

NORTH MIDDLESEX SAVINGS BANK  
Statement of Condition

ASSETS	Dec. 31, 2008	Dec. 31, 2007
Cash and Due from Banks	\$ 5,305,953	\$ 6,787,982
Interest Bearing Deposits	9,669,586	1,725,014
Federal Funds Sold	2,722,326	19,496,303
Investment Securities	77,439,059	76,634,332
Loans:		
Residential	\$ 100,277,255	\$ 103,124,503
Commercial	101,247,652	86,071,069
Consumer Loans	25,096,726	25,745,345
Total Gross Loans	\$ 226,621,633	\$ 214,940,917
Less: Allowance for Loan Losses	(2,433,415)	(2,867,332)
Net Loans	\$ 224,188,218	\$ 212,073,585
Other Assets	21,172,002	18,139,952
<b>TOTAL ASSETS</b>	<b>\$ 340,497,144</b>	<b>\$ 334,857,168</b>
<b>LIABILITIES</b>		
Deposits:		
Transaction Accounts	\$ 71,275,485	\$ 71,558,662
Savings and Money Market Accounts	63,514,893	57,695,481
Time Deposits	116,181,620	128,307,672
Total Deposits	\$ 250,971,998	\$ 257,561,815
Borrowed Funds	54,270,748	39,252,659
Other Liabilities	6,670,664	5,578,055
<b>TOTAL LIABILITIES</b>	<b>\$ 311,913,410</b>	<b>\$ 302,392,529</b>
<b>EQUITY CAPITAL</b>		
Undivided Profits	30,138,105	32,167,053
Other Comprehensive Items	(1,554,371)	297,586
Total Equity Capital	28,583,734	32,464,639
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 340,497,144</b>	<b>\$ 334,857,168</b>

**Financial Disclosure Statements**

A complete annual financial disclosure statement, in accordance with Part 350 of the regulations of the Federal Deposit Insurance Corporation, may be obtained without charge by directing a request to: North Middlesex Savings Bank, 7 Main Street, Ayer, MA 01432 (Attn: Treasurer), or by phoning the Treasurer at (978) 772-3306.

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**NORTH MIDDLESEX  
SAVINGS BANK**

*Banking at its personal best*

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EQUAL HOUSING LENDER  
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2008

ANNUAL  
REPORT

*Strength*  
*Stability*  
*Safety*  
*Simplicity*

**NORTH MIDDLESEX  
SAVINGS BANK**

*Banking at its personal best*

2008 was a year of firsts: the first time an American athlete won eight Olympic gold medals. The first time a woman won a primary. The first time an African American was elected as president. But while the year captured the imagination in presidential elections and sports, 2008 is likely to be remembered as a year of financial crisis. A series of bank and insurance company failures triggered a financial disaster that effectively halted global credit markets and required unprecedented government intervention. Lehman Brothers declared bankruptcy. Bank of America agreed to purchase a failing Merrill Lynch. American International Group was saved by an \$85 billion capital injection by the federal government. J P Morgan Chase agreed to purchase the assets of Washington Mutual in what was the biggest bank failure in history.

Led by the "sub-prime" mortgage crisis, the deterioration of the housing market spread into every aspect of the economy and culminated in the \$700 billion bailout by the Federal Government. Whether this bailout plus the economic stimulus package proposed by President Obama stops the economic freefall and stabilizes our monetary policy, unemployment rate and consumer confidence is still to be determined. Very few entities were immune to this environment in 2008 and the Bank, with its commitment to ensuring the availability of home financing, was negatively impacted by the government's intervention in the operation of Fannie Mae and Freddie Mac.

Despite losses in its investment portfolio, North Middlesex Savings Bank continued its long tradition of strength, stability, safety and simplicity. We never abandoned our principles and remain one of the strongest community banks in the region.

#### Traditional Banking

North Middlesex Savings Bank is what a bank used to be. We take in deposits and lend money to homeowners, individuals and businesses. Over the past decade, many banks redefined themselves and got into the investment business. We chose to stay as a traditional banking institution. NMSB offers our customers basic, simple financial products delivered by exceptional customer service.

#### Financial Performance

In the third quarter of 2008, the U.S. Treasury took control of Freddie Mac and Fannie Mae, did not guaranty the preferred stock and suspended their dividends. Because of these September events, approximately 50% of financial institutions nationwide were forced to write down the value of Freddie Mac and Fannie Mae to their deflated book value, negatively impacting their income statements. North Middlesex Savings Bank was among those impacted. The total write-down after the tax benefit was \$3.4 million. The impact of these unanticipated and unprecedented economic events caused the Bank's operations to have a \$1.7 million loss for the year, or a negative 49 basis points (0.49%).

The actions taken in September totally overshadowed the Bank's positive core performance for the year. Exclusive of the net write downs, the Bank's core net earnings were \$1.6 million or 46 basis points (0.46%) for 2008. Core performance compared favorably to 2007, when core net earnings were \$1.5 million, or 42 basis points (0.42%).

Assets increased to \$340.5 million as of December 31, 2008 from \$334.9 million as of December 31, 2007, an increase of \$5.6 million, or 1.7%. The funding side of the Balance Sheet in 2008 was impacted by the competitive interest rate environment as total deposits decreased \$6.6 million, or 2.6%, from December 31, 2007 to \$251.0 million as of December 31, 2008. There was a material shift in deposit composition as core non-certificate deposits represented 54% of total deposits as of December 31, 2008, up from 50% as of December 31, 2007. The shifting of Bank funding away from high cost certificates of deposits helped improve the Bank's cost of funds for the deposit base and was one of the major reasons the Bank's interest rate margin improved from 2.92% for the 12 month period ending December 31, 2007 to 3.03% for the comparable period in 2008.

To offset the loss of high cost deposits, the Bank borrowed from The Federal Home Loan Bank to primarily fund commercial loan originations and certain investment purchases. As of December 31, 2008, borrowings totaled \$54.3 million, or 15.9% of total assets. On December 31, 2007, borrowings totaled \$39.3 million, or 11.7% of total assets.

Total gross loans increased by \$11.8 million between December 31, 2007 and December 31, 2008 from \$214.9 million to \$226.7 million, or 5.4%. Commercial loans increased by \$15.2 million, or 17.6%, between periods, while residential mortgages and consumer loans decreased by \$2.8 million, or 2.8%, and \$649,000, or 2.5%, respectively over the same period. Total loan originations increased from \$60 million in 2007 to \$63 million in 2008.

The capital markets rebounded in certain sectors during the fourth quarter of 2008 and as of December 31, 2008, the net unrealized loss on total investment securities was \$770,000, or approximately 1.00% of total investment portfolio value.

As of December 31, 2008, the leverage capital ratio was 8.82% as compared to 9.68% as of December 31, 2007. The Tier 1 capital ratio on December 31, 2008 was 8.70%, which still is well above the 5.00% minimum set by the F.D.I.C. to be classified as a well capitalized bank.

#### Honorary Trustee Sigmund Wesolowski

This year's annual report is dedicated to Sigmund Wesolowski, who passed away in January 2009 at the age of 87. Ziggy's tenure as a member of the Board of Trustees was long and fruitful for the Bank. His guidance, service and business acumen were vital to the running of our successful institution for 28 years. Ziggy was a veteran of WWII, attended Notre Dame University and graduated with a degree in economics in 1942. He and Gladys, his wife of 65 years, lived in Shirley. Ziggy was a man of humility, experience, knowledge, toughness and love. He is missed.

#### Summary

*As we enter 2009, North Middlesex Savings Bank provides the bed-rock pillars of strength, stability, safety and simplicity on which our communities have come to rely. The complex, exotic, carnival-like financial instruments that were issued by other institutions have proven themselves to be deceptive and, in many cases, fraudulent. North Middlesex Savings Bank stands ready to provide the community with banking products that are honest and true. We feel confident that our community wants to come back to basics, back to banking the way it should be — and still is — at North Middlesex Savings Bank.*