

SalemFive®

SERVING THE FINANCIAL NEEDS
OF FAMILIES & BUSINESSES THROUGHOUT OUR REGION
SINCE 1855

A MESSAGE FROM OUR PRESIDENT

JANUARY 2018

We had another great year here at Salem Five, thanks in large part to strategic investments designed to meet the changing needs of our customers.

To say 2017 was a year of growth is an understatement. We made significant advancements in technology, expanded our retail footprint by acquiring Georgetown Bank, added more than 60 new employees to support our increasing number of locations, products and services, and brought on a number of very talented leaders, all of whom had an immediate impact on the organization and in the communities they serve.

These steps, along with strong performances by our mortgage, insurance and investment divisions, allowed us to realize growth of almost \$600 million in 2017. With total assets of \$4.7 billion at year's end, I'm excited to say that Salem Five is now one of the Top 10 largest banks in Massachusetts. We have 34 locations serving customers across Massachusetts and southern New Hampshire.

With an eye to the future, a primary focus in 2017 was the conversion of our longtime core operating system to a more technologically advanced platform. A monumental undertaking, we are pleased to report that the system conversion was a great success. We also owe this success to our customers, whose patience and loyalty remained unshaken during service interruptions and remain intact as we address a small number of remaining priorities.

The new system, in addition to providing additional features, better tools and enhanced user experiences, offers more accessibility, greater convenience and faster service so that we can better serve our customers. And, given the increasing importance of e-commerce, we have made it a priority to continue to enhance our digital offerings in 2018. We will be launching new



Ping Yin Chai, President & CEO

mobile applications and have upgraded our website so that our customers have the ability to engage with us anywhere, anytime and anyplace. All of our investments in technology support our drive to always deliver the best products, services and experiences to our customers.

Salem Five is a progressive, thriving and independent mutual bank with the ability to focus on the present and look ahead to the future. It's a formula that we've successfully followed since 1855, and it's one of the primary reasons that individuals, small businesses and large corporations alike continue to entrust us with their financial future.

I have no doubt that we will build on our success in 2018, and I thank you for your continued support and partnership, now and in the years to come.

A handwritten signature in black ink that reads "Ping Yin Chai". The signature is fluid and cursive.

Ping Yin Chai
President and CEO

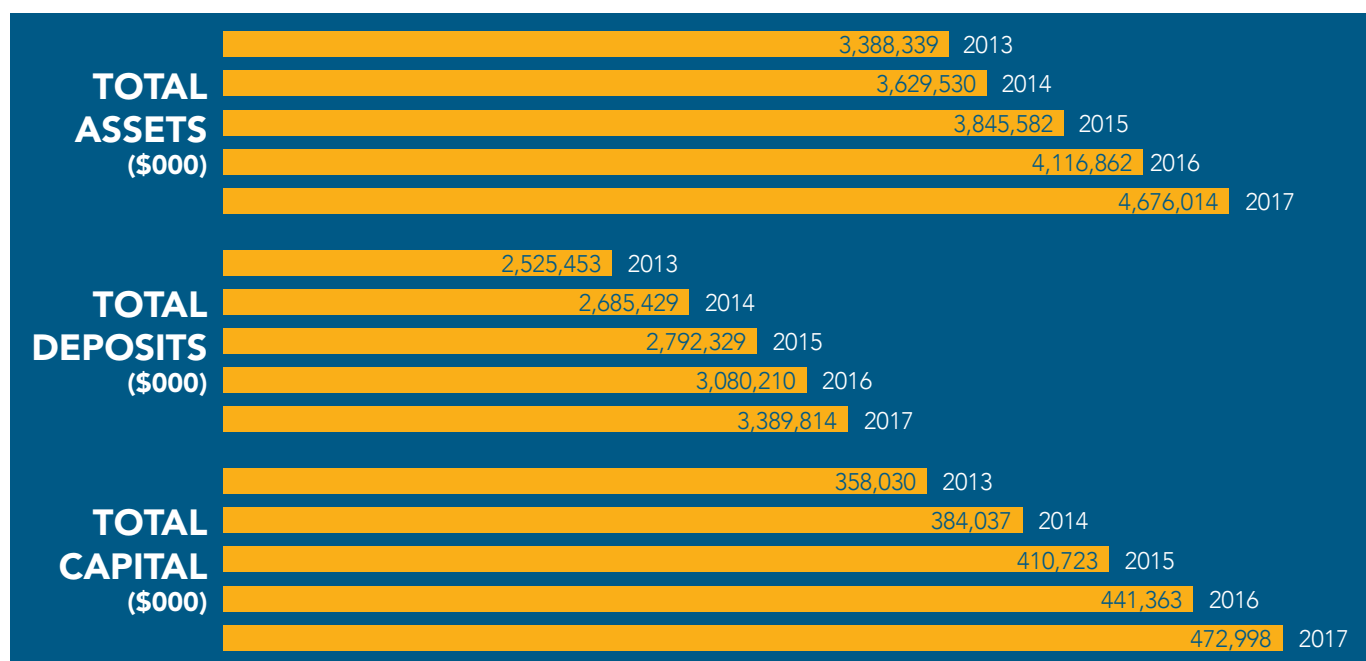
2017 FINANCIAL HIGHLIGHTS

(Dollars in Thousands)	2017	2016	2015	2014	2013
BALANCE SHEET DATA					
Total Assets	4,676,014	4,116,862	3,845,582	3,629,530	3,388,339
Securities	970,372	969,995	994,432	1,028,056	975,171
Residential first mortgage loans	1,453,424	1,264,205	1,092,782	983,951	922,763
Consumer loans	242,513	226,935	226,701	203,535	201,794
Commercial loans and leases	1,849,122	1,519,857	1,402,099	1,289,214	1,146,852
Allowance for credit losses	28,726	24,601	22,294	21,536	23,055
Total loans and leases, net	3,516,333	2,986,396	2,699,288	2,455,164	2,248,354
Total deposits	3,389,814	3,080,210	2,792,329	2,685,429	2,525,453
Borrowed funds	762,579	545,650	593,328	506,987	460,600
Total capital ⁽¹⁾	472,998	441,363	410,723	384,037	358,030

⁽¹⁾ Before accumulated and other comprehensive income

OPERATING DATA

Net interest income	126,737	105,983	96,575	92,809	90,039
Provision for credit losses	5,200	3,675	1,200	600	2,560
Non-interest income	41,321	40,531	34,293	29,783	39,591
Non-interest expense	106,347	93,421	87,772	81,257	85,702
Income before taxes	56,511	49,418	41,896	40,735	41,368
Net income	32,132	30,640	26,686	26,007	26,203



Salem Five at Burlington Mall is one of several boutique branches, featuring less square footage and more robust service offerings.



At its heart, Salem Five is a mutual bank with a deep commitment to its customers, communities and employees. Our more than 160 years of experience ensures an in-depth knowledge of our region and our customers, while our commitment to innovation ensures we are providing the best new banking technology.

RETAIL

Our level of service, convenience, and commitment to personal relationships set us apart. A focus on innovation enables us to bring our customers the latest in mobile banking technology, often ahead of the market, through the Salem Five mobile app and the latest mobile payment services. From our home territory on Boston's North Shore, through Middlesex and Norfolk Counties, to Boston's Financial District, our retail stores offer access to experts across our depth of business areas. Most locations offer early morning, evening, and Sunday hours as a hallmark of our commitment to serve busy lifestyles. Outstanding digital engagement with Salem Five, combined with exceptional people to work with, is the heart of our customer experience.

COMMERCIAL

We are true partners to our commercial customers to help them grow their businesses, protect their assets, and guide mergers and acquisitions. We immerse ourselves in the businesses we serve and use this knowledge to become valued advisors throughout their business life cycles. As the economy, industries and goals fluctuate, we are there to help our customers shift, grow, adapt and, ultimately, realize their business goals.



Digital experiences like Mobile Deposit, Cardless Cash, Person-to-Person Payments (P2P), and Digital Wallets help give a few extra minutes back to Salem Five customers every day.



Salem Five Mortgage Company maintains an operations center in Plymouth, Massachusetts to support growing origination and servicing capabilities throughout the region.

INVESTMENTS

Understanding an individual's unique financial profile and circumstances is central to our approach. The knowledgeable advisors at Salem Five Financial get to know customers, ask the right questions and use this information to customize uniquely personal financial plans. We take a broad approach as we design sound financial strategies, considering investment savings, retirement planning, estate planning and other short- and long-term planning that allows for peace of mind today and in the years to come.

MORTGAGE

Salem Five Mortgage has financed more homes than any other Massachusetts bank, and is one of the largest servicers of mortgages in New England. Deep skills and expertise are at the foundation of our mortgage lending practice. Our representatives listen to customers, educate them on the options available to meet their needs, and play an integral role simplifying and managing the mortgage process. We're proud of our legacy in this area, and even more proud of what we continue to do every day.

INSURANCE

Salem Five has one of the largest bank-owned insurance businesses in the state, and continues to grow both organically and through acquisition. Recognized with Five Star Service awards, our insurance team works with individuals, families and businesses to identify the right mix of products to protect against the unexpected for the home, office, auto and life.



CLIENT SPOTLIGHT

KURGO

Active Dog Travel & Outdoor Products
Salisbury, MA

Kitter Spater, an industrial designer, and brother Gordie Spater, who has a business background, grew up in a family of entrepreneurs. After over a decade in business, the two are still dominating the retail category they invented, with 300+ innovative products to help people enjoy getting outside and exploring the world with their dogs. To make their next big stage of growth happen, they connected with Salem Five.



Brothers Kitter and Gordie Spater, founded Kurgo in 2003, the original maker of adventure travel products for dogs.



"We value how engaged Salem Five is with our business. We're always pushing the envelope, so it's important to be able to have honest conversations with my bankers."



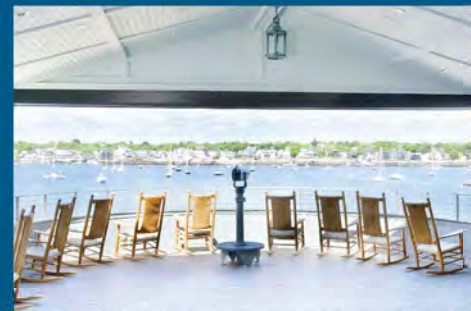
Lee Dellicker, president & CEO of Windover Construction, capitalized on the recession to build a talented team and launch his business, focused on expanding some of the area's most prominent school campuses and nonprofits.

WINDOVER CONSTRUCTION

Full-service Construction Management Firm
Beverly, MA

Lee Dellicker, president and CEO of Windover Construction, values his ability to build relationships as a key to Windover's success. They make the effort to develop a deep understanding of each project's surroundings, including engaging students at the schools they work with. Lee cites partner relationships based on trust and transparency as critical to his business, particularly the one he's developed with Salem Five. "They treat me the way I hope my company treats our clients," he notes. "As we continue to grow and look at other markets, we know we can take advantage of Salem Five's experience and connections as we go about it."

"Salem Five Bank has always made things happen quickly and easily, to the point where I trust them with my personal finances, too. They are just the right size to meet all our needs as we continue to grow together."



COMMUNITY



Salem Five volunteers welcome morning commuters at an MBTA train station in the Fall. Upon their arrival, commuters are greeted with the sounds of live jazz, apples, apple cider, cider donuts, and Salem Five goodie bags.



Salem Five's commitment to our community and steadfast corporate citizenship are woven into the fabric of our culture. We're proud of our employees' engagement in their communities through board service and volunteerism, and believe it's our responsibility to respond to the needs of communities we serve through our products, services and philanthropy.

The Salem Five Charitable Foundation maintains a strategic focus on providing both human and financial resources to aid in three primary areas: 1) improving financial literacy 2) developing a strong local workforce 3) advancing economic self-sufficiency.

In keeping with our founding roots as a mutual savings bank, management has a deep sense

of responsibility to the economic health and well-being of our communities. With a goal of life-long impact, we strive to help today's families make smart financial decisions and believe it's critical for the next generation to develop their financial skills and knowledge.



Local students take part in Salem Five's financial literacy program, where they learn the importance of personal finance and real-world money management skills.



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 Equal Housing Lender | Member FDIC | Member DIF