

MIDDLESEX FEDERAL

BANK NOTES

Published by Middlesex Federal Savings F.A., Somerville, Massachusetts 02144

ANNUAL REPORT 2010



Consistent with the continuing and extraordinary decline in home prices nationwide combined with a less than expected level of recovery in the real estate marketplace, valuations of the Association's loan portfolio did not materialize during the past year as had been anticipated. The significant price declines in real properties which began in the spring of 2006 have yet to recover from unparalleled lower valuation levels. As a result it has become necessary and prudent to write down to current market value a portion of the Association's current real estate portfolio. Factoring in the total cumulative write-downs of \$9.4 million the Association reflected a net after tax loss of \$5.9 million for the year ended December 31, 2010. Despite the less than satisfactory results, due to its strong capital position, the Association's Retained Earnings to Assets ratio remains well capitalized at 10.24% to Assets.

In addition, reflecting the soft real estate market the Association recorded loan originations aggregating \$31.2 million for the twelve months ended December 31, 2010. This was less than the \$54.6 million originated in the prior year, again mirroring a period of history unprecedented in the home ownership and real estate market.

Furthermore, as a result of the lessening of funding requirements, and due to the high level of liquidity maintained at the Association, the level of Savings Deposits and Advances from the Federal Home Loan Bank (FHLB) were reduced by \$6.4 million and \$16.6 million respectively. This reduction in savings deposits and advances was achieved by not renewing certain deposit categories and paying down FHLB advances.

Despite these developments which hindered the advancement of our anticipated goals, we enter 2011 with a renewed sense of optimism that traditional market values will return and that the business plan established by the Association for well over 100 years will again prove successful in the up-coming year. Since 1890 the mission and purpose of the Association has been to provide a high level of personal service and fairness that benefits both the public which it serves and the institution in providing those products and services. We have every confidence we will return to a level of profitability and managed growth as has been experienced in the past. We again wish to thank the Directors, Officers, and Employees who have continued to contribute their efforts during a most challenging period, and look forward to their continuing contribution in 2011.

At the End of the Day



President and CEO,
Joe Smalarz

Without question, the challenges the association experienced in 2010 were unprecedented as they were throughout the banking industry. A record number of foreclosures, portfolio write downs and a sluggish real estate market were all part of the larger picture for almost every banking institution around the region, including Middlesex Federal Savings. Concurrent with these developments, the present economic forecast calls for slower growth than all would prefer and that somewhat impacts the way we conduct our business.

Having said that, however, we remain steadfastly committed to the same basic values that are at the very heart of our community's development alongside those of the association. Make no mistake about it, we are not a multinational financial institution, we are a neighborhood bank. One that offers exceptional personal service, with highly trained professionals rooted in the community they serve, along with a

variety of savings and lending products specifically and personally designed to match your ever changing financial needs. Combined with our solid capital reserves, we remain well positioned today to continue our prominent role in the community's growth and prosperity. After all, your continued success and future personal growth are unalterably intertwined with ours and that begins and ends with a sense of shared objectives and trust.

This is our mission. *This is why we are here.*

For, at the end of the day, we will always be here to help you manage your hopes and dreams.

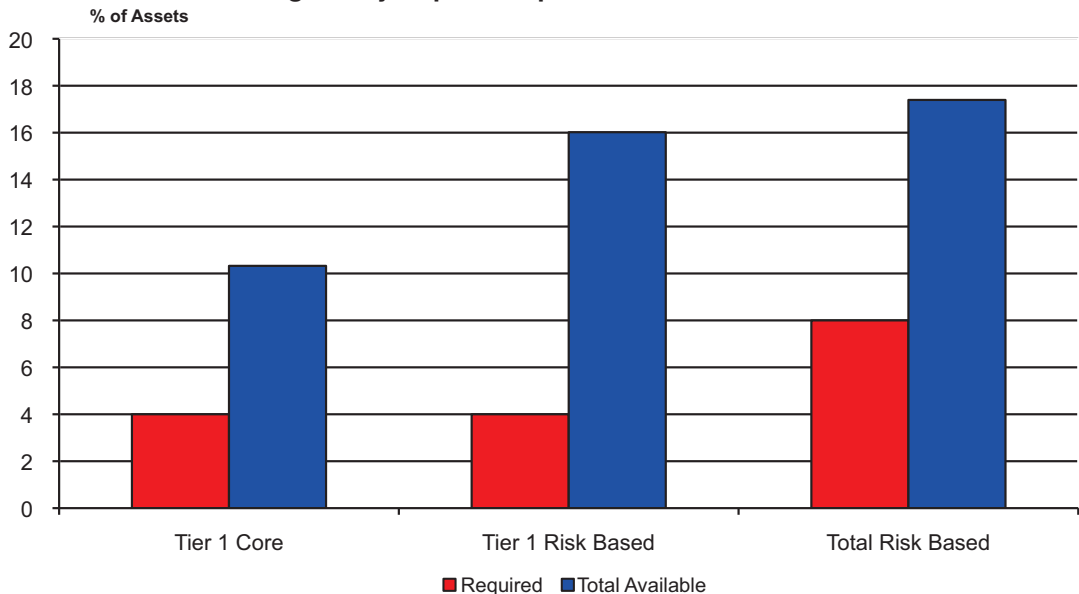
At Middlesex Federal Savings, that will never change.

Joseph S. Smalarz
PRESIDENT AND CEO

"I've been banking at the Teele Square Office for several years. I'm always greeted with friendly smiles and a happy attitude. I love banking at Middlesex Federal because I'm treated as a person and not a number. A neighborhood bank is a friendly bank."

—Shirley, Age 52

MIDDLESEX FEDERAL SAVINGS, F.A. Regulatory Capital Requirements as of 12/31/10



"This statement has been prepared in accordance with the regulatory reporting requirements of the Office of Thrift Supervision (OTS). Tier 1 Leverage, Tier 1 Risk Based and Total Risk Based are the elements of regulatory capital determined under such reporting requirements. Regulatory capital is a basis by which OTS determines whether a savings association is operating in a safe and sound manner."

24 hour access line

Call 1-888-9- MIDDLE or 1-888-964-3353

Or access us online at www.middlesexfederal.com

At Middlesex Federal Savings, Checking is *Free!* That's Right, Free!

- No service charges
- No minimum balance
- Unlimited check writing
- First 50 checks free

With a Middlesex Federal *Free Checking Account*, you will also be eligible for OOPS™, our new **Occasional Overdraft Privilege Service*** after 30 days as a new customer.

**OOPS™ is a registered trademark, all rights reserved.*

Bank from the Convenience of Your Own Home. On-Line Banking

From Middlesex Federal Savings

Now personal banking is right here at your fingertips, Simply by accessing your secured account on-line at www.middlesexfederal.com

- Pay bills
- Check account balances and recent activity
- Transfer funds between eligible accounts
- Schedule automatic recurring payments
- Order checks
- View paid checks on-line 24 hours a day, seven days a week

"I've been a customer for over 10 years. The staff at the Medford Office is very welcoming, warm and professional. I am proud to say I bank at Middlesex Federal Savings."

—Kristen D, Age 28

GO-GREEN with On-Line Banking!

Get the clutter out of your mailbox. You asked for it we delivered! eStatements available April 1st.

Sign up for on-line banking to access your paperless statement anytime, anyplace. View check images and bill payments just like your paper statement.

For more information contact our Customer Service Department at 617-666-4700.

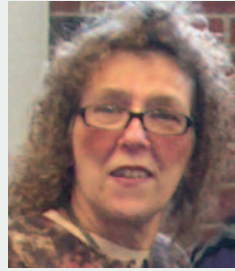
Savings Plans to Fit Every Need

And, your rate is always guaranteed at Middlesex Federal Savings.

Choose from:

- Passbook Savings Accounts
- Tiered Savings Accounts
- Money Market Accounts
- Checking/NOW Accounts
- Christmas Club
- Term Certificates/Jumbo Certificates
- Business Checking

In Memoriam



Gerri Heald

It is with great sadness that we express our deepest sympathy to the family of one of our long time co-workers, **Gerri Heald**. Gerri was a teller at our main office branch since September, 1999. Gerri was born and raised in Somerville and was known to all in Davis Square. She leaves behind her husband, sons and granddaughter. Coworkers and customers truly miss Gerri's friendly personality, big smile and willingness to help others.



Pat Carroll

Pat Carroll, who, for over seventeen years, served as a valued member of the Board of Directors at Middlesex Federal Savings passed away in October. A Malden native and CPA, Pat owned and managed a highly successful and well known accounting firm in Melrose for many years. He was a delight to all who knew him, with a quick smile and a genuinely compassionate personality. A devout family man and caring husband, Pat was beloved by his children and all who knew him. His contributions to the association were many and we shall miss him.

"Quality in caring and professionalism = Middlesex Federal Savings."

Main Office Customer

—Keith, Age 33

Why Pay High Interest Rates?

- Home equity interest rates are generally lower than personal loans
- You pay interest only on the money you use
- Up to 100% of the interest you pay may be tax deductible
- Simply write a check to activate your line of credit

Rate Yourself Highly with a Middlesex Federal Home Mortgage

- Great rates, First rate service
- Fixed and adjustable rate mortgages
- Special programs with low down-payments for first-time buyers
- Jumbo mortgages with a variety of payment plans to suit your situation

MIDDLESEX FEDERAL SAVINGS, F.A.

STATEMENT OF CONDITION (Condensed/Unaudited)

After the Close of Business December 31, 2010 and 2009

ASSETS	2010	2009
Cash on Hand and in Banks	2,973,048	3,671,840
Investment Securities	61,376,161	55,156,835
Mortgage Backed Securities	45,729,687	45,156,092
Mortgage Loans	218,378,796	257,756,753
Other Loans	20,419,042	22,369,170
Bank Premises and Equipment	1,016,424	853,189
Real Estate Owned	11,502,941	2,664,892
Accrued Interest Receivable	1,212,313	1,526,386
Deferred Federal Taxes	5,327,855	6,034,066
Prepaid Expenses and Other Assets	2,901,924	6,411,077
TOTAL ASSETS	370,838,191	401,600,300
 LIABILITIES AND RETAINED INCOME		
Deposit Accounts	301,497,594	307,873,234
Other Borrowed Money	29,163,148	45,813,868
Mortgagor's Escrow Accounts	591,074	693,732
Other Liabilities	1,226,939	3,661,579
Total Liabilities	332,478,755	358,042,413
Unrealized Gain (Loss) on Available for Sale Securities	(1,960,090)	(2,693,007)
Retained Income	40,319,526	46,250,894
Total Retained Income	38,359,436	43,557,887
TOTAL LIABILITIES & RETAINED INCOME	370,838,191	401,600,300



Davis Square circa 1900.

**MIDDLESEX
FEDERAL** *We're here to help.*

One College Avenue, P.O. Box 440303, Somerville, MA 02144
 1196 Broadway, Teele Square, Somerville, MA 02144
 53 Riverside Avenue, Medford Square, Medford, MA 02155

617-666-4700

Member FDIC

www.middlesexfederal.com



Equal Housing Lender