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2013 Annual Report

Dedham Savings
your bank

President's Message



Peter G. Brown,
President and Chief Executive Officer

To Our Corporators, Customers and Friends of the Bank,

The Dedham Institution For Savings entered 2013 with guarded optimism despite continued uncertainties in many internal and external areas including the economic and regulatory environment. This optimism, combined with the extraordinary efforts of our staff, enabled the Bank to complete the year with record earnings and a record level of capital. With net income of \$9.2 million, this represents a 15%, or \$1.2 million, increase over the performance of 2012. These earnings combined with the favorable increase in the valuation of our investment portfolio provided capital growth of \$11 million. This brought total capital to \$128.6 million, or a healthy 10.5% of total assets. As an organization, we are quite proud of these results. I ask that you read the Financial Review later in this report for more details.

These financial accomplishments, however, do not represent all of which we are proud. This past year we continued to invest heavily in branch renovations, in various types of infrastructure enhancements, in technology upgrades and in new product development. We also continued to invest record levels into our communities which is perhaps our proudest achievement.

This past year we were excited to re-open our Norwood office after a major renovation of its interior. With over \$750,000 invested, the banking experience for our customers and the work environment for its staff are greatly improved. The patience from customers and employees during the construction period is, hopefully, being rewarded. We look forward to developing plans for a 2014 renovation of our Sharon office.

The Bank continued to invest heavily in technology and within our operations function. Earlier in the year, we negotiated a very favorable five year extension on the contract with our core processing provider. Behind personnel expenses, this is our single largest expense. This ensures seamless continuity in the delivery of our product offerings while controlling and understanding our costs. In conjunction with this initiative, the existing wide area network (WAN) infrastructure throughout the Bank was replaced with state of the art fiber mesh. The capacity along with the speed and reliability of moving data has been greatly enhanced preparing us well for the future.

Technology improvements also made their way on to mobile phones and into the boardroom. Our **Dedhamobile** product introduced last year was enhanced with a feature that allows our customers to make check deposits anytime/anywhere using their mobile device. Our trustees now review all of our management reports before and during board meetings via bank-issued iPads. The Bank's Green Committee, among others, is particularly fond of this as significant amounts of paper copying is eliminated. For 2014, several new enhancements will be introduced as major investments have been made in a new commercial loan origination system, a new residential loan system and an introduction to full wireless capabilities within our central facilities.

This past year also saw the continued commitment to charitable giving within our communities. This giving is executed in three ways: donations from the Bank, grants issued by the Dedham Institution for Savings Charitable Foundation and the hours upon hours of community service voluntarily performed by our employees. While donations and grants totaling almost \$500,000 is significant, I think the time we spend delivering meals, organizing and participating in town days, running fundraising events and sitting on non-profit and civic organization boards, for example, is a truer reflection of our commitment. While other banks insist upon a promotional benefit to their giving, Dedham Savings is motivated by the cause and its impact on the community.



Jackie Tilks, Marketing Officer and recipient of the second annual Ebenezer Burgess 1831 Award.

It is with great enthusiasm that I announce this year's winner of the Ebenezer Burgess Presidential Award. Introduced last year, it is named after the Bank's founding president when it was first incorporated in 1831. This annual award will be given to those employees who conduct themselves in an instinctively selfless manner while exceeding what is expected of them as defined by their job description. Jackie Tilks, our outstanding Marketing Officer, is this year's recipient. Capable, compassionate and creative only begins to describe how others at the Bank feel about her. Congratulations, Jackie!

In closing, the staff, the management team and our Board of Trustees are proud of the successful year that we had in 2013. It could be said that we are all just guardians of Dedham Savings with the responsibility of making the organization strong and prepared for the future before passing it on to the next generation. However, we have accepted the challenge of accomplishing this with purpose, integrity and in a congenial environment. Finally, I would like to thank our customers for choosing to bank with us. Your loyalty and your expectations are what motivates us.

Sincerely,

A handwritten signature in black ink that reads 'Peter G. Brown'.

Peter G. Brown
President and Chief Executive Officer

Corporation Meeting
March 27, 2014

Financial Review 2013

For the second consecutive year Dedham Savings posted record financial results. During 2013 total footings grew \$88MM to reach \$1.23B as of December 31, 2013. Outstanding loan balances grew \$79MM. Surplus rose \$11MM to finish the year at \$128.6MM. Earnings were \$1.3MM higher than the prior year record of \$8.0MM to set a new high water mark of \$9.2MM. This helped the Bank generate an enviable return on asset of 0.79% in 2013. This was achieved despite a number of economic and operating challenges faced during the year.

The interest rate cycle reached what appears to be an inflection point low when Federal Reserve Chairman Ben Bernanke commented during the spring of 2013 that the Fed may (and ultimately did) begin ‘tapering’ its purchase of Treasury bonds and mortgage securities, the start of the wind down of quantitative easing measures taken by the Fed as its fix for the severe financial crisis that began in 2007. The financial markets reaction to Chairman Bernanke’s comment, cleverly labeled a ‘taper tantrum’ by business media quickly sent intermediate and long-term interest rates well above early spring and historic lows. Not surprisingly, this rise in interest rates had a strong impact on the Bank’s lending activities and fixed-income portfolio values throughout the second half of 2013.

Higher mortgage rates presented obvious operating challenges. The Bank experienced a temporary surge in loan requests as consumers, fearing rates would move higher, rushed to lock in low refinance rates. When this surge ended, residential refinance loan activity largely disappeared and along with it realized gains from loan sales, which for all of 2013 were less than half that earned during 2012.

The bump up in mortgage rates was not all bad news for the Bank. Prepayment activity slowed which meant balances on our highest yielding assets stayed on our balance sheet longer. The value of the Bank’s mortgage servicing rights portfolio appreciated in value during the year. We also saw a drop off in consumer requests for loan rate modifications. These have been a significant source of margin compression in recent years as mortgage rates plunged to historic low levels.

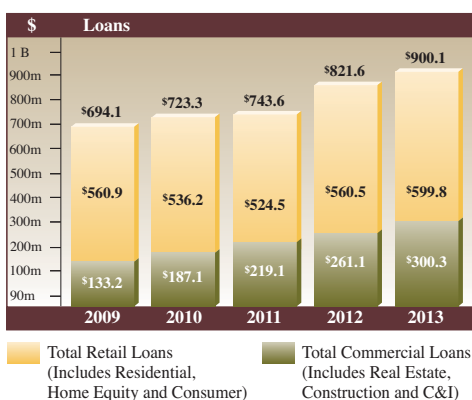
Commercial lending was affected by the rate environment too, but more so by local real estate values, which experienced perhaps the strongest year of appreciation since the start of the crisis. Outstanding construction loan balances were up by over 50% during the year and reached \$76MM as of December 31, 2013. This is quite an accomplishment given faster turnover rates in 2013, driven by improved demand for new homes in our markets. The growth rate in commercial real estate (CRE) loan portfolio in 2013 was also very strong but lower than recent years. We believe this in part was due to an increasingly competitive market for the types of CRE credits we favor – modestly leveraged income-producing properties operated by experienced investment-property owners. Even local bank competitors, those previously forced to retrench and focus substantial human resources and capital on asset credit quality problems, have joined the fray and now compete aggressively for new loans.

With both residential and commercial loan balances increasing strongly in 2013 the challenge became how to fund them. We prefer to do so with retail and commercial deposit balances. The Bank’s deposit growth had trended favorable in recent

years as fears triggered by the financial crisis caused many to seek the safety of FDIC (and DIF) insured deposit accounts. Bank deposits are very attractive to consumers when return-of-investment replaces return-on-investment as the key investment objective. This is not the case today, a time of soaring stock prices and improving real estate values. Money parked by consumers in recent years in low-yielding deposit accounts is increasingly seeking higher returns in riskier asset classes. As a result deposit levels fell modestly at Dedham Savings in 2013 as they did at a number of local competitors. This forced the Bank to rely more heavily on the Federal Home Loan Bank of Boston for funds to finance loan portfolio growth in 2013. Fortunately, the Bank maintains substantial levels of pledgeable loan collateral, which combined with ultra-low borrowing rates throughout the year helped boost net interest income during in the latter half of the year to record levels.

Favorable short-term interest rates not only kept borrowing costs low but enabled the Bank to lower deposit funding costs too. This proved to be a key interest-rate risk reducer. While loan rates rose above their historic lows during the second half of 2013, higher rate loans and bonds continued to pay down and pay off causing the Bank’s overall asset yield to decline. Lower funding costs enabled the Bank to successfully offset these lower asset yields.

We also benefited from another year of strong U.S. stock market returns. This helped the Bank achieve realized net gains from investment sales totaling \$2.2MM, which was a key contributors to the Bank’s strong 2013 earnings.



Consolidated Balance Sheets

December 31, 2013 and 2012

(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Assets:		
Cash and due from banks	\$ 11,905	\$ 9,976
Interest-bearing deposits	1,223	2,133
Total cash and cash equivalents	<u>13,128</u>	<u>12,109</u>
Securities available for sale, at fair value	267,459	261,842
Federal Home Loan Bank stock, at cost	7,346	5,463
Other investments	5,089	5,017
Loans held for sale	-	1,890
Loans, net	894,118	814,342
Premises and equipment, net	6,458	6,009
Accrued interest receivable	4,365	3,714
Bank-owned life insurance	21,751	20,939
Foreclosed real estate	3,232	3,370
Net deferred tax asset	1,805	1,915
Other assets	3,434	3,776
Total assets	<u>\$ 1,228,185</u>	<u>\$ 1,140,386</u>
Liabilities and Surplus:		
Deposits	\$ 964,777	\$ 974,226
Federal Home Loan Bank advances	122,701	36,348
Mortgagors' escrow accounts	3,245	3,028
Accrued expenses and other liabilities	8,866	9,509
Total liabilities	<u>1,099,589</u>	<u>1,023,111</u>
Surplus:		
Undivided profits	126,500	117,279
Accumulated other comprehensive income (loss)	2,096	(4)
Total surplus	<u>128,596</u>	<u>117,275</u>
Total liabilities and surplus	<u>\$ 1,228,185</u>	<u>\$ 1,140,386</u>

Consolidated Statements of Net Income

Years ended December 31, 2013 and 2012

(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Interest and Dividend Income:		
Interest and fees on loans	\$ 34,706	\$ 34,440
Interest and dividends on securities	5,914	6,642
Interest on interest-bearing deposits	9	62
Total interest and dividend income	<u>40,629</u>	<u>41,144</u>
Interest Expense:		
Interest on deposits	5,507	7,353
Interest on Federal Home Loan Bank advances	934	909
Total interest expense	<u>6,441</u>	<u>8,262</u>
Net interest income	34,188	32,882
Provision for loan losses	536	1,309
Net interest income, after provision for loan losses	<u>33,652</u>	<u>31,573</u>
Other Income:		
Customer service fees	2,511	2,454
Income from mortgage banking activities, net	1,130	1,438
Gain on securities available for sale, net	2,221	2,254
Other-than-temporary impairment losses on equity securities	(288)	(303)
Income from bank-owned life insurance	812	735
Other investment income	508	125
Miscellaneous	57	72
Total other income	<u>6,951</u>	<u>6,775</u>
Operating Expenses:		
Salaries and employee benefits	16,377	15,482
Occupancy and equipment	3,200	3,043
Data processing	2,400	2,645
Professional services	1,419	1,499
FDIC insurance assessment	723	775
Marketing and advertising	897	720
Other operating	3,213	3,520
Total operating expenses	<u>28,299</u>	<u>27,684</u>
Income before income taxes	12,374	10,664
Provision for income taxes	3,153	2,700
Net Income	<u>\$ 9,221</u>	<u>\$ 7,964</u>

Bank Management

Peter G. Brown
President
Chief Executive Officer

Executive Team

Gerard R. Lavoie
Executive Vice President
Chief Operating Officer

Mark C. Ingalls
Executive Vice President
Chief Financial Officer and Treasurer

Mark A. McKinnon
Executive Vice President
Chief Information Officer

Douglas R. Shaw
Executive Vice President
Senior Lending Officer

Pamela A. Millard
Senior Vice President
Chief Risk Officer

Jean M. Tennihan
Senior Vice President
Human Resources Officer

Administration

John H. Emmons, Jr.
Vice President

Beverly Somerville
Assistant Vice President
CRA Officer

Commercial Lending

Joseph Cavallini
Senior Vice President

William F. Lindquist, III
Senior Vice President

Douglas W. Stevens
Senior Vice President

David Flynn
Vice President

Donald G. Isles
Vice President

Robert J. Leary, Jr.
Vice President

Michael J. Moran
Vice President

Abigail King
Assistant Vice President

Credit

Anne V. McBride
Vice President
Senior Credit Officer

Deposit Operations

Sue Ellen McKinnon
Senior Vice President

Kerry Riggins
Assistant Vice President

Tonia Reilly
Assistant Vice President

Maureen Nedder
BSA & Security Officer

Facilities

Ralph D. Pina, Jr.
Assistant Vice President

Finance

Amanda K. Justice, CPA
Vice President
Controller

Human Resources

Robin McLeod
Assistant Vice President

Information Technology

James P. Hanlon
Senior Vice President
Chief Technology Officer

Loan Origination

Tracy E. Harvard
Senior Vice President

Lisa M. Forkey
Assistant Vice President

Patricia Harbour
Lending Operations Officer

Loan Servicing

Maria G. Ingegneri
Senior Vice President

Cathy J. Hamilton
Assistant Vice President

Holly Lite
Assistant Vice President

Retail Lending

James W. Dunn
Vice President

Pauline M. Dzengelewski
Assistant Vice President

Cynthia J. Sullivan
Assistant Vice President

Retail Banking

Branch Administration

Robert M. Erasm
Senior Vice President

Branch Managers

Laura A. Macs
Vice President
Westwood

David A. Whitney
Vice President
Walpole

Lorraine A. McPhillips
Retail Banking Officer
Elm Street

Mobashir Ali
Dedham Square

Heidi A. Browne
Norwood

Anna Conte
East Dedham

Paul J. Pelletier
Sharon

Stephanie Perkins
Needham

Marketing

Lois A. Lovely
Vice President

Jaclyn Tilks
Marketing Officer

Risk Management

Carol A. Araujo
Vice President / Compliance Officer

Lisa Johnson
Assistant Vice President

Training

Judy DeLisle
Training Officer

Trustees and Members of the Corporation

Trustees

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 Charles T. Spiegel
 John H. Emmons, Jr.
 William G. Gothorpe
 Michael C. Lazdowsky, Jr.
 Mary F. Doherty
 Natalie F. Colmore

David S. Beckwith
 Alexander K. Leith
 Peter S. Gregory
 William B. Gutfarb
 Juanita Allen Kingsley
 Philip R. Weber
 Juliet W. Onderdonk

Dean H. Steeger
 Christine L. Todd
 Milton J. Benjamin, Jr.
 Joan K. Coughlin
 Louis A. Rizoli
 Peter G. Brown
 James L. Elcock

Honorary Trustee
 John D. Lund

Clerk of the Corporation
 and Board of Trustees
 William B. Gutfarb

Board of Investment
 Alexander K. Leith
 Peter S. Gregory

Peter G. Brown
 and alternate Trustees each month

Audit Committee
 Michael C. Lazdowsky, Jr.
 Philip R. Weber

Louis A. Rizoli

Members of the Corporation

Cory Alexandre
 Juanita Allen Kingsley
 Fotios Barounis
 Michael A. Beaumont
 David S. Beckwith
 Milton J. Benjamin, Jr.
 Roy M. Bourell
 James M. Brady
 Peter G. Brown
 Judith G. Carver
 J. Stephen Cohen
 Natalie F. Colmore
 Joanna Cook
 Joan K. Coughlin
 John J. Czyzewski
 George Doherty, III
 Mary F. Doherty
 Daniel J. Driscoll
 James L. Elcock
 John H. Emmons, Jr.
 Mark R. Epker
 James W. Evans, Jr.
 William J. Farrell
 Thomas J. Filbin
 Dale N. Garth

Stephen N. Gifford
 Lewis E. Gilman, III
 William G. Gothorpe
 Peter S. Gregory
 Michael B. Grogan
 William B. Gutfarb
 Keith P. Hampe
 Kevin F. Hampe
 Robert B. Hanson
 Mark C. Ingalls
 Bret D. Jordan
 Joseph R. Kelliher
 George Kouri
 Gerard R. Lavoie
 Robert A. Lawrence, Jr.
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 Judith A. Massey
 Hope C. McDermott
 Mark A. McKinnon
 Pamela A. Millard

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 Stephen G. Moorhead
 Joseph C. Moraski
 James E. Noris
 Juliet W. Onderdonk
 Michael R. Paolini
 Allan D. Parker, III
 Helen A. Phinney
 Dean P. Plakias
 Richard P. Quincy, Jr.
 Louis A. Rizoli
 Francis J. Ryan, Jr.
 Douglas R. Shaw
 Barbara Shea
 Charles T. Spiegel
 Jason R. Spiegel
 Dean H. Steeger
 Thomas C. Taylor
 Jean M. Tennihan
 Christine L. Todd
 Stephen Tunney
 Francis M. Walley, III
 Philip R. Weber
 Harry E. Wells, III
 Gary T. Woods

Branch Offices

Main Office

55 Elm Street
Dedham, MA 02026
781-329-6700

Needham

1077 Great Plain Avenue
Needham, MA 02492
781-449-0002

Dedham Square

420 Washington Street
Dedham, MA 02027
781-320-1410

Walpole

1428 Main Street
Walpole, MA 02081
508-668-4600

East Dedham

260 Bussey Street
Dedham, MA 02026
781-320-1412

Norwood

185 Central Street
Norwood, MA 02062
781-762-8500

Westwood

673 High Street
Westwood, MA 02090
781-320-1416

Sharon

45 South Main Street
Sharon, MA 02067
781-793-9360

Senior Community Branches

Dedham

NewBridge on the Charles

Walpole

New Pond Village

Canton

Orchard Cove

Asset Management and Trust Services

Plimoth Investment Advisors

55 Elm Street
Dedham, MA 02026
781-320-4865

Dedham Savings

your bank

DEDHAM INSTITUTION FOR SAVINGS since 1831



Dedham, Massachusetts
www.dedhamsavings.com



Member FDIC/Member DIF  Equal Housing Lender