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2014 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,

It is a pleasure to report that 2014 was another very good year for Dedham Savings! Our earnings were strong, we continue to strengthen our infrastructure, we were true to our philanthropic mission and our employees continue to amaze me with their dedication.

Net income for the year was \$8.9 million which generated a solid return on assets of .72%. While this is less than 2013 when the Bank earned \$9.2 million, last year's income included sizeable gains from investment sales and a much more favorable tax rate as expiring capital loss carryovers were used. More importantly, this year's core operating earnings were actually 19% higher than 2013. This was achieved by quality loan growth on the income side with prudent controls over operating expenses and our cost of funding. The balance sheet grew to \$1.27 billion in total assets highlighted by a 7.6% growth in commercial lending. Equally important, the Bank's

asset quality measurements improved significantly as non-performing loans and delinquencies were at enviable levels. On the other side of the balance sheet, total deposits were just shy of \$1 billion and capital grew to a very healthy \$132.7 million. I ask that you read the Financial Review later in this report for more details.

In addition to a healthy balance sheet, which includes a strong capital position, and solid, sustainable earnings, our future also depends upon consistent and timely investment into the Bank's facilities, systems and its people. In 2014, for example, the Bank introduced its new Commercial Lending Center over at 888 Washington Street in Dedham which consolidates the location of our commercial lending and credit departments. The 3rd floor of our Main Office was totally renovated adding much needed office space and state-of-the-art conference rooms. Significant investments were made in new loan origination systems for both commercial and residential lending, creating efficiencies and a more paperless environment. Finally, significant resources were allocated towards our most important asset: our employees. Critical hires were made in our compliance function, information technology area, commercial credit, commercial lending and in our investment sales/wealth management area. These hires will ensure that Dedham Savings is well prepared for future challenges and opportunities while continuing to offer the high level of customer service for which we are known.

Regarding this high level of customer service, it gives me great pleasure to announce that Valleri Lovely is this year's winner of the Ebenezer Burgess Presidential Award. This award is named after the Bank's founding president who in 1831 led a group of local citizens to establish a safe and accessible bank for the general community. Currently the Branch Manager at our Norwood office, Valleri has worked at Dedham Savings for 24 years. Her ability to serve our customers, mentor our younger employees and constantly adapt to an ever-changing industry is only exceeded by her friendly demeanor and loyalty to the Bank. Congratulations, Valleri!



Valleri Lovely, Norwood Office Branch Manager and recipient of the third annual Ebenezer Burgess 1831 Award.

I would also like to recognize Mary Doherty and Michael Lazdowsky for their combined 43 years of service as they finish up their terms as members of our Board of Trustees. Their contributions at the board and committee levels were invaluable and for that we are all thankful. Simultaneously, I would like to welcome Mark Epker as our newest Trustee. A resident of Dedham, Mark Epker brings a wealth of additional real estate knowledge to the board level as President of Beacon Investments, a division of Beacon Communities, LLC.

In closing, I would like to thank our Board of Trustees for their support and the confidence that they have shown towards the management team and the entire staff. It is through this support and confidence that allows us to best serve our customers and make a difference in our communities year after year.

Sincerely,

Peter G. Brown
President and Chief Executive Officer

Corporation Meeting
March 26, 2015

Financial Review 2014

For the third consecutive year Dedham Savings posted exceptional financial results. During 2014 total footings grew \$42.3MM to reach \$1.27B as of December 31, 2014. Outstanding loan balances rose by \$33.9MM. Surplus increased \$4.1MM to finish the year at \$132.7MM. Earnings of \$8.9MM were slightly less than the prior year record of \$9.2MM. This resulted in a return on assets of 0.72% for 2014. Despite the year-over-year decline in net earnings, Management believes the 2014 result was superior due to record operating earnings during an environment which kept total loan origination volume below the 2013 level.

Heading into 2014 many prognosticators forecast interest rates would continue to rise, especially after rates bottomed out in Q2 2013. The Fed began to ‘taper’ its purchase of Treasury bonds and mortgage securities in 2013, a move many viewed as a sign the economy was poised to grow at a strong enough clip to shed not only the quantitative easing measures but would soon lead the Fed to raise the Fed Funds rate for the first time since 2006. However, interest rates, in particular longer term Treasury rates, fell during much of 2014 and ended the year lower than where they started.

One would expect such an environment to provide a boost to

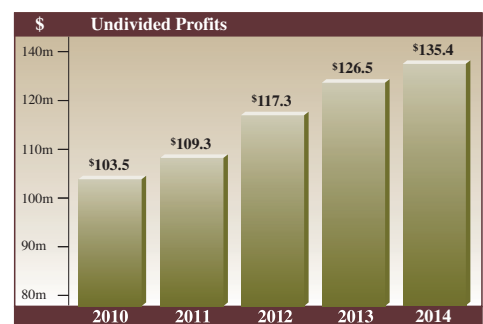
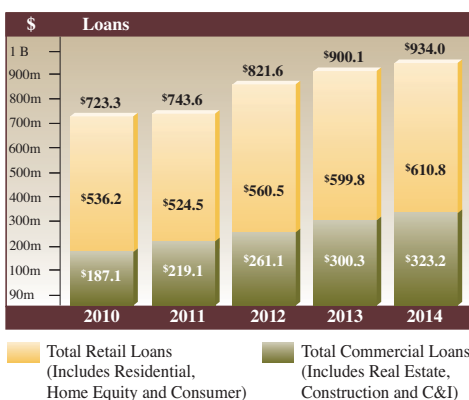
loan origination activity, but 2014 production was below that of 2013. There were a number of other contributing factors. In 2014 mortgage rates never fell below their 2013 lows so there was far less incentive for borrowers, in particular residential loan customers, to refinance or modify their loan in 2014. The slowdown in residential loan activity started in the latter half of 2013 and never reversed in 2014 and as a result realized gains from loan sales in 2014 were the lowest since 2008.

The 2014 interest rate environment affected commercial real estate (CRE) loan origination activity differently. The improved local economy and real estate markets led competitors to aggressively pursue higher yield commercial loans, in large part to stave off margin compression caused by continued low interest rates. Many of the commercial loans held in bank portfolios, including ours, were written when both rates and pricing spreads were higher. This competitive environment has not only made it difficult to grow our CRE portfolio but has spurred a sharp rise in requests to refinance or modify existing rates lower. Construction loan rates have been less affected by falling rates. Strong demand and limited supply of new homes in our markets helped the Bank achieve a record level of construction loan

balances in 2014. Construction lending has been a key profit driver for the Bank in recent years.

Ideally, loan growth gets funded by deposits. However the Bank’s deposit growth has been largely flat in recent years despite a late surge in 2014. Low deposit rates and strong returns in the stock and real estate markets create a tough environment to prudently grow deposits. Therefore the Bank continues to rely on the Federal Home Loan Bank to fill funding gaps. Fortunately, the Bank’s substantial levels of pledgeable loan collateral, combined with ultra-low borrowing rates, helped the Bank achieve record levels of net interest income during 2014.

While strong stock market returns may make it difficult to attract low cost deposits, they very much helped the Bank achieve net gains on sales of investments, which totaled \$1.2MM in 2014. This was less than the \$2.2MM realized in 2013. Management was more aggressive in realizing such gains prior to 2014 in order to realize tax benefits on expiring capital loss carryovers, which were fully exhausted during 2013. This is the primary reason the Bank’s effective tax rate was notably higher in 2014. This also explains why after tax earnings were lower in 2014 in comparison to 2013 despite superior pre-tax earnings in 2014.



Consolidated Balance Sheets

December 31, 2014 and 2013

(Dollars in thousands)

	<u>2014</u>	<u>2013</u>
Assets:		
Cash and due from banks	\$ 13,222	\$ 11,905
Interest-bearing deposits	4,619	1,223
Total cash and cash equivalents	<u>17,841</u>	<u>13,128</u>
Securities available for sale, at fair value	270,398	267,459
Federal Home Loan Bank stock, at cost	8,898	7,346
Other investments	4,917	5,089
Loans, net	928,328	894,118
Premises and equipment, net	6,758	6,458
Accrued interest receivable	4,178	4,365
Bank-owned life insurance	22,388	21,751
Foreclosed real estate	-	3,232
Net deferred tax asset	4,687	1,805
Other assets	2,056	3,434
Total assets	<u>\$ 1,270,449</u>	<u>\$ 1,228,185</u>
Liabilities and Surplus:		
Deposits	\$ 997,563	\$ 964,777
Federal Home Loan Bank advances	118,689	122,701
Mortgagors' escrow accounts	3,463	3,245
Accrued expenses and other liabilities	18,079	8,866
Total liabilities	<u>1,137,794</u>	<u>1,099,589</u>
Surplus:		
Undivided profits	135,431	126,500
Accumulated other comprehensive income (loss)	(2,776)	2,096
Total surplus	<u>132,655</u>	<u>128,596</u>
Total liabilities and surplus	<u>\$ 1,270,449</u>	<u>\$ 1,228,185</u>

Consolidated Statements of Net Income

Years ended December 31, 2014 and 2013

(Dollars in thousands)

	<u>2014</u>	<u>2013</u>
Interest and Dividend Income:		
Interest and fees on loans	\$ 37,090	\$ 34,706
Interest and dividends on securities	5,691	5,914
Interest on interest-bearing deposits	10	9
Total interest and dividend income	<u>42,791</u>	<u>40,629</u>
Interest Expense:		
Interest on deposits	4,632	5,507
Interest on Federal Home Loan Bank advances	900	934
Total interest expense	<u>5,532</u>	<u>6,441</u>
Net interest income	37,259	34,188
Provision for loan losses	297	536
Net interest income, after provision for loan losses	<u>36,962</u>	<u>33,652</u>
Other Income:		
Customer service fees	2,586	2,511
Income from mortgage banking activities, net	488	1,130
Gain on sales and donation of securities available for sale, net	1,208	2,221
Other-than-temporary impairment losses on equity securities	-	(288)
Income from bank-owned life insurance	637	812
Other investment income	469	508
Miscellaneous	(44)	57
Total other income	<u>5,344</u>	<u>6,951</u>
Operating Expenses:		
Salaries and employee benefits	16,881	16,377
Occupancy and equipment	3,382	3,200
Data processing	2,546	2,400
Professional services	1,435	1,419
FDIC insurance assessment	675	723
Marketing and advertising	970	897
Other operating	3,366	3,213
Total operating expenses	<u>29,255</u>	<u>28,299</u>
Income before income taxes	13,051	12,374
Provision for income taxes	4,120	3,153
Net Income	<u>\$ 8,931</u>	<u>\$ 9,221</u>

Bank Management

Peter G. Brown
President
Chief Executive Officer

Executive Team

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

Mark A. McKinnon
Executive Vice President
Chief Information Officer

James P. Hanlon
Senior Vice President
Chief Technology Officer

Pamela A. Millard
Senior Vice President
Chief Risk Officer

Gerard R. Lavoie
Executive Vice President
Chief Operating Officer

Douglas R. Shaw
Executive Vice President
Senior Lending 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 C. Cavallini
Senior Vice President

Norman A. Hayes, III
Senior Vice President

Robert J. Leary, Jr.
Senior Vice President

William F. Lindquist, III
Senior Vice President

Douglas W. Stevens
Senior Vice President

David Flynn
Vice President

Abigail King
Vice President

Michael J. Moran
Vice President

Alex Cavallini
Commercial Lending Officer

Tessie Wooten
Commercial Loan Production Officer

Credit

Anne V. McBride
Vice President
Senior Credit Officer

Deposit Operations
 Sue Ellen McKinnon
Senior Vice President

Kerry Riggins
Vice President

Tonia Reilly
Assistant Vice President

Maureen Nedder
Assistant Vice President
BSA & Security Officer

Mary Lussier
Electronic Banking 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

Laura J. Timmerman
Assistant Vice President

Loan Origination

Tracy E. Harvard
Senior Vice President

Lisa M. Forkey
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

Barbara Gniado
Loan Servicing Officer

Retail Lending

James W. Dunn
Vice President

Pauline M. Dzengelewski
Assistant Vice President

Cynthia J. Sullivan
Assistant Vice President

Douglas Natale
Loan Officer

Elizabeth Paolini
Loan Officer

Retail Banking

Branch Administration

Robert M. Erasmi
Senior Vice President

Branch Managers

Laura A. Macs
Vice President
Westwood

David A. Whitney
Vice President
Walpole

Heidi A. Browne
Assistant Vice President
Elm Street

Anna Conte
Assistant Vice President
East Dedham

Mobashir Ali
Dedham Square

Paul J. Pelletier
Sharon

Stephanie Perkins
Needham

Valleri Lovely
Norwood

Charlie Toczykowski
Assistant Vice President
Business Banking

Marketing

Lois A. Lovely
Vice President

Jaclyn Tilks
Marketing Officer

Risk Management

Carol A. Araujo
Vice President
Compliance Officer

Lisa Johnson
Vice President
Auditor

Training

Judy DeLisle
Assistant Vice President

Trustees and Members of the Corporation

Trustees

Kevin F. Hampe
 Charles T. Spiegel
 John H. Emmons, Jr.
 William G. Gothorpe
 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
 Mark R. Epker

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

John H. Emmons, Jr.
 Kevin F. Hampe

Joan K. Coughlin

Audit Committee
 Philip R. Weber
 Mark R. Epker

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
 J. Stephen Cohen
 Natalie F. Colmore
 Joanna Cook
 Joan K. Coughlin
 John Czyzewski
 George Doherty, III
 James L. Elcock
 John H. Emmons, Jr.
 Mark R. Epker
 James W. Evans, Jr.
 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 Hampe
 Kevin F. Hampe
 Robert B. Hanson
 Mark C. Ingalls
 Bret D. Jordan
 Joseph R. Kelliher
 Gerard R. Lavoie
 Robert A. Lawrence, Jr.
 Alexander K. Leith
 Peter F. Levangie
 Ralph Lowell, III
 Ronald W. Ludvigsen
 Christopher C. Mansfield
 Judith A. Massey
 Hope McDermott
 Mark A. McKinnon
 Pamela A. Millard
 Nancy R. Mobley
 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 Spiegel
 Dean H. Steeger
 Robert W. Taylor
 Jean M. Tennihan
 Christine L. Todd
 Stephen Tunney
 Francis M. Walley, III
 Rev. Rali Weaver
 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

Bedford

Carleton-Willard

Investment, Asset Management and Trust Services

55 Elm Street
Dedham, MA 02026

Investment Center at Dedham Savings

Available through Sorrento Pacific Financial, LLC

Thomas R. Benson
Financial Consultant
781-320-4805

Robert H. Breslin, III
Financial Advisor
781-320-4867

Plimoth Investment Advisors

Thomas B. Miller
Vice President
Plimoth Investment Advisors
781-320-4865

Joseph R. King
First Vice President
Plimoth Investment Advisors
774-319-3695

Dedham Savings

your bank

DEDHAM INSTITUTION FOR SAVINGS since 1831



Dedham, Massachusetts
www.dedhamsavings.com



Member FDIC/Member DIF  Equal Housing Lender