

PUBLIC DISCLOSURE

January 14, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

SALEM FIVE CENTS SAVINGS BANK

Cert. # 23296

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SALEM, MA 01970**

Division of Banks

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NOTE: This document is an evaluation of the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Federal Deposit Insurance Corporation or the Division of Banks concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (“CRA”) requires the Massachusetts Division of Banks (“Division”) and the Federal Deposit Insurance Corporation (“FDIC”) to use their authority when examining financial institutions subject to their supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agencies must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Salem Five Cents Savings Bank (“Salem Five” or the “Bank”)** prepared by the Division and the FDIC, the institution's supervisory agencies, as of **January 14, 2013**. These agencies evaluate the Bank's performance in the assessment area(s), as it is defined by the institution, rather than individual branches. The Division and the FDIC evaluate the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00 et seq. and Part 345 of the FDIC's Rules and Regulations.

INSTITUTION RATING

INSTITUTION'S CRA RATING: SATISFACTORY

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The assigned rating is based on the results of three performance tests: the Lending Test, the Investment Test, and the Service Test. A summary of Salem Five's performance is provided below:

Lending Test

- The Bank's lending activity reflects an adequate responsiveness. The overall lending volume decreased slightly from 2010 to 2011. The Bank's average net loan to deposit (LTD) ratio over the 11 quarters since the prior FDIC CRA evaluation is 101.6 percent
- A review of the Bank's home mortgage and small business loans revealed an adequate percentage in the Bank's assessment area. In 2010 and 2011, Salem Five (and Salem Five Mortgage Company) originated 627, or 57.4 percent, by number, and \$158.5 million, or 47.5 percent by dollar volume, within the Bank's delineated assessment area.
- Overall, the geographic distribution of home mortgage and small business loans reflects an adequate dispersion throughout the Bank's assessment area. Salem Five's originations of small business loans in moderate-income census tracts outpaced the aggregate and percentage of businesses in 2010 and 2011. However, the Bank was below the aggregate in the area's low-income tracts for both small business and home mortgage loans.
- Overall, the distribution of loans to borrowers of different income levels and businesses of different sizes, given the product lines offered by the institution, revealed excellent penetration. The Bank exceeded the aggregate in 2010 and 2011 to both low- and

moderate-income borrowers, and also exceeded the percentage of low- and moderate-income families. Additionally, Salem Five outperformed the aggregate in the percentage of loans originated to small businesses in 2010 and 2011, but was below the percentage of small businesses in the assessment area. Given the competitive nature of the area, the Bank's overall performance for home mortgage and small business loans is excellent.

- The Bank exhibited adequate responsiveness to the credit needs of its assessment area, consistent with safe and sound business practices.
- The Bank made a low level of community development loans. During the time period reviewed, Salem Five renewed seven community development loans in its assessment area. The level of community development loans was less than the previous evaluation.
- The Bank continues to use innovative and/or flexible lending practices in order to serve the credit needs of its assessment area. Salem Five originates loans through various Federal National Mortgage Association (FNMA) programs, including HomePath, Refi Plus, and My Community Mortgage Program. The Bank is also active in various Small Business Association (SBA) lending programs.

Investment Test

- The Bank has an adequate level of qualified community development investments and grants. The level of equity investments decreased since the previous evaluation, but the level of charitable donations increased.
- The Bank exhibits adequate responsiveness to credit and community economic development needs.
- The Bank occasionally uses innovative and/or complex investments to support the area's community development initiatives.

Service Test

- Delivery systems are accessible to essentially all portions of the institution's assessment area.
- To the extent changes have been made, the Bank's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate- income geographies and/or to low- and moderate- income individuals.
- Services (including, where appropriate, business hours) do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income geographies and/or individuals.
- The institution provides a relatively high level of community development services.

LENDING, INVESTMENT, AND SERVICE TEST TABLE:

The following table indicates the performance level of the institution with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	Salem Five Cents Savings Bank		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			X
Satisfactory**	X	X	
Needs to Improve			
Substantial Noncompliance			

*Note: The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.

**Note: FDIC rules and regulations stipulate use of a “high satisfactory” and “low satisfactory” rating for the three tests to categorize performance within a “satisfactory” range. For purposes of this jointly issued public evaluation, the term “satisfactory” will be used in lieu of the “low satisfactory” rating for the three tests.

PERFORMANCE CONTEXT

Description of Institution

Salem Five is a \$3.0 billion stock savings bank, owned by Salem Five Bancorp, a Massachusetts bank holding company. The Bank is headquartered at 210 Essex Street in Salem, Massachusetts and operates 23 full service branches throughout the Boston/Cambridge/Quincy-MA NH Metropolitan Statistical Area (“MSA”). The branches are located in Salem (2), Beverly (2), Boston, Danvers (2), Hamilton, Lynn (2), Malden, Marblehead, Middleton, North Andover, Peabody (2), Saugus, Swampscott, Reading, Sudbury, Woburn, Stoneham, and Burlington. One branch (Lynn) is located in a low-income census tract and 4 branches (Beverly, Peabody, Malden, and Woburn) are located in moderate-income tracts. There are 12 branches located in middle-income census tracts and 6 in upper-income census tracts. Since the last examination, the Bank opened 3 branches. Salem Five Mortgage Company LLC (“SFMC”) is a wholly-owned subsidiary of the Bank and operates 7 loan production offices, 6 of which are located in Massachusetts, and 1 in York, Maine.

All branches offer 24-hour Automatic Teller Machines (ATMs) that also accept deposits. Stand-alone ATMs are located in Malden and Salem. The Bank participates in the SUM, NYCE, Master Card/Cirrus, and Visa/Plus networks. Salem Five customers receive free ATM use at their proprietary ATMs and the Bank provides full reimbursement for other banks’ ATM charges. Drive-up facilities are provided and coin machines are provided at 15 branches.

As of September 30, 2012, the Bank’s assets totaled \$3.0 billion, of which, \$2.2 billion (71.6 percent) represented net loans. From March 31, 2010 to September 30, 2012, the Bank’s assets increased by 13.3 percent, while loans decreased slightly to 67.8 percent of net assets. The Bank’s ability and capacity to support the current lending levels is reflected in its average net loan-to-deposit (LTD) ratio. From March 31, 2010 through September 30, 2012, the average net LTD ratio was 101.6 percent. The composition of the Bank’s loan portfolio is summarized below:

Table 1 - Loan Portfolio Distribution as of September 30, 2012		
Loan Type	Dollar Amount \$(‘000s)	Percent of Total Loans
Construction, Land Development, and Other Land Loans	83,836	3.9
Revolving, Open-end Loans Secured by 1-4 Family Residential Properties and Extended Under Lines of Credit	176,441	8.1
Closed-end Loans Secured by 1-4 Family Residential Properties: Secured by 1st Liens	921,009	42.4
Closed-end Loans Secured by 1-4 Family Residential Properties: Secured by Jr Liens	26,171	1.2
Secured by Multi-Family (5 or more) Residential Properties	3,523	0.2
Total Residential Real Estate Loans	1,210,980	55.8
Secured by Farmland (Including Farm Residential and Other Improvements)	312,435	14.4
Secured by Nonfarm Nonresidential Properties	281,332	12.9
Total Real Estate Loans	1,804,747	83.1
Loans to Finance Agricultural Production and Other Loans to Farmers	0	0.0
Commercial and Industrial	306,341	14.1
Loan to Individuals for Household, Family, or Other Personal Expenditures	57,194	2.6
Lease financing receivables (net of unearned income)	3,365	0.2
Total Loans	2,171,647	100.0

Source: Consolidated Report of Condition and Income (Call Report)

The Bank's loan portfolio is mixed and consists of residential real estate loans (including multi-family), at 51.9 percent, and the commercial real estate and commercial and industrial loans, at 41.5 percent of its total loan portfolio, respectively

Salem Five is a full-service financial institution that offers its retail customers a wide array of financial services. In terms of deposit services, customers have the option of choosing from a variety of checking, savings, and retirement accounts. Financial advice is offered through the Bank's subsidiary, Salem Five Investment Services, LLC with securities and insurance products offered through LPL Financial, an unaffiliated broker dealer. A wide range of liability and life insurance products are available through the Bank's subsidiary, Salem Five Insurance Agency, LLC. In terms of credit services, the Bank extends an assortment of secured and unsecured consumer loan products, inclusive of home equity lines of credit; home equity loans; overdraft protection; personal loans; automobile loans; and home improvement loans. Additionally, the Bank offers a wide variety of home mortgage programs such as conventional loan products for the purchase, refinance, improvement, or construction of residential property through the Bank's subsidiary, SFMC. The Bank continues to participate in state and federally guaranteed programs geared to low- and moderate-income residents. The preceding list of products and services is not intended to be all-inclusive.

Salem Five also offers a diverse selection of deposit, loan, and special services geared toward its commercial, municipal, and non-profit customers. A variety of checking and savings account services is available. Investment and insurance services are also available to business customers. Financing for business and commercial customers includes, but is not limited to, short-term working capital lines of credit; term loans and revolving equipment lines of credit; commercial real estate loans; government guaranteed loans; letters of credit; construction and development loans; and tax-exempt financing. The Bank also offers business MasterCard credit and debit cards. The Bank provides standard cash management (including on-line services) and other specialized conveniences such as payroll services, wire transfers, online bill pay, account reconciliation, cash flow management, international services, remote deposit capture, and courier services.

Salem Five operates in an extremely competitive lending market, considering that its delineated assessment areas include 210 census tracts within Massachusetts. There are at least 466 financial institutions that compete within the Bank's assessment areas. Competition includes loan production offices, banks, mortgage companies, credit unions, and other entities seeking home mortgage and small business loans in this market. Additionally, larger regional and national banks such as Bank of America, N.A.; Wells Fargo Bank, N.A.; and JP Morgan Chase Bank, N.A., have a presence within the Bank's assessment areas and contribute to the high level of competition for banking customers.

To further demonstrate the level of competition, in 2011, 466 lenders reported 58,562 home mortgage loans totaling \$17.6 billion within the Bank's assessment areas. The Bank's subsidiary, SFMC, which originates the majority of the Bank's residential mortgage loans, was ranked 9th in mortgage lending with a market share of 2.4 percent.

CRA mandates the identification of *similarly situated* banks with which Salem Five's lending record is compared. While Salem Five competes with many local and regional financial institutions for loans and deposits, only two banks within Salem Five's delineated assessment

areas are similar in terms of asset size, business focus, and branch structure. These similarly situated institutions include Cambridge Savings Bank, headquartered in Cambridge, Massachusetts and Century Bank and Trust Company, headquartered in Somerville, Massachusetts.

The previous CRA evaluation was conducted by the Division and the FDIC as of March 8, 2010, using Large Bank examination procedures. The evaluation resulted in an overall “High Satisfactory” rating by the Division and an overall “Satisfactory” rating by the FDIC.

Description of the Overall Assessment Area

The CRA requires a financial institution to define an assessment area, or areas, within which it will concentrate its lending efforts and within which its record of helping to meet the needs of its community will be evaluated.

Salem Five delineated two non-contiguous assessment areas consisting of 210 census tracts within Massachusetts. The primary assessment area consists of 41 cities and towns within Essex, Middlesex, and Suffolk counties: Andover, Bedford, Beverly, Billerica, Boston, Boxford, Burlington, Danvers, Essex, Everett, Gloucester, Hamilton, Ipswich, Lawrence, Lexington, Lynn, Lynnfield, Malden, Manchester, Marblehead, Medford, Melrose, Middleton, Nahant, North Andover, North Reading, Peabody, Reading, Revere, Rockport, Rowley, Salem, Saugus, Stoneham, Swampscott, Topsfield, Wakefield, Wenham, Wilmington, Winchester, and Woburn. The secondary assessment area consists of only three census tracts within Sudbury, Massachusetts.

Currently, all of the cities and towns in the two assessment areas are located in the Boston-Cambridge-Quincy MA, NH MSA/Core Based Statistical Area (CBSA) (#14460), with the towns located in Essex County in the Peabody MA Metropolitan Division (MD) (#37764), the towns located in Middlesex County in the Cambridge-Newton-Framingham MA MD (#15764), and the towns in Suffolk County in the Boston-Quincy MA MD (#14484). The Bank’s assessment areas encapsulate these three MDs into the Boston-Cambridge-Quincy MA, NH MSA/CBSA.

The assessment areas, as currently defined, meet the technical requirements of the CRA since they (1) consist of one or more political subdivisions; (2) include geographies where the Bank has its main office, branches, and deposit-taking ATMs, as well as the surrounding geographies in which the bank originated a substantial portion of its loans; (3) consist of whole census tracts; (4) do not reflect illegal discrimination; and (5) do not arbitrarily exclude low- and moderate-income areas.

To assess the Bank’s lending performance within this evaluation, consideration is given to certain demographic data about the overall area. As each of these separate areas is located in the Boston-Cambridge-Quincy, MA, NH CBSA, the overall analysis for this evaluation will be combined and discussed as one overall assessment area.

Table 2 highlights the relevant demographics.

Table 2 Assessment Area Demographic Information					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	210	3.8	23.8	45.7	26.7
Population by Geography	1,062,026	2.9	22.0	47.6	27.5
Owner-Occupied Housing by Geography	261,482	0.9	14.7	51.9	32.5
Businesses by Geography (2010)	89,122	8.9	14.2	42.8	34.1
Businesses by Geography (2011)	127,141	8.8	14.1	42.2	34.9
Distribution of Families by Income Level	271,454	19.2	17.7	22.8	40.3
Median Family Income (MFI) MD #14484 MFI, 2010 MD #14484 MFI, 2011 MD #15764 MFI, 2010 MD #15764 MFI, 2011 MD #37764 MFI, 2010 MD #37764 MFI, 2011	\$73,102 \$85,200 \$87,600 \$98,700 \$105,000 \$83,900 \$86,200	Median Housing Value Unemployment Rate (2000 U.S. Census) Families Below Poverty Level			\$241,349 2.7% 8.0%

Source: 2000 U.S. Census Data, D&B data 2010 and 2011, HUD Estimated Median Family Incomes 2010 and 2011

Demographic and Economic Data:

The demographic data for this evaluation consists of 2000 United States (U.S.) Census information. This demographic data will be utilized in analyzing the Bank's 2010 and 2011 performance.

The overall assessment area contains 210 census tracts; 8 low-, 50 moderate-, 96 middle-, and 56 upper-income census tracts. The total population of the assessment area is 1,062,026. This population comprises 415,269 households, of which 11,622 (2.8 percent) are located within the low-income census tracts and 94,179 (22.7 percent) are located within the moderate-income tracts. Further, of the total households in the assessment area, 98,984 (23.8 percent) are estimated as low-income and 63,315 (15.3 percent) are estimated as moderate-income.

The assessment area also consists of 429,622 total housing units. Of this total, 261,482 (60.9 percent) are owner-occupied. A closer analysis of the total housing units reveals that the majority of the units (78.5 percent) are 1-4 family dwellings. With respect to the make-up of the housing units, there are 12,177 (2.8 percent) and 97,172 (22.6 percent) units within the low- and moderate-income census tracts, respectively. Within the low-income census tracts, only 18.6 percent of the units are owner-occupied units and within the moderate-income census tracts, 39.7 percent are owner-occupied, with the remaining housing stock either rented or vacant. Given this information, and knowing the Bank's interest in continued growth in residential lending, it appears the assessment area provides the Bank with lending opportunities, albeit somewhat limited in certain areas. The Bank's ability to originate loans within the assessment area may be further limited by the level of competition, the high cost of housing, and the number of non-owner occupied housing in the low- and moderate- income tracts.

Based on the 2000 U.S. Census, the MFI for the assessment area was \$73,102. The Department of Housing and Urban Development (HUD) annually adjusts the MFI based on estimates. Table 3 reflects the adjusted MFI, as reflected by HUD, for 2010 and 2011, for the three MDs.

Table 3		
Median Family Income Levels		
	2010	2011
Boston-Quincy, MA (MD)	\$85,200	\$87,600
Cambridge-Newton-Framingham, MA (MD)	\$98,700	\$105,000
Peabody County, MA (MD)	\$83,900	\$86,200

Source: HUD Estimated Median Family Incomes 2010 and 2011

As discussed previously, 466 lenders originated loans in the assessment areas, with SFMC ranked 9th (2011). Analysis of the market rank report for 2011 revealed most of the financial institutions ranking higher were either large regional/national banks such as Bank of America, N.A., Wells Fargo Bank, N.A., and JPMorgan Chase Bank, N.A., or large national or regional mortgage companies such as CitiMortgage, Inc., and Mortgage Master, Inc.

The Boston-Cambridge-Quincy, MA, NH MSA's unemployment rate decreased from March 2010 through November 2012 from 8.3 percent to 5.6 percent. Similarly, during the same time period, the U.S. unemployment rate decreased from 9.9 percent to 7.8 percent, and the Massachusetts unemployment rate decreased from 9.3 percent to 6.6 percent. At December 31, 2012, the unemployment rate for Essex County was 7.0 percent, Middlesex County was 5.1 percent, and Suffolk County was 6.3 percent.

According to Dun & Bradstreet, there were 127,141 businesses in the assessment area in 2011. When analyzed by census tract level, 8.8 percent of all businesses are in the low-income census tracts, 14.1 percent are in the moderate-income census tracts, 42.2 percent are in the middle-income census tracts, and 34.9 percent are in the upper-income census tracts. By size of business, 84,050, or 66.1 percent of total businesses had annual sales of \$1 million or less, 5,502, or 4.3 percent had annual sales of greater than \$1 million, and the remainder, 37,589 or 29.6 percent, had unknown annual sales.

Community Contact:

As part of the evaluation process, third parties that are active in community affairs are contacted to assist in assessing the housing and business needs in the Bank's assessment area. Relevant information from this practice assists in determining whether local financial institutions are responsive to the credit needs of the community, and whether additional opportunities are available.

The contact was made with a city department in the Bank's MSA. The contact is responsible for a wide range of activities and duties, including economic development, land use planning, housing policy, transportation projects, historic preservation, open space conservation programs, and neighborhood improvement efforts. The contact administers several programs to promote homeownership and economic development, including the Housing Rehabilitation Program, First Time Homebuyer Down-Payment Assistance Program, the Small Business Loan Program and Storefront Improvement Program. In addition, the contact assists in the preparation of the city's long-term capital improvement plans and administers the city's Community Development Block Grant and HOME Programs. The contact mentioned there are various opportunities for private

investor involvement in each of the above mentioned programs, through financial backing and volunteer work. Overall, the degree of community involvement of the local financial institutions in the area has been good.

SCOPE OF EVALUATION

An onsite evaluation was conducted utilizing “Large Bank” procedures, as defined by the CRA. A review of the Division’s and FDIC’s records, as well as the Bank’s CRA Public File did not reveal any complaints related to the Bank’s CRA performance since the prior evaluation.

Home mortgage loans originated by Salem Five in 2010 and 2011, and reported on the Bank’s Loan Application Register (LAR), maintained pursuant to the Home Mortgage Disclosure Act (HMDA), were included in the analyses. Additionally, home mortgage loans originated by SFMC in 2010 and 2011 and reported on the affiliate’s LAR, were also included in the analyses where noted.

Small business loans originated by Salem Five in 2010 and 2011 are included in the analyses. Small business loans, for the purposes of this evaluation, include commercial real estate loans and commercial and industrial loans with original balances of \$1 million or less disclosed on the Bank’s Consolidated Report of Condition and Income (Call Report). Information concerning small business loans was obtained from the Bank’s CRA Loan Registers (LRs), which are submitted annually to the Federal Reserve Bank. The Bank’s subsidiary, SFMC, does not originate small business loans.

Small farm and consumer loans were not reviewed as part of this evaluation, as these portions of the loan portfolio make-up a minimal portion of the Bank’s total lending activity.

Although both the number and dollar volume of the Bank’s home mortgage and small business loans were reviewed, the number of originations was weighed more heavily than the dollar volume. This is because the number of loans is less likely to be influenced by factors such as business size, applicant income level, or varying real estate values. If dollar volume was emphasized, higher income borrowers or geographic areas would generally appear to receive a larger percentage of loans simply because each loan is likely to be a larger dollar amount.

The 2010 and 2011 lending data is presented in the *Assessment Area Concentration*, *Geographic Distribution*, and *Borrower Profile* tables. According to the CRA regulation, the Assessment Area Concentration performance criterion does not consider loans made by affiliates, (wholly owned subsidiary), when determining the proportion of an institution’s lending in its assessment area, even if the institution elects to have its affiliate lending considered in the remainder of the Lending Test. Therefore, the Assessment Area Concentration only considers the Bank’s performance and not SFMC. The remainder of the evaluation combines all lending activity of the Bank and SFMC and will be referred to as the “Bank” or “Salem Five” in all other lending performance criteria.

Qualified community development loans, innovative and/or flexible lending practices (product innovation), and community development services were generally reviewed from March 8, 2010 to January 14, 2013. Qualified investments were reviewed from March 8, 2010 to January 4, 2013.

The Bank's entire assessment area is the Boston-Cambridge-Quincy, MA, NH MSA/CBSA¹ which consists of the Boston-Quincy, MA MD², the Cambridge-Newton Framingham, MA MD, and the Peabody, MA MD.

In order to comply with the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (IBBEA), the Federal Financial Institutions Examination Council (FFIEC) interagency CRA examination procedures require the FDIC to evaluate the Bank's overall performance within their assessment area in each individual assessment area and to separately describe the Bank's activities in each metropolitan area in which the bank has a branch office. As allowed by IBBEA, it is not necessary to conduct separate analyses of the Bank's performance within MDs which are part of a larger MSA or CBSA included in the Bank's assessment area. Thus, separate analyses were not conducted for the MDs within the Boston-Cambridge-Quincy, MA, NH MSA/CBSA.

A limited scope analysis will be conducted for each of the Bank's assessment areas (primary and secondary). This decision was influenced by the fact that 100 percent of the Bank's assessment area lending, investment, and service activities occurred in the primary assessment area. As a result, the overall discussion will capture the performance in the primary assessment area.

¹ Metropolitan Statistical Areas (MSAs) and Core Based Statistical Areas (CBSAs) are synonymous.

² Metropolitan Divisions

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The Lending Test evaluates the institution's record of helping to meet the credit needs of its assessment area by considering an institution's home mortgage, small business, and community development lending. The institution's lending efforts were rated pursuant to the following performance characteristics: Lending Activity, Assessment Area Concentration, Geographic Distribution, Borrowers' Profile, Response to Credit Needs, Community Development Lending, and Innovative or Flexible Lending Practices.

As previously discussed, the Bank's loan portfolio is closely distributed among home mortgage loans (51.9 percent) and commercial loans (41.5 percent). Therefore, both products will be weighted equally from a quantitative perspective in arriving at overall conclusions pursuant to the Lending Test criteria. Furthermore, only those loans extended within the institution's designated assessment area were analyzed under the *Geographic Distribution* and *Borrowers' Profile* criteria. Performance under the Lending Test is weighed more heavily than the Investment and Service Tests in arriving at an overall CRA rating.

Lending Activity

Salem Five's lending activity reflects adequate responsiveness to credit needs of its overall assessment area, taking into account the size of the institution, loan portfolio composition, and the significant level of competition.

Salem Five's average net LTD ratio over the 11 quarters since the prior FDIC CRA evaluation is 101.6 percent. The Bank's quarterly LTD ratio fluctuated over the period hitting a low of 97.2 percent as of September 30, 2011, and a high of 107.1 percent as of September 30, 2012. The quarterly LTD ratio was generally stable during the review period.

The Bank's overall volume of home mortgage loan originations was relatively consistent over the time period reviewed (1,654 total loans in 2010 and 1,412 total loans in 2011). The Bank's decline in lending volume in 2011 as compared to 2010 (14.6 percent) is similar to that of the aggregate home mortgage data in the assessment area. Total mortgage originations reported by lenders subject to the HMDA dropped from 66,063 originations in 2010 to 57,150 originations in 2011, representing a decrease of 13.5 percent. The decrease in lending volume is likely due to a decline in refinances given the low and stable home mortgage interest rates during the review period. The level of small business loans originated by the Bank remained relatively consistent from 2010 to 2011. While the number of loans in the assessment area increased slightly from 2010 to 2011, the total number of small business loans dropped during the time period.

Assessment Area Concentration

This performance criterion measures the percentage of the Bank's lending that benefited assessment area residents and businesses, and evaluated the adequacy of such lending. As stated previously, this performance criterion did not take into account loans made by SFMC when determining the proportion of an institution's lending in its assessment area. Therefore, the data presented in Table 4 includes only those home mortgage and small business loans attributable to Salem Five directly, and does not include home mortgage lending by SFMC. SFMC does not originate small business loans.

Salem Five originated an adequate percentage of its home mortgage and small business loans within the overall assessment area. As illustrated in Table 4, in 2010 and 2011, the Bank originated a total of 1,093 home and small business loans, totaling \$333.7 million. Of the combined home mortgage and small business loans, there were 627, or 57.4 percent, by number, and \$158.5 million, or 47.5 percent by dollar volume, originated within the Bank's overall assessment area. Each loan type is further analyzed and depicted in Table 4.

Table 4 - Distribution of Loans Inside and Outside of Assessment Area										
Loan Category or Type	Number of Loans					Dollar Volume				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(‘000)	%	\$(‘000)	%	\$(‘000)
Home Mortgage Loans										
2010										
Home Purchase	2	100.0	0	0.0	2	572	100.0	0	0.0	572
Refinance	6	54.5	5	45.5	11	11,035	50.1	10,988	49.9	22,023
Home Improvement	1	33.3	2	66.7	3	35	0.3	10,026	99.7	10,061
Total	9	56.3	7	43.7	16	11,642	36.4	21,014	63.6	32,656
2011										
Home Purchase	7	50.0	7	50.0	14	1,817	23.9	5,782	76.1	7,599
Refinance	3	37.5	5	62.5	8	1,510	15.1	8,524	84.9	10,034
Home Improvement	5	71.4	2	28.6	7	437	41.1	627	58.9	1,064
Total	15	51.7	14	48.3	29	3,764	20.1	14,933	79.9	18,697
Total Home Mortgage	24	53.3	21	46.7	45	15,406	30.0	35,947	70.0	51,353
Small Business Loans										
2010	296	54.8	244	45.2	540	69,890	49.0	72,842	51.0	142,732
2011	307	60.4	201	39.6	508	73,252	52.5	66,322	47.5	139,574
Total Small Business	603	57.5	445	42.5	1,048	143,142	50.7	139,164	49.3	282,306
Grand Total	627	57.4	466	42.6	1,093	158,548	47.5	175,111	52.5	333,659

Source: HMDA LAR Data, 2010 and 2011, CRA LR Data, 2010 and 2011

Home Mortgage Lending

As Table 4 shows, in 2010 and 2011, Salem Five reported 9 and 15 loans, by number, totaling \$11.6 million and \$3.8 million, respectively, inside its overall assessment area. Combined, home mortgage loans represent 53.3 percent, by number, and 30.0 percent, by dollar amount. Please note, as previously discussed these percentages reflect home mortgage lending by the Bank only and do not include any home mortgage loans originated by SFMC, the primary mortgage lender for the Bank. The CRA regulation does not allow the inclusion of affiliate lending in the evaluation of this performance criterion. This evaluation, however, has taken into consideration the Bank's business strategy of home mortgage lending through an affiliate in order to determine whether a low proportion of home mortgage lending in the assessment area should adversely affect the Bank's Lending Test rating.

Based on 2010 aggregate market data, a total of 470 lenders reported home mortgage loans originated in the Bank's overall assessment area. As Table 4 depicts, Salem Five's home mortgage lending volume is low; however, combining the home mortgage loan data with the Bank's subsidiary, SFMC, the Bank ranked 10th with an aggregate market share of 2.4 percent by number. This performance is an indication the Bank is operating according to its strategic plan, by originating home mortgage loans through its subsidiary SFMC. The Bank's lending activity was exceeded only by larger regional mortgage companies and national banks operating within the Bank's assessment area.

Similarly, aggregate market data from 2011 shows a total of 466 lenders reported home mortgage loans originated in the Bank's assessment area. Combined with SFMC, the Bank ranked 9th with an aggregate market share of 2.4 percent by number and 2.1 percent by dollar volume.

Small Business Lending

As depicted in Table 4, in 2010, Salem Five originated 296 small business loans totaling \$69.9 million inside its assessment area, representing 54.8 percent, by number, and 49.0 percent, by dollar amount. In 2011, the Bank's performance showed an upward trend, with 307 small business loans totaling \$73.3 million inside its assessment area, representing 60.4 percent, by number, and 52.5 percent, by dollar amount.

In 2010, a total of 119 lenders reported small business loan originations in the Bank's assessment area and Salem Five ranked 16th with a market share of 0.8 percent, by number. When compared to 2011 aggregate data, a total of 128 lenders reported small business loan originations in the Bank's assessment area and Salem Five ranked 17th with a market share of 0.7 percent, by number. Aggregate small business data is only available for whole counties; therefore, the market share reports for the Bank's assessment area include all loans made in Essex, Middlesex, and Suffolk counties. It should also be noted that small business market share data is somewhat inflated, as it includes larger national lenders that originate smaller loans, typically under a business credit card arrangement.

Geographic Distribution

The geographic distribution of loans was reviewed to assess the Bank's performance in addressing credit needs throughout its overall assessment area. For this analysis, the Bank's performance was combined with the performance of the Bank's subsidiary, SFMC. The primary focus of this analysis was to assess the Bank's loan distribution in its assessment area, with emphasis placed on lending in low- and moderate-income census tracts. Overall, the geographic distribution of home mortgage and small business loans reflects adequate dispersion throughout the Bank's assessment area.

Home Mortgage Lending

The Bank's home mortgage lending demonstrates an adequate dispersion of loans, particularly to moderate-income geographies, in its assessment area in 2010 and 2011, as depicted in Table 5.

Table 5 - Distribution of Home Mortgage Loans by Census Tract Income Level							
Census Tract Income Level	% of Total Owner- Occupied Housing Units	2010 Aggregate Lending Data (% of #)	2010 Bank		2011 Aggregate Lending Data (% of #)	2011 Bank	
			#	%		#	%
Low	0.9	1.2	3	0.2	1.2	7	0.5
Moderate	14.7	10.2	154	9.3	9.9	121	8.6
Middle	51.9	48.1	909	55.0	47.3	759	53.7
Upper	32.5	40.5	588	35.5	41.6	525	37.2
Total	100.0	100.0	1,654	100.0	100.0	1,412	100.0

Source: 2000 U.S. Census Data; HMDA LAR Data 2010 and 2011

The Bank made three home mortgage loans in 2010 and seven home mortgage loans in 2011 in low-income census tracts. These loans represented 0.2 percent and 0.5 percent of all loans made by the Bank in 2010 and 2011, respectively. This performance is below both the 2010 and 2011 aggregate market's lending in low-income census tracts, as well as the percentage of owner-occupied housing units.

Further analysis was conducted on home mortgage loans originated in 2010 and 2011, by dollar volume. The analysis revealed the Bank's lending, in low-income census tracts, by dollar volume as a percentage, was 0.2 percent and 0.4 percent in 2010 and 2011, respectively. This performance also lagged behind the 2010 and 2011 aggregate market, by percentage, in the low-income census tracts, of 1.4 percent and 1.5 percent, respectively. In terms of actual dollars, the Bank's performance in 2010 in the low-income census tracts was \$779,000 and \$1.4 million, respectively.

In 2010, the Bank originated home mortgage loans in two of the eight low-income census tracts in its assessment area. The six tracts with no loans are located in the following cities: two in Boston (0701.00 and 0702.00), and four in Lynn (2062.00, 2068.00, 2070.00, and 2072.00). In 2011, the Bank originated home mortgage loans in five of the eight low-income census tracts. Similar to 2011, two of the census tracts with no loan activity are located in Lynn (2068.00 and 2070.00). The low-income census tract in Lawrence (2516.00) also had no loan activity in 2011.

In spite of the fact that the Bank maintains a branch office in the Lynn census tract (2070.00); no originations were made in 2010 and 2011. It should be noted that, according to Bank management, the Bank proactively sought loans in census tract 2070.00 by offering an open house and first-time home buyer seminar, both activities the Bank plans to continue in the future. Further, the Bank has actively been pursuing a mortgage originator to cover this branch and surrounding geographies full-time. Despite these efforts no applications were received during the review period. Additional analysis specific to aggregate market data in census tract 2070.00 revealed in 2010, 13 lenders originated a total of 22 loans in this geography. Activity decreased further in 2011, when only 7 lenders originated a total of 10 loans.

Additional facts mitigating the Bank's performance within the low-income tracts is the low percentage of owner-occupied housing units in those geographies (0.9 percent). Therefore, the level of opportunity for home mortgage lending in the low-income census tracts was minimal.

Analysis of aggregate market data, specific to the low-income tracts in the assessment area, revealed in 2010, a total of 135 lenders reported a total of 755 loan originations in the Bank's low-income census tracts. Of these institutions, Salem Five ranked 46th with a market share of 0.8 percent, by number. In 2011, the Bank's aggregate market share rank increased significantly to 26th out of 125 lenders that reported at least one home mortgage loan in the Bank's low-income census tracts. It should be noted that in both years more than 50 percent of loans originated in low-income census tracts in the assessment area were originated by the top 10 lenders, which consists primarily of larger regional banks and mortgage companies.

The Bank made 154 home mortgage loans in 2010 and 121 home mortgage loans in 2011 in moderate-income census tracts. These loans represented 9.3 percent and 8.6 percent of all loans made by the Bank in 2010 and 2011, respectively. This performance is similar (but slightly less) to both the 2010 and 2011 aggregate market's lending in moderate-income census tracts, which were 10.2 percent in 2010 and 9.9 percent in 2011. Although the percentage of owner-occupied units located in moderate-income census tracts (14.7 percent) is also higher than the Bank's

performance, it is noted the majority of total housing units located in moderate-income tracts (60.3 percent) are rental or vacant units.

Compounding the limited lending opportunities within moderate-income tracts is the highly competitive market conditions that exist within these geographies. Of the 470 lenders that originated home mortgage loans in the assessment area in 2010, 250 of these lenders also originated at least one home mortgage loan in a moderate-income census tract during that period. In 2011, 261 of the 466 total lenders that made home mortgages in the assessment area also made at least one home mortgage loan in a moderate-income census tract. The Bank was ranked 12th in 2010 and 11th in 2011 in market share of moderate-income census tract lending within the assessment area. Salem Five (with SFMC) was the highest ranked community bank in both years.

Further analysis was conducted on home mortgage loans originated in moderate-income census tract 2010 and 2011, by dollar volume. The analysis revealed the Bank's lending, in moderate-income census tracts, by dollar volume, was 8.4 percent and 6.3 percent in 2010 and 2011, respectively. This performance is also similar to the 2010 and 2011 aggregate market, by percentage, in the moderate-income census tracts, of 7.9 percent and 7.3 percent, respectively. In terms of actual dollars, the Bank's performance in 2010 and 2011 in the moderate-income census tracts was \$36.1 million and \$23.3 million, respectively.

In 2010, the Bank originated home mortgage loans in 41 of 50 moderate-income census tracts. The 9 moderate-income census tracts with no loans were located in the following cities: one census tract each in Boston (0302.00), Everett (3424.00), Lawrence (2515.00), and Medford (3394.00); two census tracts in Revere (1702.00 and 1707.00); and three in the city of Lynn (2058.00, 2061.00, and 2069.00). In 2011, the Bank originated home mortgage loans in 39 of 50 moderate-income census tracts in its assessment area. The 11 moderate-income census tracts with no loans were located in the following cities: one census tract each in Boston (0402.00), Lawrence (2517.00), Malden (3413.00), and Peabody (2108.00); two census tracts each in Gloucester (2215.00 and 2216.00) and Revere (1702.00 and 1703.00); and three census tracts in Everett (3422.00, 3424.00, and 3426.00). The Bank maintains four branches in moderate-income census tracts and originated home mortgage loans in all census tracts where the Bank maintains a branch office, with the exception of the Peabody (2108.00) census tract in 2011. Further discussions with Bank management did not reveal any questions or concerns for the lack of lending in the Peabody (2108.00) census tract.

Small Business Lending

The geographic distribution of the Bank's small business lending reflects adequate dispersion throughout the assessment area. It is noted that 60.4 percent of all businesses located in the Bank's assessment area have a workforce size of 1-4 employees; businesses of this size are less likely to seek traditional small business financing offered through banks.

As shown in Table 6, the Bank made 3.4 percent in 2010 and 3.6 percent in 2011, of all small business loans, by number, in low-income census tracts in the assessment area. These percentages are lower than the aggregate market percentages, which were at 6.1 percent and 6.7 percent in 2010 and 2011, respectively. Further, the Bank's performance in low-income census tracts is below the percentage of total businesses located in those geographies in both years, which were at 8.9 percent and 8.8 percent in 2010 and 2011, respectively. Although not reflected in Table 6, an analysis of the Bank's dispersion of small business loans by dollar amount was also completed. The Bank made 3.1 percent in 2010 and 3.9 percent in 2011, of all

small business loans, by dollar amount, in low-income census tracts in the assessment area. These percentages are lower than the aggregate market percentages, which were at 8.1 percent and 9.3 percent in 2010 and 2011, respectively.

In the moderate-income census tracts, the Bank's 23.3 percent in 2010 exceeds the aggregate market's 17.3 percent and the percentage of businesses in the moderate-income census tracts (14.2 percent). The Bank's lending in moderate-income tracts (19.2 percent) in 2011 decreased slightly; however, still exceeded the percentage of businesses and aggregate market percentage in moderate-income tracts. While the evaluation relied upon comparisons to the performance of the aggregate market, as previously noted, aggregate small business lending data is only available at the county level, not the Bank's actual assessment area. Not included in Table 6 is the analysis of the Bank's dispersion of small business loans by dollar amount in moderate-income geographies. Results from this analysis further demonstrate the Bank's positive performance of lending to small businesses located in the assessment area's moderate-income census tracts. In the moderate-income census tracts, the Bank's 22.5 percent in 2010 exceeds the aggregate market's 17.4 percent. The Bank's lending in moderate-income tracts (21.9 percent) in 2011 also exceeded the aggregate market percentage in moderate-income tracts at 16.5 percent.

Table 6								
Distribution of Small Business Loans by Census Tract Income Level								
Census Tract Income Level	2010 % of Total Businesses	2010 Aggregate Lending Data (% of #)	2010 Bank		2011 % of Total Businesses	2011 Aggregate Lending Data (% of #)	2011 Bank	
			#	%			#	%
Low	8.9	6.1	10	3.4	8.8	6.7	11	3.6
Moderate	14.2	17.3	69	23.3	14.1	17.8	59	19.2
Middle	42.8	45.4	156	52.7	42.2	45.0	168	54.7
Upper	34.1	29.6	61	20.6	34.9	29.2	69	22.5
N/A	0.0	1.6	0	0.0	0.0	1.3	0	0.0
Total	100.0	100.0	296	100.0	100.0	100.0	307	100.0

Source: D&B Business Data 2010 and 2011; CRA LR Data, 2010 and 2011

In both 2010 and 2011, Salem Five originated small business loans in four of eight low-income census tracts in its assessment area. The four low-income census tracts in which the Bank did not originate a small business loan were located in Boston (0408.00 and 0702.00) and Lynn (2072.00, 2062.00) (2010) and 2068.00 (2011); it should be noted the Bank does not have any branch locations in these geographies.

The Bank originated small business loans in 17 and 18 of the 50 moderate-income census tracts located in its assessment area in 2010 and 2011, respectively. Although the Bank originated loans in approximately 35.0 percent of its moderate-income census tracts, the Bank's performance, at 23.3 percent and 19.2 percent, by number, exceeded the aggregate market data. Additionally, the Bank's performance exceeded the percentage of commercial businesses located in the moderate-income census tracts in both years under review.

Borrower Profile

The distribution of loans predicated on borrower income and business revenue was reviewed to determine the extent to which the Bank addressed the credit needs of its residents and small business customers. Special weight or consideration was placed on the Bank's record of lending to low- and moderate-income borrowers. Overall, the Bank exhibited excellent penetration to borrowers of different incomes and businesses of different sizes.

Home Mortgage Lending

Home mortgage lending data was reviewed to assess how well the Bank met the housing credit needs of its assessment area residents. Table 7 illustrates the distribution of the Bank's home mortgage loans by borrower income level for 2010 and 2011. For comparison purposes, the table includes the percentage of total families by income level and the aggregate lending data.

Table 7 Distribution of Home Mortgage Loans by Borrower Income Level							
Income Level	% of Total Families	2010 Aggregate Lending Data (% of #)	2010 Bank		2011 Aggregate Lending Data (% of #)	2011 Bank	
			#	%		#	%
Low	2.4	3.9	89	5.4	4.7	77	5.5
Moderate	20.4	15.1	346	20.8	15.2	278	19.7
Middle	48.5	23.3	428	25.9	22.7	378	26.7
Upper	28.7	42.2	785	47.5	41.2	666	47.2
Income Not Available	0.0	15.5	6	0.4	16.2	13	0.9
Total	100.0	100.0	1,654	100.0	100.0	1,412	100.0

Source: 2000 U.S. Census Data; HMDA LAR Data 2010 and 2011

As shown in Table 7, the Bank made 5.4 percent of all home mortgage loans (by number) to low-income borrowers in 2010. This percentage exceeds the aggregate market's 3.9 percent, and is more than double the percentage of total families that are low-income. This percentage is particularly noteworthy given the fact that a large number of low-income families do not qualify for home mortgage loans, since 26.6 percent of low-income families have incomes below the poverty level. In 2011, the Bank's percentage of loans to low-income borrowers remained similar at 5.5 percent; however, it is noted the volume (by number) of loans decreased.

In the moderate-income census tracts, the Bank's 20.8 percent in 2010 exceeded the aggregate lending performance of 15.1 percent and was consistent to the percentage of moderate-income families (20.4 percent). The Bank's percentage of loans to moderate-income borrowers decreased slightly in 2011 to 19.7 percent; however, remained greater than the aggregate market's 15.2. Similar to low-income borrowers, the volume of loans to moderate-income borrowers decreased in 2011. This decline is attributed to a decrease in the number of refinances completed in 2011 given the prolonged low interest rate environment.

Market rank reports from both 2010 and 2011 also demonstrate the Bank's strong performance in lending to low- and moderate-income borrowers in its assessment area. In 2010, the Bank ranked 6th in lending to low-income borrowers and 5th in lending to moderate-income borrowers. Both market ranks exceeded the Bank's overall market rank of 10th in home mortgage

originations and purchases combined. In 2011, the Bank ranked 9th overall, but ranked 7th in lending to low-income borrowers. Further, the Bank was ranked 6th in lending to moderate-income borrowers in 2011.

Given the competitive nature of the assessment area, the Bank's ability to outperform the aggregate, as well as its market ranks, Salem Five exhibited excellent penetration to low- and moderate-income borrowers.

Small Business Lending

The distribution of borrowers reflects, given the product lines offered by the institution, good penetration among business customers of different sizes. Emphasis is placed on loans to small businesses, or those with gross annual revenues (GARs) of \$1 million or less. Table 8 depicts the Bank's small business lending performance by size of the business for 2010 and 2011. The table includes the distribution of businesses in the assessment area by size and the performance of the aggregate market for comparison purposes.

Table 8								
Distribution of Small Business Loans by Gross Annual Revenues (GAR)								
GAR \$(000)	2010 % of Total Businesses	2010 Aggregate Lending Data (% of #)	2010 Bank		2011 % of Total Businesses	2011 Aggregate Lending Data (% of #)	2011 Bank	
			#	%			#	%
≤ \$1,000	74.7	26.0	151	51.0	66.1	38.9	165	53.7
> \$1,000 or Not Reported	25.3	74.0	145	49.0	33.9	61.1	142	46.3
Total	100.0	100.0	296	100.0	100.0	100.0	307	100.0

Source: D&B Business Data 2010 and 2011; CRA LR Data 2010 and 2011

In 2010 and 2011, the Bank originated 151 small business loans, or 51.0 percent and 165 small business loans, or 53.7 percent to businesses with GARs of \$1 million or less, respectively. This performance is nearly double that of the aggregate market performance of 26.0 percent in 2010. Although, the aggregate market increased in 2011, the Bank's performance continued to be strong outpacing the aggregate.

Responsiveness to Credit Needs

The Bank exhibited a good record of serving the credit needs of the most economically disadvantaged area(s) of its assessment area(s), low-income individuals, and very small businesses, consistent with safe and sound business practices.

Community Development Lending

The Bank's community development lending activities are evaluated pursuant to the following criteria: (1) the extent to which community development lending opportunities have been made available to the institution; (2) the responsiveness of the institution's community development lending; and (3) the extent of leadership the institution has demonstrated in community development lending.

For the purpose of this evaluation, a community development loan is a loan that: (1) has community development as its primary purpose; (2) has not already been reported by the Bank

for consideration under small business or home mortgage lending (unless it is a multifamily dwelling loan); and (3) benefits the Bank's assessment area or a broader statewide or regional area that includes the Bank's assessment area.

The Bank made a low level of community development loans. During the time period reviewed, Salem Five renewed only seven community development loans in its assessment area, totaling \$5.8 million. This is a significant decline from the prior evaluation, and also below the number of loans originated by the two similarly situated banks. Please refer to Table 9 for a summary of the Bank's community development lending activity.

Table 9 - Community Development Loans						
Activity Year	Qualifying Category				Totals	
	Revitalization or Stabilization*		Community Services**			
	#	\$ (000)	#	\$ (000)	#	\$ (000)
3/08/2010 – 12/31/2010	0	0	1	150	1	150
2011	1	1,600	1	150	2	1,750
2012	1	1,600	3	2,350	4	3,950
Total	2	3,200	5	2,650	7	5,850

Source: Bank Records

*Of Low- or Moderate-Income Disaster, Distressed, or Underserved Geographies

**Targeted to Low- or Moderate-Income Individuals

The following are examples of the community development loans funded by the Bank:

In 2011, the Bank renewed a \$1.2 million line of credit and increased the amount to \$1.6 million. The line of credit is to an agency that administers and plans urban renewal projects and other community development projects within the City of Malden. This agency acts on behalf of the City of Malden in the administration of the federal Community Development Block Grants in an effort to revitalize downtown Malden, which is located in a moderate-income census tract.

In 2011, the Bank renewed a \$150,000 line of credit to a non-profit organization that seeks to take action against patterns of violence and oppression against women and their children. This organization provides services and support to victims of domestic violence residing in 23 towns on Massachusetts' North Shore, the majority of who are low-or moderate-income individuals.

In 2012, the Bank renewed a \$1.0 million line of credit and increased the amount to \$2.0 million. The line of credit is to a non-profit agency that provides medical care, home care and social services to the elderly of greater Lynn and the North Shore. This organization provides services primarily under two federal and state programs for low- and moderate-income elderly individuals.

In 2012, the Bank provided a \$200,000 line of credit to a private non-profit organization that provides temporary, transitional and permanent housing and support services to low-income and at-risk families and individuals in Lynn. The organization's ultimate goal is to end homelessness in Lynn.

Innovative or Flexible Lending Practices (Product Innovation)

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: (1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and (2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

Salem Five continues to use innovative and/or flexible lending practices in order to serve the assessment area's credit needs. The Bank offers various special mortgage loan programs tailored to assist either low-income people or first-time homebuyers in pursuing or maintaining home ownership. Additionally, the Bank offers several loan products tailored towards small businesses. The programs are described here in order to highlight the innovative and flexible underwriting standards employed in the origination of loans to low- and moderate-income people and to businesses of different sizes.

Residential Lending Programs

- *Federal National Mortgage Association (FNMA)*: The Bank originates loans through various Fannie Mae programs, including the following:
 - *HomePath*: This program is available for loans to buy properties being sold by Fannie Mae, and offers mortgages with low downpayments. These properties have been repossessed when the previous owners' mortgages were foreclosed. HomePath offers a standard mortgage and renovation mortgage. The HomePath renovation mortgage provides both the funds to purchase and to renovate in one loan. During the evaluation period, the Bank originated 46 loans totaling \$8.8 million through this program.
 - *Refi Plus*: This program is part of FNMA's Home Affordable Refinance Program (HARP), which exists to provide access to low-cost refinancing for responsible homeowners suffering from falling housing prices. This is a no-cash-out refinance program offering reduced verification and documentation. The Bank originated 696 loans totaling \$157.3 million during the evaluation period.
 - *My Community Mortgage Program*: This program exists to provide low or no downpayment loans to first-time buyers and other eligible homeowners. Lower interest rates and flexible underwriting guidelines are provided to first-time homebuyers and other eligible homeowners who earn up to 135 percent of the median income. Private mortgage insurance is required. Buyers must attend approved homebuyer education training. The Bank originated 55 loans totaling \$9.9 million through this program.
- *MassHousing*: MassHousing is a quasi-public state agency whose mission is to increase the State's supply of affordable housing. Salem Five originates loans through multiple loan programs, including the Massachusetts Housing Finance Agency (MHFA) Tax Credit Loan Program, MassHousing Priority Mortgage, MassHousing Rehab, and MassHousing Right Rate. The Bank expanded upon its offering of MassHousing programs significantly during the evaluation period. While the Bank made only one MassHousing loan in 2010 and 7 loans

in 2011, it originated 65 loans totaling \$16.3 million in 2012. Overall, the Bank originated 73 loans totaling over \$17.3 million through various MassHousing programs during the evaluation program.

- *Federal Housing Administration (FHA)*: The Bank offers a number of loans insured by the FHA. These loans provide competitive rates and insurance for loans with low downpayments. There are underwriting flexibilities for lower credit scores and lack of credit history. Salem Five made 359 loans totaling \$102.6 million through the FHA during the evaluation period.
- *Veterans Affairs (VA)*: The VA's home loan program is designed for veterans and active duty military personnel. A major benefit is that no downpayment is required for qualified applicants, as long as the sales price does not exceed the appraised value. The Bank originated 24 VA loans totaling \$7.4 million.
- *United States Department of Agriculture (USDA)*: These loans are used primarily to assist low-income individuals or households purchase homes in rural areas. Applicants may have an income of up to 115 percent of the median income for the area. Families must be without adequate housing, but be able to afford mortgage payments, including taxes and insurance. During the evaluation period, the Bank made one USDA loan totaling \$321,428.

Commercial Lending Programs

Salem Five offers several commercial products to help meet the credit needs of small businesses within its community. The programs offer flexible lending criteria, providing more readily available access to financing for many small business borrowers. A summary of the programs offered is detailed below:

- *Small Business Administration (SBA)*:
Salem Five continues as a participating SBA lender. The following is a description of SBA programs the Bank offers.
 - The *7a program* provides start-up costs to small businesses. The Bank funds the loan, with SBA providing a loan guarantee of between 75 percent and 90 percent of the total loan amount, depending on the use of the loan proceeds. During the period reviewed, the Bank made 61 loans totaling \$15.6 million.
 - The *504 program* is predominantly used for the construction and/or acquisition of commercial real estate for businesses. Under this program, Salem Five provides 50 percent of the total construction and/or acquisition funding, while the SBA provides 40 percent. The borrower is required to contribute 10 percent of total funds invested in the construction and/or acquisition. The Bank made 23 loans totaling \$13.7 million through this program.
- *Massachusetts Business Development Corporation Capital Access Program (MASSCAP)*: This program was established by the Commonwealth of Massachusetts. Administered by the Massachusetts Business Development Corporation, which acts as an agent of the Massachusetts Office of Business Development, the program assists the Bank in making loans to small businesses that might not otherwise qualify under the Bank's standard

underwriting guidelines. The Bank originated 5 loans totaling \$927,500 through this program.

INVESTMENT TEST

Qualified Investments

A qualified investment for the purposes of this CRA evaluation is a lawful investment, deposit, donation, or grant that has community development as its primary purpose. The investment test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through its use of qualified investments that benefit the assessment areas or a broader statewide or regional area that includes the institution's assessment areas. Activities considered under the lending or service test may not be considered under the investment test. The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors.

The Bank has an adequate level of qualified community development investments, donations and contributions, and displayed an adequate responsiveness to the community development needs of the assessment area. During the evaluation period the Bank's equity investments and charitable donations totaled approximately \$4.1 million. This figure includes the new and current book value of existing qualified investments and grants made to qualified organizations during the time period of the examination.

Qualified bonds and equity investments from both FNMA mortgage backed securities and the Boston Community Loan Fund total \$3.7 million. There have been two new investments since the last examination. It should be noted that the number of new equity investments is less than the previous evaluation, when Salem Five had five new investments, totaling approximately \$5.2 million. The following are the Bank's qualified FNMA investments.

Table 10		
FNMA Mortgage Backed Securities		
Instrument	Purchase Date	Book Value (1/4/13)
<i>Prior Investments</i>		
Pool #258045	6/21/2004	\$125,602
Pool #258712	5/18/2006	\$504,521
Pool #258928	2/20/2007	\$455,586
<i>Totals</i>		<i>\$1,085,709</i>
<i>New Investments</i>		
Pool #MC0261	4/20/2010	\$1,307,831
Pool #AB7185	12/13/2012	\$1,176,761
<i>Totals</i>		<i>\$2,484,592</i>
Grand Total		\$3,570,301

Source: Bank Records

During the evaluation period, the Bank purchased two pools of FNMA securities. The underlying loans were originated to low- and moderate-income borrowers and the majority were

in the Bank's assessment area. New investments during the time period totaled slightly less than \$2.5 million. In addition, the book value of investments currently held by the Bank total slightly less than \$1.1 million.

Boston Community Loan Fund - Boston Community Loan Fund (BCLF) provides loans to non-profit organizations, community development corporations and local developers that build affordable housing and provide social and community services for underserved communities. In December 1998, the Bank invested \$100,000 and as of January 1, 2013, the book value was \$100,000.

Qualified Donations

The Bank's donations are made through its two charitable foundations, the "Salem Five Charitable Foundation" and the "Heritage Salem Five Charitable Foundation." The level of qualified donations has increased since the previous evaluation.

The Salem Five Charitable Foundation focuses on support within three priority areas of concern: economic self-sufficiency, workforce development, and financial literacy. The purpose of this Foundation is to help the community make smart decisions about financial challenges and opportunities, maintain quality employment, and assist low- and moderate-income individuals sustain themselves, and their families, financially.

The Heritage Salem Five Charitable Foundation awards grants with a minimum value of \$5,000 to non-profit organizations that support education, health and human services, youth programs, affordable housing, and community development. This Foundation was established to honor the charitable giving legacy of the Heritage Co-operative Bank as part of the Salem Five/Heritage Co-operative Bank merger agreement. To qualify for a Heritage grant, the non-profit organization must be located in the communities of Salem, Marblehead, Beverly, Peabody, or Danvers.

The total amount of qualified CRA contributions made by the Foundations from March 8, 2010 through January 14, 2013 was \$452,495 representing 70.4 percent of the Foundation's total contribution of \$642,865. Individual year totals are as follows: \$129,160 (2010), \$170,460 (2011), and \$152,875 (2012) as noted in Table 11 below.

Table 11				
Community Development Grants and Donations				
	2010	2011	2012	Total
Salem Five Charitable Foundation	\$91,160	\$140,460	\$117,875	\$349,495
Heritage Salem Five Charitable Foundation	\$38,000	\$30,000	\$35,000	\$103,000
Total	\$129,160	\$170,460	\$152,875	\$452,495

Source: Bank Records

The following table details the Foundation's community development donations by category within the assessment area.

Table 12 Community Development Grants and Donations by Category								
Community Development Category	2010		2011		2012		Total	
	#	\$	#	\$	#	\$	#	\$
Affordable Housing for Low- and Moderate-Income	11	18,250	17	22,600	20	34,150	48	75,000
Community Services Targeted to Low- and Moderate-Income	51	99,910	66	142,860	59	116,725	176	359,495
Promote Economic Development	2	6,000	1	5,000	1	2,000	4	13,000
Revitalize Low- and Moderate-Income Areas	1	5,000	0	0	0	0	1	5,000
Total	65	129,160	84	170,460	80	152,875	229	452,495

Source: Bank Records

Some of the organizations to which the Foundations made qualified grants or donations are listed below:

Acord Food Pantry - This organization provides food for needy families and the elderly, predominately serving low- and moderate-income families.

Citizens' Housing and Planning Association, Inc - This organization's mission is to encourage the production and preservation of housing that is affordable to low- and moderate-income families and individuals and to foster diverse and sustainable communities through planning and community development.

Girls, Inc - This organization, located in Lynn, provides resources and programs to at risk low-income girls and their families.

Journeys of Hope, Inc - The mission of this organization is to serve homeless young adults, ages 18-23, by providing assistance with shelter, food, clothing and referrals for medical services. Their programs are specifically designed to support homeless young adults move from homelessness to sustained shelter and healthy futures.

Lifebridge - This organization's mission is to end the crisis of homelessness by providing housing with supportive services, encourage personal and financial development, and provide stability in physical and mental health.

My Brother's Table - This organization strives to feed anyone that is in need and provide them with assistance. Additional services include health clinic, senior outreach, and dinner delivery. The majority of recipients are low- or moderate-income.

Wellspring House - This organization aims to help families move out of poverty by providing adult education, job training, affordable housing and other support services.

SERVICE TEST

The Service Test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals; 3) the availability and effectiveness of alternate systems for delivering retail banking services; and 4) the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to which they serve low- and moderate-income community development services.

Distribution of Branches

The Bank's retail services are accessible to essentially all portions of the assessment area(s). The Bank's office locations are distributed in such a way that no portion of the assessment area is inconvenienced and alternative delivery systems are available to compensate for any limitations on physical access to the Bank's facilities.

Salem Five's corporate headquarters are located at 210 Essex Street, Salem, Massachusetts. The Bank operates 23 full-service branches. There are branches in Beverly (2), Boston, Burlington, Danvers (2), Hamilton, Lynn (2), Malden, Marblehead, Middleton, North Andover, Peabody (2), Reading, Salem (2), Saugus, Stoneham, Sudbury, Swampscott, and Woburn. Table 13 illustrates the distribution of the Bank's full service branches by income level of census tract, compared against the distribution of census tracts by income level. In addition to the 23 full service branches, the Bank has 7 mortgage offices. Six of these offices are located in Massachusetts and one is located in Maine.

Salem Five's distribution of branches and automated teller machines (ATMs) represents a good distribution throughout the assessment area. Table 13 compares the distribution of branches to the percent of tracts in each income category and the percent of population within each tract category. As noted, one of the Bank's branches are located in low-income census tracts (4.3 percent), 17.4 percent are located in moderate-income census tracts, 52.2 percent are located in middle-income census tracts and 26.1 percent are located in upper-income census tracts.

Table 13						
Distribution of Branches and ATMs						
Census Tract Income	% of Tracts	% of Population	Branches		ATMs	
			#	%	#	%
Low	3.8	2.9	1	4.3	1	3.7
Moderate	23.8	22.0	4	17.4	5	18.5
Middle	45.7	47.6	12	52.2	14	51.9
Upper	26.7	27.5	6	26.1	7	25.9
Total	100.0	100.0	23	100.0	27	100.0

Source: Bank Records

As noted in Table 13, the Bank has 27 ATMs located throughout the overall assessment area. All full-service branches have ATMs. There are two remote walk-up ATMs; one in Malden and one in Salem. Of the 27 ATMs, 1 is in a low-income census tract, 5 are in moderate-income census tracts, 14 are in middle-income census tracts, and 7 are in upper-income census tracts. The Bank participates in the SUM, NYCE, Master Card/Cirrus, and Visa/Plus networks. Drive-up facilities and coin machines are provided at 15 branches.

Record of Opening and Closing Branches

To the extent changes have been made, the institution's record of opening and closing branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals. Since the previous examination, the Bank has opened three new branch locations. In 2010, the Bank opened two branches, one located at 19 West Street in Beverly Farms located in an upper-income census tract, and the other located at 240 Main Street, Stoneham in a middle-income census tract. In 2011, the Bank opened a branch at 75 Middlesex Turnpike, Burlington, located in a middle-income census tract. No branches have been closed by the Bank since the previous exam.

The Bank maintains a Branch Office Opening and Closing Policy. The policy details the procedure the Bank will follow before opening and closing a branch office.

Retail Banking Services

Services, including business hours, are tailored to the convenience and needs of the assessment area, particularly the low- and moderate-income geographies and individuals. Branch hours are convenient and comparable to other institutions, and bank services are more than sufficient to meet the needs of the assessment area. All of the Bank's branches are open on Saturday and 14 of the 23 branches are open on Sunday.

The Bank offers a variety of financial services through its branch network designed to meet the credit needs of its communities. Deposit services include checking and savings accounts, money market accounts, certificates of deposit, certificate of deposit registry service and individual retirement accounts. The Bank offers a free checking account to customers, which includes a free first order of checks, unlimited check writing, free online bill pay, a free portfolio analysis and retirement plan, and free Salem Five ATM transactions.

The Bank also offers a variety of loan products. These include a variety of home mortgage programs with competitive rates and flexible terms such as fixed rate loans, adjustable rate loans, jumbo mortgages, construction to permanent loans, first time homebuyer loans, bridge loans,

reduced documentation loans, impaired credit program, vacation home loan, home equity loans and lines of credit, reverse and express mortgages, personal loans, auto loans, boat loans, and overdraft protection lines of credit.

Alternative Delivery Systems

Along with branch banking and ATM access, Salem Five offers the following alternative delivery systems, which enhance both commercial and retail customer accessibility to services.

The Bank offers customers 24-hour account line telephone service, accessible anywhere in the U.S. toll free. Through this system, customers can obtain account information, conduct account transfers, make loan payments, check up-to-date account information, check account balances, and transfer funds. This service is free.

The Bank has a Sales and Support Center staffed by customer service representatives, who can assist customers with a variety of functions, including initiating the process of opening an account, ordering an ATM card, and obtaining rate information. The Sales and Support Center is open to assist customers Monday through Friday from 7:00 a.m. to 8:00 p.m., Saturday from 8:00 a.m. to 4:00 p.m., and Sunday from 10:00 a.m. to 4:00 p.m.

The Bank's website, www.salemfive.com, provides general information about the Bank, including an overview of retail and commercial deposit and lending products offered, branch locations and hours, online banking services offered, loan and deposit rate information, pre-approvals and applications, as well as information about investment and insurance products.

The Bank's online banking options allow customers to manage their banking 24-hours a day, 7 days a week. Bank customers are able to utilize online banking services, which include transferring money between accounts at the Bank, checking balances, account history transactions, setting up future and repeat transfers, placing stop payments, and paying bills.

In addition to online banking, the Bank offers mobile banking for those customers with internet-enabled mobile phones. Mobile banking gives customers the convenience and security of online banking from their phone. Customers can access account balances, check current rates, transfer funds between accounts, pay bills, and locate Bank branches and ATMs.

Lastly, the Bank launched a mobile banking application (App) on June 6, 2012 (July 12, 2012 for iOS) for use with smart phones. The App allows customers to quickly access their accounts from their smart phones. Customers can conduct several services via this platform such as checking balances, paying bills, internal transfer of funds, and finding branches.

Business Banking

The Bank offers a full-range of financial solutions tailored to fit all business needs. These include a comprehensive package of financial services including: business checking, small business checking, commercial checking, business savings, business money market savings, certificates of deposit, retirement plans, trust services and investment services. Business services include Business Online Banking and Online Bill Pay. These services provide companies with an alternative to conduct their day to day business activities. Business owners have 24-hour access to all accounts and can view account balances and transaction details online, transfer funds and pay bills from their computer, store merchant information to save time paying regular

vendors, pre-program bill payment or fund transfers for scheduled dates, place stop payment requests for one or a series of checks, and download account information into Quicken.

Community Development Services

The Bank provides a relatively high level of community development services. These community development services have resulted in a better educated community, increased awareness of community needs, and contributed to improving the communities served. The Bank offers services to low- and moderate-income residents within the assessment areas and provided technical assistance to organizations with a community development purpose.

Below are some examples of activities conducted and organizations that employees were involved in during the evaluation period. All of the services meet the definition of community development and also relate to the provision of financial services as required by the regulation consideration under the CRA.

Girls, Inc. of Lynn - The organization serves girls who come from low- and moderate-income families. Two Senior Vice Presidents serve on this organization, one as a Board member and the other as a Treasurer.

Beverly Bootstraps - Beverly Bootstraps provides critical resources to families and individuals so that they may achieve self-sufficiency. This organization offers both emergency and long-term assistance including housing stability, access to food, adult and youth education, counseling, and advocacy. A Vice President serves as the Treasurer of this organization.

Acord Food Pantry - The organization provides food for needy families and the elderly, predominately serving low- and moderate-income families. An Assistant Vice President serves as a Board member.

Mission of Deeds - The organization distributes beds, furniture, and household items to needy families and individuals living in Middlesex and Essex counties. More than half of the families that receive assistance are mothers (and their children) that previously lived in homeless shelters. A Senior Vice President serves on the Board of this organization.

Lynn Economic Opportunity Inc. - The mission of this organization is to alleviate the immediate effects of poverty in the Lynn area while striving to eliminate its root causes, and thereby, improve the quality of life for all residents of the Lynn area. A Vice President serves as a Treasurer of the Board and the Chairman of the Finance/Audit Committee.

Habitat for Humanity of Greater Lowell - This organization's mission is to provide decent and affordable housing to families who would otherwise be forced by low-income circumstances to live in substandard housing. A Senior Loan Officer is the Chairperson of the Revenue Committee.

Educational Services and Seminars

In 2011, the Bank held an 8-week "Teach the Children to Save" program, in conjunction with the American Bankers Association at the Salem YMCA. This national program is designed to teach students the importance of saving.

In 2010, 2011, and 2012, the Bank participated in eleven First-Time Homebuyer seminars. The Bank sponsored its own seminars as well as in conjunction with MassHousing, NeighborWorks, and the Plymouth Redevelopment Authority.

The Bank is a participant in the Money Smart Alliance, a program established by the FDIC, to help build personal financial management skills of adults and teenagers. Salem Five offers the courses at several schools and Boys and Girls Clubs in the area.

Other Community Development Services

Salem Five is part of the Massachusetts Community & Banking Council's Basic Banking for Massachusetts Program. The program was started in 1994 as a voluntary program to expand access to Bank products and services and to encourage those with modest incomes to establish banking relationships. Salem Five provides both a savings and a checking account that meet the Basic Banking for Massachusetts guidelines.

Salem Five's Gold Star Saver account is a free savings account for all children under the age of 18 that helps promote financial education. Through this program, the Bank sets up an education website for kids complete with articles, quizzes, and a breakdown of financial terms.

The Bank also services "Interest on Lawyer's Trust Accounts", known as IOLTA accounts. Interest earned on these accounts is remitted monthly to the IOLTA Committee and distributed to organizations that provide legal services to the needy. The charitable benefit is maximized by the Bank's voluntary waiver of normal service fees on these accounts. The Bank contributed \$91,415 in 2010; \$94,133 in 2011; and \$30,142 in 2012; for a total of \$215,690.

RESPONSE TO CRA COMPLAINTS

A review of FDIC and Division records, as well as the Public File maintained by the Bank pursuant to the Community Reinvestment Act, disclosed no complaints relating to the Bank's CRA performance.

PRIMARY AND SECONDARY ASSESSMENT AREAS

SCOPE OF THE EVALUATION

The scope of the reviews for each area is similar to the overall scope discussed previously. The primary assessment area consists of 207 of the 210 total census tracts; therefore, more weight is given to the conclusions drawn for that assessment area. It should be further noted that all lending, investment, and service activity discussed in the overall assessment, occurred in the primary assessment area. Although conclusions are made for the secondary assessment area, they had no effect on the rating. Please refer to the overall discussion for additional information.

DESCRIPTION OF THE INSTITUTION'S OPERATIONS IN THE PRIMARY ASSESSMENT AREA

Salem Five operates 22 branches in the primary assessment area, all of which provide the full range of services offered by the bank. The branches are located in Salem (2), Beverly (2), Boston, Danvers (2), Hamilton, Lynn (2), Malden, Marblehead, Middleton, North Andover, Peabody (2), Saugus, Swampscott, Reading, Woburn, Stoneham, and Burlington. One branch (Lynn) is located in a low-income census tract and 4 branches (Beverly, Peabody, Malden, and Woburn) are located in moderate-income tracts. There are 12 branches located in middle-income census tracts and 5 in upper-income census tracts.

The primary assessment area consists of 41 cities and towns located in Essex, Middlesex, and Suffolk counties (207 census tracts). Of the 207 census tracts, 8 are low-income, 50 are moderate-income, 96 are middle-income, and 53 are upper-income. All 10 low-income census tracts are located in the City of Lowell.

Please refer back to the overall discussion of the assessment area for additional information.

CONCLUSIONS WITH RESPECT TO PERFORMANCE IN THE PRIMARY ASSESSMENT AREA

A limited-scope review of the primary assessment area revealed satisfactory performance, overall. As, the primary assessment area includes 207 of the area's 210 total census tracts, the analysis performed in the overall "Conclusions" section captures the Bank's activity. Please refer to that section for additional information.

DESCRIPTION OF THE INSTITUTION'S OPERATIONS IN THE SECONDARY ASSESSMENT AREA

Salem Five operates one branch in the secondary assessment area, which provides a full range of services offered by the Bank. The branch is located in Sudbury, Massachusetts, in an upper-income census tract, and opened in 2008. Sudbury consists of three census tracts, all of which are upper-income. The three upper-income census tracts represent only 1.4 percent of the total assessment area census tracts, and as a result conclusions reached regarding the Bank's performance in this area are not given as much weight.

CONCLUSIONS WITH RESPECT TO PERFORMANCE IN THE SECONDARY ASSESSMENT AREA

A limited-scope review of the secondary assessment area revealed no activity in the assessment area during the review period.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The Bank's compliance with the laws relating to discrimination and other illegal credit practices were reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. No evidence of discriminatory or other illegal credit practices was identified inconsistent with helping to meet community credit needs.

APPENDIX A

Fair Lending Policies and Procedures

The Division of Banks provides comments regarding the institution's fair lending policies and procedures pursuant to Regulatory Bulletin 2.3-101.

The Bank has a written Fair Lending Policy. The Bank proactively and affirmatively supports the fair lending process through fair, but flexible lending policies. All employees are provided with training appropriate to their job description and their responsibilities in fair lending issues, as well as diversity and sensitivity training. The Bank employs a second review process. The Bank makes exceptions to the loan policy.

MINORITY APPLICATION FLOW

The Bank's LARs for 2010 and 2011 were reviewed to determine if the application flow from the different racial groups within the Bank's assessment area was reflective of the assessment area's demographics and the performance of the aggregate.

According to the 2000 U.S. Census Data, the Bank's assessment area contained a total population of 1,062,026 individuals of which 14.3 percent are minorities. The minority and ethnic population of the assessment area is 2.6 percent Black/African American, 4.5 percent Asian, 0.1 percent American Indian, 0.0 percent Hawaiian/Pacific Islander, 5.3 percent Hispanic or Latino and 1.8 percent other.

For 2010 and 2011, the Bank received 3,860 HMDA reportable loan applications from within its assessment area. Of these applications, 160 or 4.1 percent were received from minority applicants, of which 128 or 80.0 percent resulted in originations. The Bank also received 113 or 2.9 percent of applications from ethnic groups of Hispanic origin within its assessment area of which 91 or 80.5 percent were originated. Refer to Table 14 below for information on the Bank's minority application flow as well as the aggregate lenders (excluding the Bank) in the Bank's assessment area.

Table 14 - MINORITY APPLICATION FLOW								
RACE	Bank 2010		2010 Aggregate Data		Bank 2011		2011 Aggregate Data	
	#	%	#	%	#	%	#	%
American Indian/ Alaska Native	0	0.0	91	0.1	1	0.1	111	0.2
Asian	60	2.9	4,973	5.8	49	2.8	4,131	5.5
Black/ African American	14	0.7	947	1.1	9	0.5	905	1.2
Hawaiian/Pac Isl.	1	0.1	80	0.1	2	0.1	66	0.1
2 or more Minority	0	0.0	20	0.1	0	0.0	21	0.1
Joint Race (White/Minority)	13	0.6	918	1.1	11	0.6	821	1.1
Total Minority	88	4.3	7,029	8.2	72	4.0	6,055	8.2
White	1,844	88.2	60,078	69.8	1,582	89.5	48,738	64.9
Race Not Available	160	7.7	18,937	22.0	114	6.5	20,275	27.0
Total	2,092	100.0	86,044	100.0	1,768	100.0	75,068	100.0
ETHNICITY								
Hispanic or Latino	25	1.2	2,014	2.3	32	1.8	1,730	2.3
Not Hispanic or Latino	1,882	90.0	64,220	74.6	1,600	90.5	52,431	69.8
Joint (Hisp/Lat /Not Hisp/Lat)	35	1.7	665	0.8	21	1.2	600	0.8
Ethnicity Not Available	150	7.2	19,145	22.3	115	6.5	20,307	27.1
Total	2,092	100.0	86,044	100.0	1,768	100.0	75,068	100.0

Source: US Census, HMDA LAR Data 2010 and 2011, HMDA Aggregate Data 2010 and 2011

The Bank's level of lending was compared with that of the aggregate's lending performance levels for 2010 and 2011. The comparison of this data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants.

The Bank's performance was below the 2010 aggregate's performance level for both minority and ethnicity. The Bank received 4.3 percent for minorities while the aggregate was 8.2 percent. The percentage of Hispanic applications was 2.9 percent while the aggregate was 3.1 percent.

The Bank's performance was below the 2011 aggregate's performance level for both minority and ethnicity. The Bank received 4.0 percent for minorities while the aggregate was 8.2 percent. The percentage of Hispanic applications was 3.0 percent while the aggregate was 3.1 percent.

APPENDIX B
Loss of Affordable Housing – Massachusetts Division of Banks

The Division of Banks' regulation 209 CMR 46.22(2)(g) requires that the evaluation of the lending performance of a large institution include a review of its efforts to forestall the loss of affordable housing. The Division reviews the institution's loans to ensure that there is no undue concentration and a systematic pattern of lending resulting in the loss of affordable housing units.

Salem Five Cents Savings Bank's development of credit products with flexible lending criteria, participation in flexible lending programs, community development lending, and lending to low- and moderate-income borrowers has assisted low- and moderate-income individuals to remain in their neighborhoods.

APPENDIX C GENERAL DEFINITIONS

GEOGRAPHY TERMS

Block: Small areas bounded on all sides by visible features such as streets, roads, streams or rail road tracks, and invisible features like city or town boundaries or property lines. Blocks are subdivisions of census tracts and are assigned a unique three-digit number.

Block Group: Clusters of blocks within a census tract, having a four-digit number and a three-digit suffix. The four-digit number corresponds to the same number given to the census tract in which it is located.

Census Tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

Metropolitan Statistical Area (MSA/MD): The Metropolitan Statistical Areas have at least one urbanized area of 50,000 or more population. There are 11 instances (Boston, Chicago, Dallas, Detroit, Los Angeles, Miami, New York, Philadelphia, San Francisco, Seattle, and Washington) where a Metropolitan Statistical Area containing a single core with a population of 2.5 million or more has been subdivided to form smaller groupings of counties referred to as **Metropolitan Divisions** (One or more large population centers and adjacent communities that have a high degree of economic and social integration.) Each MD must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MD comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MDs are composed of cities and towns rather than whole counties.

Combined Statistical Area (CSA): The larger area, of which MSAs are component parts.

Consolidated Metropolitan Statistical Area (CMSA): The larger area, of which PMSAs are component parts.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

Rural Area: Territories, populations and housing units that are not classified as urban.

HOUSING TERMS

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

INCOME TERMS

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

Family Income: Includes the income of all members of a family that are age 15 and older.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Upper-Income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

HUD Adjusted Income Data: The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

OTHER TERMS

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

APPENDIX D

INVESTMENT DEFINITIONS

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Low Income Housing Tax Credits: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.

Qualified Investments: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.

APPENDIX E

STANDARD PE LANGUAGE

LENDING TEST

Scope of Test

The lending test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering an institution's home mortgage, small business, small farm, and community development lending. The institution's lending performance is evaluated pursuant to the following criteria: 1) the volume of lending activity; 2) the proportion of lending within the assessment area(s); 3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment area(s); 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income levels and businesses (including farms) of different sizes; 5) the distribution of small business and small farm loans by loan amount at origination; 6) the volume of community development lending; and 7) the use of innovative or flexible lending practices. Performance under the lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Community Development Lending:

Performance Criteria

The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

Innovative and Flexible Lending Practices:

Performance Criteria

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: 1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and 2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

INVESTMENT TEST

Scope of Test

The investment test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through its use of qualified investments that benefit the assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Activities considered under the lending or service test may not be considered under the investment test. The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors.

SERVICE TEST

Scope of Test

The service test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals; 3) the availability and effectiveness of alternate systems for delivering retail banking services; and 4) the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to which they serve low- and moderate-income areas or individuals; and 4) their responsiveness to available opportunities for community development services.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks and the Federal Deposit Insurance Corporation, at 210 Essex Street, Salem, MA 01970."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.