in response to a consequence of a mid-December regulatory ruling. The "Volcker Rule" would have forced an investment write-down and adversely affected earnings and capital. The community banking industry was able to get regulators to reconsider the ruling, which was reversed in January, retroactive to year-end.

Net Income for the year grew to over \$1.9 million, a 10% increase over 2012 and well above the budgeted \$1.44 million. Without the benefit of the investment gains noted above, we would still have beaten the budget by roughly \$160,000.

In 2014, we will continue to manage balance sheet growth, control our interest costs, and limit our operating expenses. We look forward to another year of consistent forward, financial progress for NMSB.

MICHAEL A. NOBLE
Executive Vice President,
Treasurer and Chief Operating Officer



Smart banking made easy.™

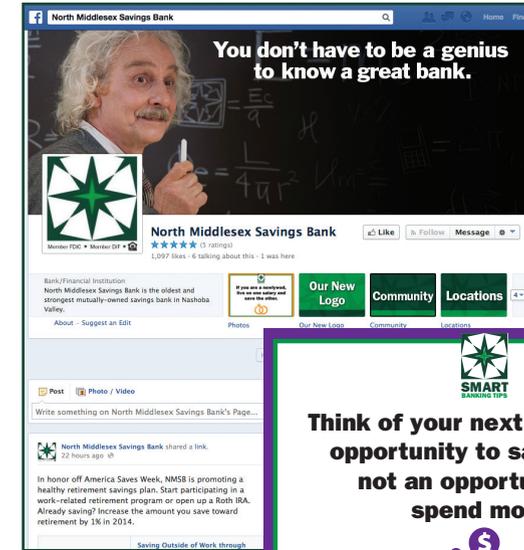
Continuing the theme of positive change, it was time to update the NMSB brand to ensure the people of Nashoba Valley recognized us as a contemporary and vibrant financial resource.

The Board of Trustees and management team worked closely with a specialized marketing firm on an in-depth brand positioning study that included surveying of staff, customers and other community representatives. After much analysis and consideration, the firm recommended the logo be updated to better reflect NMSB's emphasis on providing cutting-edge banking solutions.

The new logo's star represents how for nearly 130 years the Bank has been a steady beacon, like the North Star, to the customers and communities we serve. Plus, it is reminiscent of our staff's core STAR Values of Service, Teamwork, Accountability and Respect. The tagline of "Smart banking made easy" was conceived because it appropriately promises that NMSB offers customers access to effective financial solutions and professional expertise (Smart Banking), while our team works with you to provide a simple and pleasant banking experience (Made Easy).



TV Spot



Facebook Page

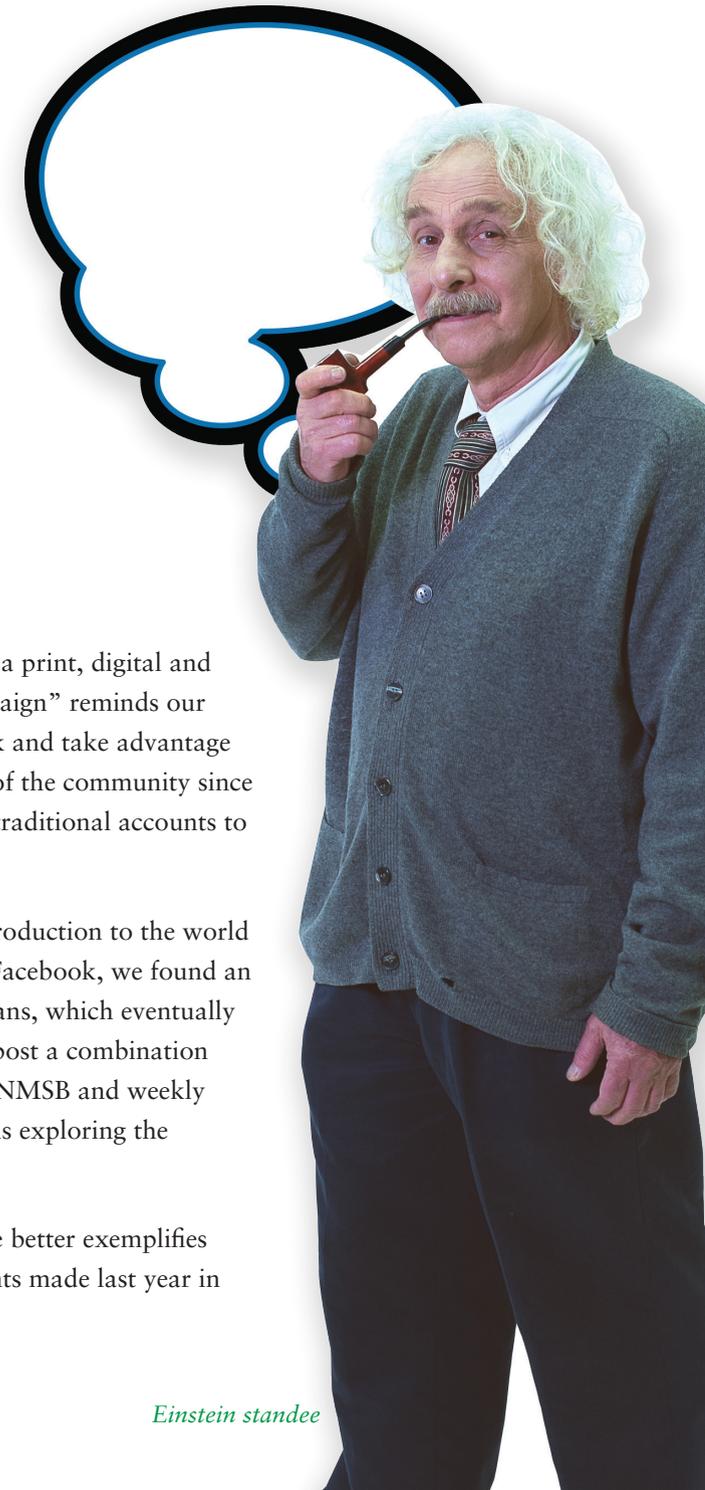


"Smart Banking Tip" used on Facebook page

To help introduce the new branding, the tagline became the foundation of a print, digital and broadcast advertising campaign that continues today. The "Einstein Campaign" reminds our target audience that "You don't have to be a genius" to know a great bank and take advantage of savvy financial services. NMSB has been answering the financial needs of the community since 1885 by offering the best array of banking products and services — from traditional accounts to modern electronic conveniences.

NMSB's new image and advertising campaign was aided by the Bank's introduction to the world of social media, which happened at roughly the same time by design. On Facebook, we found an effective, new communication outlet and were immediately embraced by fans, which eventually totaled over 1,000 at the close of the year. To keep everyone engaged, we post a combination of fun and interesting content, including an explanation of the updates at NMSB and weekly "Smart Banking Tips" that reinforce the new brand. Additionally, NMSB is exploring the relationship-building potential of LinkedIn.

With all methods of communicating the new brand being considered, none better exemplifies the Bank's commitment to "Smart banking made easy" than the investments made last year in technology, as explained in the next section.



Einstein standee

TECHNOLOGY

The year ahead is expected to be one of relationship growth, thanks in part to NMSB's emphasis in 2013 on implementing technology that makes banking easier for both customers and staff, further reinforcing the new brand.

After much work behind the scenes on our mobile banking technology, smartphone users eagerly downloaded the free NMSB Mobile Apps for Apple® and Android® devices. Customers are exploring all of the convenient features, which “don't take a genius to enjoy,” as touted by another component of our “Einstein Campaign.” Look for more advances to mobile banking technology in the months ahead.

Also coming soon, consumer lending customers will enjoy a more user-friendly experience when applying for loans both online and in-person at our branches due to the execution of the Velocity system. This timesaving technology will allow applications to be electronically signed and submitted, and then it will provide an automated decision within a matter of minutes.

Similarly impressive for its convenience is the soon-to-go-live iOpen platform, which will allow customers to open deposit accounts online. Since potential customers have come to ex-

pect this service nationwide, we will soon be among those offering the platform's benefits.

To help NMSB better understand all of its customers' needs and wants, in 2013 we also introduced an enhanced Customer Relationship Management system called FocalPoint. This will be used to efficiently benchmark performance, track progress, and most importantly, prioritize ongoing sales efforts. For example, FocalPoint will help identify current customers who are good prospects for additional business, such as households with loans, but no deposits. It can also uncover potential customers with similar demographics to NMSB's best account holders.

With these technology upgrades and ample training to maximize their use — combined with the Bank's ongoing commitment to community — the NMSB team is well positioned to capture more market share in the immediate future.



SPECIAL EVENTS COMMITTEE

In early 2013, the Special Events Committee was formed to organize events and projects that would directly benefit our local community.

The first event we planned was our *Feed the Need* food drive that took place in June. The reason we chose the month of June to collect donations was that summer vacation is when pantries experience the most shortages. Our goal was to help keep our local pantries stocked through these busy months. All of the donations collected during this month-long event directly benefitted the three food banks in our local community; Loaves and Fishes, Pepperell Aid from Community to Home (PACH) Outreach, and the Lunenburg Family Food Bank.

In September, the Special Events Committee successfully completed our second community project; *Banking on Backpacks*. We purchased and filled 105 backpacks and distributed them to schools in our community, including Ayer, Shirley, Lunenburg, Groton, Pepperell, and Littleton. Each pack contained writing utensils, paper, notebooks, folders, a binder, and a calculator. This project in particular took a lot of teamwork, because we had to find bulk quantities of each item. NMSB was able to help make the school year less stressful for 105 families.

NMSB was fortunate enough to help sponsor another great event for the Ayer-Shirley Regional School District. This time,

Camfel Productions came to the schools to present a show called "Dream, Dare, Do!" The messages behind each of the three age-based shows included pursuing your dreams by setting goals, encouraging your peers to pursue their dreams, overcoming obstacles, and preventing bullying. Each presentation included age-appropriate music and movie clips that were both attention grabbing and relevant to the students. The learning materials that were provided to supplement the programs will uphold the themes of "Dream, Dare, Do!" so that students can put to practice this show's many meaningful messages. Some of NMSB's team members were able to attend the shows as guests, in show of our support for education and our community schools.

Plans are underway now for the events of 2014.





I'd like to extend my thanks and best wishes to three special men who will be retiring from our Board of Trustees this year. Steve Gervais, Bob Hughes, and Chuck Everett have all been very supportive of me personally, and I appreciate that very much. They've served the Bank capably for many years, and helped to steer us through some rough waters at times. I am hopeful they feel as confident about the standing and the future of their Bank as I do.

TRUSTEES

David B. Alexander

Paul D. Bresnahan

Murray W. Clark

Walter J. Dwyer, IV

David J. Eliades

Richard Everett, III

Stephen L. Gervais

Robert H. Hughes

William P. Marshall

Cynthia J. Russo

Stephen M. Slarsky

Peter E. Warren

HONORARY TRUSTEE

Warren M. McFague

EXECUTIVE TEAM

Paul D. Bresnahan

Chairman of the Board of Trustees

Walter J. Dwyer IV

President and CEO

Michael A. Noble

Executive Vice President, COO and Treasurer

Ruth M. Cavanagh

Senior Vice President, Senior Loan Officer

Paula F. Carmichael

Vice President, Human Resources

Susan F. Casserly

Vice President, Branch Manager

Thomas J. Dufault

Vice President, Mortgage Lending

Carole J. Landry

Vice President, Operations

Mary P. Markham

Vice President, IT/Compliance/Security

Donna M. Morel

Vice President, Retail Banking Manager

John J. Spinello

Vice President, Controller

Stephen J. Sugar, Jr.

Vice President, Commercial Loans

Karen L. Thorne

Vice President, Credit Administration

Carl S. Wiley

Vice President, Commercial Loans

Maria L. Nephew

Assistant Vice President, Branch Manager

Sandra A. Roy

Assistant Vice President, Finance

Jennifer M. Cordio

Assistant Treasurer, Branch Manager

Michelle C. Hills

Assistant Treasurer, Branch Manager

Priscilla A. Scales

Assistant Treasurer, Branch Manager

William P. Marshall

Clerk

CORPORATORS

Name *Town*

Marie A. Allen Littleton

John B. Amaral Groton

Robin A. Brown Shirley

Robert L. Collins Groton

Richard G. Conway Pepperell

Timothy Dolan Groton

Gerald Eaton Acton

Tracie Ezzio Pepperell

Paul J. Farley Ayer

James K. Farnsworth Shirley

Mark Fermanian Ayer

Matthew Field Littleton

John F. Gervais Groton

Paul J. Glavey Littleton

Sherrill R. Gould Littleton

John C. Guthrie, III Shirley

Anita B. Haines Shirley

Name *Town*

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Kevin P. Horgan Ayer

Philip F. Horgan Ayer

Edward H. Kelley Ayer

Nicholas P. Laggis Ayer

Marie LeBlanc Harvard

George Leonhardt Fitchburg

Christopher Lilly Lunenburg

R. Neville Markham Ayer

Laura J. Masiello Pepperell

Paul K. McGuane Ayer

Joseph J. McLaughlin Bolton

Mark S. McNulty Ayer

Edwin Noyes Harvard

Edward J. O'Neill, Jr. Groton

Edward J. O'Neill, III Groton

Joan S. Pena Ayer

Name *Town*

Joseph P. Pettirossi Weston

Andrew Pietras Groton

James B. Pinard, Jr. Ayer

Bob Prescott Shirley

Gerald W. Quigley Ayer

Susan Randazzo Groton

Jeffrey Resnick Lunenburg

George Rider Groton

Steve Roach Littleton

Deborah J. Seeley Lunenburg

Ernest B. Sheldon Pepperell

Dexter Stevens Groton

Eldon M. Strickland, Jr. Harvard

P. Derek Ten Broeck, Jr. Pepperell

Patricia A. Thorpe Pepperell

Charles W. Tully, Jr. Dunstable

Joan Wesolowski Concord

NEW HIRES & PROMOTIONS

Ruth Cavanagh

After demonstrating great success and a winning attitude in her first year with NMSB, Ruth M. Cavanagh was promoted to Senior Vice President, Senior Loan Officer. In this position, she oversees both commercial and retail lending operations, working closely with all department heads. Her 30 years of experience — from teller to executive — combined with vast financial education will continue to benefit the Bank and its customers. In her free time, Ruth will continue to serve the Nashoba Valley Chamber of Commerce, Worcester Economic Club, Indian Hill Music Council and United Way.

Carole Landry

Joining NMSB in 2013 as Vice President of Operations, Carole J. Landry is already positively influencing daily activity at the Bank. She brings 34 years of experience, much of which was with St. Mary's Bank where she was Senior Vice President and Director of Operations before joining our team. Her attention to detail and emphasis on mentoring is expected to help NMSB achieve greater efficiency and success. She also lends her skills to the United Way as part of its Community Investment Team, as well as to the Executive Women's Golf Association as Finance Director.

PROFIT & LOSS STATEMENT



	For the Year Ending 12/31/2013 (in Thousands)	For the Year Ending 12/31/2012 (in Thousands)
Investment Income	\$ 2,171	\$ 2,210
Loan Interest	\$ <u>11,141</u>	\$ <u>11,425</u>
Total Interest Income	\$ <u>13,312</u>	\$ <u>13,635</u>
Interest Expense - Deposits	\$ (1,498)	\$ (1,710)
Interest Expense - Borrowings	\$ <u>(671)</u>	\$ <u>(894)</u>
Total Interest Expense	\$ <u>(2,169)</u>	\$ <u>(2,604)</u>
Net Interest Income	\$ 11,143	\$ 11,031
Less: Provision for Loan Losses	\$ <u>(700)</u>	\$ <u>(725)</u>
Net Interest Income After Provision	\$ 10,443	\$ 10,306
Non-Interest Income	\$ 1,771	\$ 1,684
Operating Expenses	\$ <u>(10,522)</u>	\$ <u>(10,259)</u>
Net Income Before Other Items	\$ 1,692	\$ 1,731
Gains/(Losses) on Sale of Assets	\$ 817	\$ 732
Income Tax Expense	\$ <u>(587)</u>	\$ <u>(721)</u>
Net Income	\$ <u><u>1,922</u></u>	\$ <u><u>1,742</u></u>

STATEMENT OF CONDITION



	December 31, 2013	December 31, 2012
ASSETS		
Cash and Due from Banks	\$ 5,821	\$ 5,986
Interest Bearing Deposits	\$ 6,893	\$ 5,934
Overnight Investments	\$ 24	\$ 22
Investment Securities	\$ 59,469	\$ 55,635
Loans		
Residential Loans	\$ 86,638	\$ 84,763
Commercial Loans	\$ 156,770	\$ 143,333
Consumer Loans	\$ <u>25,052</u>	\$ <u>23,709</u>
Total Loans	\$ 268,460	\$ 251,805
Less: Allowance for Losses	\$ <u>(3,354)</u>	\$ <u>(3,674)</u>
Net Loans	\$ 265,106	\$ 248,131
Other Assets	\$ <u>21,511</u>	\$ <u>21,229</u>
Total Assets	\$ <u><u>358,824</u></u>	\$ <u><u>336,937</u></u>
LIABILITIES		
Deposits		
Transaction Accounts	\$ 88,408	\$ 91,172
Savings and Money Market Accounts	\$ 103,914	\$ 94,248
Time Deposits	\$ <u>96,830</u>	\$ <u>87,444</u>
Total Deposits	\$ 289,152	\$ 272,864
Borrowed Funds	\$ 29,463	\$ 25,415
Other Liabilities	\$ <u>7,484</u>	\$ <u>7,762</u>
Total Liabilities	\$ <u><u>326,099</u></u>	\$ <u><u>306,041</u></u>
Undivided Profits	\$ 33,275	\$ 31,353
Other Comprehensive Items	\$ <u>(550)</u>	\$ <u>(457)</u>
Total Liabilities and Undivided Profits	\$ <u><u>358,824</u></u>	\$ <u><u>336,937</u></u>

S.T.A.R. VALUES

SERVICE

We actively participate in shaping the future of our communities through volunteerism and financial support while balancing the interests of customers, employees and the Bank.

We regularly improve work processes, products and services; we consistently challenge our plans, strategies, tactics and goals.

TEAMWORK

We build strong, positive relationships through teamwork in order to exceed internal and external customer expectations.

ACCOUNTABILITY

We conduct ourselves with the highest professional and ethical standards.

We adhere to proven community banking principles: we remain financially strong, stable, independent, responsible and local.

RESPECT

We maintain a corporate culture of support and respect, where employees take pride and ownership in their work.

We are an organization of inclusion, promising employees two-way communication and feedback.