



# 2017 Annual Report

**Dedham Savings**  
*your bank*

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## President's Message



Peter G. Brown,  
President and Chief Executive Officer

To Our Corporators, Customers and Friends of the Bank,

It gives me tremendous pleasure to present our 2017 Annual Report. This was a year highlighted by excellent financial results, the formation of our mutual holding company (1831 Bancorp, MHC), the retirement of two Bank Executive Management Team members, and the election of a new Bank Director/Trustee and two Corporators. We also successfully dealt with the financial reporting and tax management challenges triggered by the passage of the Tax Cut and Jobs Act of 2017 in late December 2017.

In 2017, the Bank achieved record annual earnings totaling \$12.7 million, which resulted in an excellent return on assets (ROA) of 0.90%. This compares favorably to the \$7.9 million (0.58% ROA) earned in 2016 and \$7.8 million (0.63% ROA) earned in 2015. This year's earnings include a \$9.5 million pre-tax gain from the sale of the Bank's \$100,000 investment in Northeast Retirement Services, Inc. (NRS) and a related donation of \$1 million of appreciated stock to the Bank's charitable foundation. The net after-tax earnings benefit from these events was \$5.5 million. Also, bond losses were taken at year end to take advantage of the new lower federal income tax rate that went into effect on January 1, 2018. Therefore, after adjusting for the NRS-related transactions and tax-driven bond losses, we estimate our "normalized" 2017 earnings at \$8.8 million, still well above our 2016 and 2015 results.

With respect to our balance sheet, we continue to pursue a conservative, yet successful, growth strategy. Total assets grew to approximately \$1.444 billion which represents a \$56.3 million, or 4.1%, year over year increase.

Our lenders closed a near-record \$362 million in loans during 2017. This allowed us to grow our loan portfolios by \$38.6 million to end the year with outstandings totaling \$1.080 billion.

Total deposits, our primary funding source, grew \$110.7 million, or 9.9%, to end the year at \$1.111 billion. However, this deposit growth came largely from brokered deposits taken in from the wholesale markets. This funding strategy helped us achieve our 2017 balance sheet growth objectives and effectively manage our overall cost of funds. Total capital increased \$13.8 million to end the year at \$160.5 million. This yielded a healthy capital-to-asset ratio of 11.11%. This capped a wonderful nine-year run that saw Bank capital double since 12/31/08, which for Dedham Savings was the low point of the financial crisis. For more financial information, I ask that you read the Financial Review prepared by our Chief Financial Officer, Mark Ingalls, that appears later in this report.

Regarding the mutual holding company, on November 15, 2017 the Bank's Board of Corporators, on the recommendation of the Bank's Trustees and Executive Management, voted to approve the formation of 1831Bancorp, MHC. This action received final regulatory approval in February of 2018. Also formed was a mid-tier stock holding company (1831 Bancorp, Inc.). The mutuality of the organization remains intact but now resides inside the MHC, the sole owner of the mid-tier holding company, which is the sole owner of the now stock savings bank. This new corporate structure provides our Board added flexibility to pursue other banking-related business lines, explore M&A opportunities with other banks and bank holding companies and expand our options to raise capital via subordinated capital or debt.

The Bank also dealt with changes within its Executive Management Team, the Board of Trustees/Directors and Board of Corporators. Jerry Lavoie, EVP and Chief Operating Officer and Bill Mullin, EVP of Residential Lending retired after long and very successful banking careers. We wish Jerry and Bill much happiness in retirement. In response to these changes, Mark Ingalls assumed the responsibilities of Chief Operating Officer and Laura Dorfman has joined us to lead our Residential Lending Division.

We also feel fortunate to have Edward Jastrem and Jeffrey Skerry join our Board of Corporators. Ed is a financial planner and Westwood resident. Jeff is an attorney/CPA and resident of Medfield. Both Ed and Jeff provide our institution valuable professional and market perspectives in their new role as Corporators.

Finally, we are thrilled to announce that Gary Eevee was recently elected to the Bank's Board of Directors and to the MHC's Board of Trustees. A resident of Randolph, Gary is an independent consultant in information technology security and has already elevated our Board's overall knowledge and expertise in this critical area.

Each year, we select an employee for the Bank's Ebenezer Burgess 1831 Presidential Award. This annual award, named after the Bank's founding President, recognizes an employee with outstanding job performance **and** strong participation in Bank and other community activities. As in prior years, selecting one recipient is difficult as we are blessed with so many deserving employees. Fortunately, there is one individual each year who seems to shine above all others, and this year was no exception. With great pleasure, I am pleased to announce Deleila Mouawad, the Manager of Deposit Support, as this year's recipient. Deleila started with the Bank in 2009 as a part-time Central Files clerk. Her desire to learn and accept new responsibilities along with her exceptional work ethic, customer service skills, volunteer efforts and warm demeanor have enabled her to move up rapidly in the organization. Watching Deleila grow and prosper within our Bank environment has been a delight to observe. Congratulations Deleila!



Deleila Mouawad, Manager of Deposit Support and recipient of the sixth annual Ebenezer Burgess 1831 Award.

In closing, as Dedham Savings completes its 186th year, the successes we have achieved and changes we have made to our corporate structure this past year match up well with our very balanced and consistent approach to conducting business. We continue to be motivated to serve our customers and communities in the best possible way. However, to do so, we always need to be willing to embrace changes in the ways we do business, adapt to the latest economic trends and to shifts in the regulatory environment while maintaining a superior work culture so our hardworking employees can better serve our constituencies. In 2017, through their actions, our employees, senior management team, Directors/Trustees and Corporators could not have been more "in sync" in helping Dedham Savings be the best community bank in our markets.

Sincerely,

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

Peter G. Brown  
President and Chief Executive Officer

Corporation Meeting  
March 29, 2018

## Financial Review 2017

Dedham Savings achieved excellent financial results as the Bank's balance sheet and net income reached new highs in 2017. Total footings grew \$56.3M during 2017 to end the year at \$1.444B. Outstanding loan balances rose by \$38.6M or 3.70% while non-brokered deposits declined \$17.5M or 1.6% in 2017. Surplus increased \$13.8M to finish the year at \$160.5M. Earnings for 2017 of \$12.7M were well above the \$7.9M generated in 2016 and this helped the Bank achieve a stellar 0.90% return on assets for the year. The Bank's 2017 financial performance was well above that achieved in recent years and exceeded that of most local competitors and other savings banks headquartered in Massachusetts.

The election of Donald Trump as President in November 2016 and the December 2016 Fed tightening created heightened market expectations heading into 2017 of increased fiscal stimulus and faster economic growth, and that these outcomes would cause longer interest rates to move sharply upward. However, longer rates largely held steady, and in some instances even trended lower through much of 2017. Short-term interest rates on the other hand climbed steadily as the Fed raised rates three times in 2017 after having done so just once in each of the prior two years. The market expectation for Fed action in 2018 is for three rate increases in 2018 and a similar number for 2019 so few observers project the end to the current cycle of monetary tightening to happen any time soon.

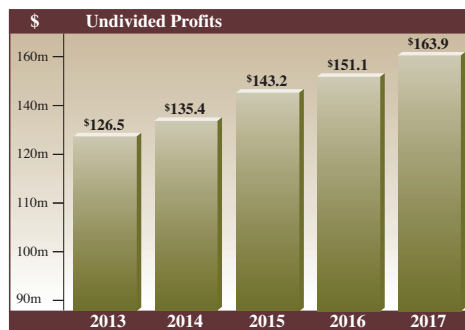
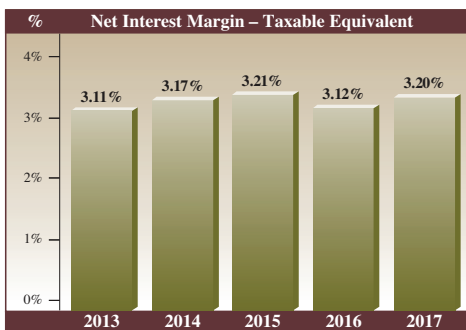
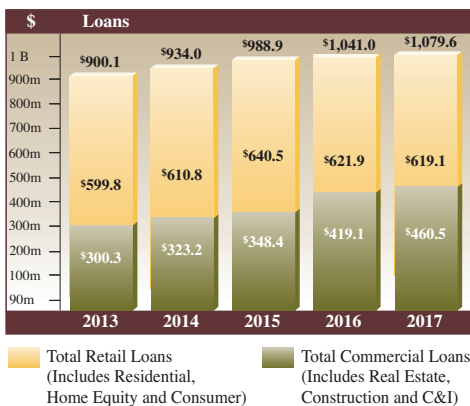
The Trump Administration made good on its campaign promise to reduce corporate and personal income tax rates by getting the Tax Cut and Jobs Act of 2017 through

Congress and signed into law just before yearend. Interestingly, this new law negatively impacted Q4 2017 earnings for the banking industry as a whole and for our institution as the new lower federal corporate income tax rate triggered a revaluation of deferred tax assets and liabilities that resulted in a material one-time increase in reported tax expense and lower Q4 earnings. However, the reduction in the federal corporate income tax rate from 35% to 21% will provide a substantial and permanent boost to Bank earnings starting in 2018. For Dedham Savings, the estimated annual federal income tax savings is expected to exceed \$1.5M. With tax reform in the rear view mirror, the next legislative goal for the industry is to get regulatory relief via rollback of the most onerous Dodd-Frank Act provisions.

Loan origination activity in 2017 was strong but down 6.5% relative to 2016 as there was no surge in refinance activity in 2017 as took place during the first half of 2016. While residential loan volume fell year over year, commercial loan volume was up 8.2% on the strength of construction and commercial real estate lending. Strong local real estate markets kept demand of housing high despite modestly higher mortgage rates however the supply of new homes for sale was tight which kept home sales activity in check along with the related demand for new loans. Strong real estate markets also lead to improved loan credit quality which was at a post-financial crisis high in 2017. Lower residential mortgage loan origination volume and fewer bulk loan sales are the reasons why net gains from loan sales experienced a sharp year over year decline in 2017 relative to 2016. Not only did portfolio loan growth slow in

2017 relative to prior years, so too did non-brokered deposit growth, which was negative for 2017. The Bank continues to attract new core deposit balances however higher short-term interest rates, booming equity prices and the strong local real estate markets are spurring an outflow of deposit balances from customers who have become less risk-averse and are now seeking higher returns on their investable funds. The Bank's new South Boston branch and our success in attracting deposits from local municipalities and nonprofits are helping to stem the tide. Brokered deposits were used in a large way in 2017 to fill funding gaps as these proved to be a lower cost alternative to Federal Home Loan Bank borrowings. Bank Management was able to control funding cost growth in 2017 despite the three Fed increases but is less optimistic for 2018 as we expect financial institutions to compete more strongly for increasingly scarcer deposit funds. Improved asset yields and controlled funding costs enabled the Bank to achieve a modest increase in net interest margin during 2017 after taking a slight dip in 2016.

Strong 2016 stock market performance was followed by a better 2017 as the Dow was up 25.2% and the S&P 500 returned 19.7% for the year. Of much greater importance was the February 2017 sale of Northeast Retirement Systems to Community Bank Systems, a regional bank holding company located in upstate New York. This transaction resulted in a \$9.5 million gain from which the Bank donated \$1 million to support the philanthropic efforts of the Bank's charitable foundation.



## Consolidated Balance Sheets

December 31, 2017 and 2016

*(Dollars in thousands)*

	<u>2017</u>	<u>2016</u>
<b>Assets:</b>		
Cash and due from banks . . . . .	\$ 16,083	\$ 9,750
Interest-bearing deposits . . . . .	1,709	6,192
Total cash and cash equivalents . . . . .	<u>17,792</u>	<u>15,942</u>
Securities available for sale, at fair value . . . . .	302,087	283,321
Federal Home Loan Bank stock, at cost . . . . .	5,780	8,033
Other investments . . . . .	3,131	4,875
Loans held for sale . . . . .	475	994
Loans, net . . . . .	1,072,372	1,033,413
Premises and equipment, net . . . . .	6,088	7,104
Accrued interest receivable . . . . .	4,702	4,632
Bank-owned life insurance . . . . .	23,920	23,230
Net deferred tax asset . . . . .	1,961	4,073
Other assets . . . . .	6,072	2,435
Total assets . . . . .	<u>\$ 1,444,380</u>	<u>\$ 1,388,052</u>
<b>Liabilities:</b>		
Deposits . . . . .	\$ 1,221,150	\$ 1,110,539
Federal Home Loan Bank advances . . . . .	36,184	113,611
Mortgagors' escrow accounts . . . . .	3,756	3,678
Accrued expenses and other liabilities . . . . .	22,798	13,550
Total liabilities . . . . .	<u>1,283,888</u>	<u>1,241,378</u>
<b>Surplus:</b>		
Undivided profits . . . . .	163,878	151,111
Accumulated other comprehensive loss . . . . .	(3,386)	(4,437)
Total surplus . . . . .	<u>160,492</u>	<u>146,674</u>
Total liabilities and surplus . . . . .	<u>\$ 1,444,380</u>	<u>\$ 1,388,052</u>

## Consolidated Statements of Net Income

Years ended December 31, 2017 and 2016

(Dollars in thousands)

	2017	2016
<b>Interest and dividend income:</b>		
Loans, including fees . . . . .	\$ 42,699	\$ 40,009
Securities . . . . .	6,186	5,781
Interest-bearing deposits . . . . .	80	31
Total interest and dividend income . . . . .	<u>48,965</u>	<u>45,821</u>
<b>Interest expense:</b>		
Deposits . . . . .	5,153	4,532
Federal Home Loan Bank advances . . . . .	1,104	1,035
Total interest expense . . . . .	<u>6,257</u>	<u>5,567</u>
Net interest income . . . . .	42,708	40,254
Provision for loan losses . . . . .	155	305
Net interest income, after provision for loan losses . . . . .	<u>42,553</u>	<u>39,949</u>
<b>Other income:</b>		
Customer service fees . . . . .	2,842	2,510
Income from mortgage banking activities, net . . . . .	1,002	1,480
Gain on exchange of other investments . . . . .	9,545	–
Gain (loss) on sales and donation of securities available for sale, net . . . . .	(903)	1,175
Other-than-temporary impairment losses on equity securities . . . . .	–	(232)
Income from bank-owned life insurance . . . . .	690	562
Income from other investments . . . . .	95	252
Miscellaneous . . . . .	176	53
Total other income . . . . .	<u>13,447</u>	<u>5,800</u>
<b>Operating expenses:</b>		
Salaries and employee benefits . . . . .	21,890	20,837
Occupancy and equipment . . . . .	4,044	3,589
Data processing . . . . .	3,574	2,955
Professional services . . . . .	1,924	2,071
FDIC insurance assessment . . . . .	438	629
Marketing and advertising . . . . .	1,025	1,020
Charitable donations . . . . .	1,314	291
Other operating . . . . .	2,741	2,738
Total operating expenses . . . . .	<u>36,950</u>	<u>34,130</u>
Income before income taxes . . . . .	19,050	11,619
Provision for income taxes . . . . .	6,325	3,704
<b>Net income</b> . . . . .	<u>\$ 12,725</u>	<u>\$ 7,915</u>



## Bank Management

Peter G. Brown  
*President*  
*Chief Executive Officer*

### Executive Team

Mark C. Ingalls  
*Executive Vice President*  
*Chief Financial Officer and*  
*Chief Operating Officer*

Laura W. Dorfman  
*Executive Vice President*  
*Residential Lending*

Pamela A. Millard  
*Executive Vice President*  
*Chief Risk Officer*

Douglas R. Shaw  
*Executive Vice President*  
*Senior Lending Officer*

Victoria A. Graves  
*Senior Vice President*  
*Chief Information Officer*

Jean M. Tennihan  
*Senior Vice President*  
*Human Resources Officer*

### Administration

John H. Emmons, Jr.  
*Vice President*

Gerald D. Marcus  
*Vice President*

Gaar Talanian  
*Senior Vice President*  
*Sales Manager*

### Risk Management

Lisa Johnson  
*Vice President*  
*Internal Auditor*

Michael J. Moran  
*Vice President*

James W. Dunn  
*Vice President*  
*Sales Manager*

Carol S. Lewis, Esq.  
*Vice President*  
*Compliance Officer*

Martin F. Connors, III  
*Assistant Vice President*

Holly Lite  
*Vice President*  
*Secondary Market*

### Commercial Lending

Joseph C. Cavallini  
*Senior Vice President*

Anthony Brown  
*Commercial Loan Officer*  
*Business Banking*

Lisa M. Murphy  
*Vice President*

Norman A. Hayes III  
*Senior Vice President*

Tessie Wooten  
*Commercial Loan*  
*Production Officer*

Josephine Mustone  
*Vice President*

Robert J. Leary, Jr.  
*Senior Vice President*

### Loan Servicing

Maria G. Ingegneri  
*Senior Vice President*

Beverly Somerville  
*Vice President*  
*CRA Officer*

William F. Lindquist, III  
*Senior Vice President*

Barbara Gniado  
*Assistant Vice President*

Pauline M. Dzengelewski  
*Assistant Vice President*  
*Residential Loan Officer*

Anne V. McBride  
*Senior Vice President*  
*Senior Credit Officer*

Cathy J. Hamilton  
*Assistant Vice President*

Cynthia J. Sullivan  
*Assistant Vice President*  
*Residential Loan Officer*

James Horrigan  
*Vice President*

### Residential Lending

Tracy E. Harvard  
*Senior Vice President*

Diane Hutchinson  
*Loan Operations Officer*

## Bank Management (cont'd)

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Brendan Minich  
*Residential Loan Officer*

Michael Nickley  
*Residential Loan Officer*

Elizabeth Paolini  
*Residential Loan Officer*

**Deposit Operations**  
Sue Ellen McKinnon  
*Senior Vice President*

Maureen Nedder  
*Vice President*  
*AML / BSA & Security Officer*

Tonia Reilly  
*Vice President*

Kerry A. Riggins  
*Vice President*

Mary Lussier  
*Assistant Vice President*

Pina Reda  
*Deposit Operations Officer*

**Facilities**  
Ralph D. Pina, Jr.  
*Assistant Vice President*

**Finance**  
Amanda P. Justice, CPA  
*Vice President*  
*Treasurer*

**Human Resources**  
Robin McLeod  
*Vice President*  
*Human Resources*  
*Operations Officer*

**Information Technology**  
William A. Kane, Jr.  
*Senior Vice President*  
*Director of IT*

James P. Hanlon  
*Senior Vice President*

Laura J. Timmerman  
*Vice President*

**Investment Center**  
Michael Pugliese  
*Assistant Vice President*  
*SPF Financial Advisor*

**Retail Banking**  
Robert M. Erasmus  
*Senior Vice President*

**Branch Managers**  
Heidi A. Browne  
*Vice President*  
*Elm Street*

Laura A. Macs  
*Vice President*  
*Westwood*

David A. Whitney  
*Vice President*  
*Walpole*

Anna Conte  
*Assistant Vice President*  
*East Dedham*

Mobashir Ali  
*Dedham Square*

Thomas Benson  
*Norwood*

Valleri Lovely  
*South Boston*

Paul J. Pelletier  
*Sharon*

Stephanie Perkins  
*Needham*

**Business Development**  
Richard Burke  
*Vice President*  
*Government & Not for Profit Banking*

Charlie Toczylowski  
*Assistant Vice President*

Marcella Musto  
*Business Banking Officer*

**Marketing**  
Elizabeth Bissell  
*Senior Vice President*

Jaclyn Tilks  
*Assistant Vice President*

Kevin Donovan  
*Marketing Officer*

**Training**  
Tracy Rossi  
*Vice President*

Judy DeLisle  
*Assistant Vice President*



## Trustees and Members of the Corporation

### Trustees

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 Charles T. Spiegel  
 John H. Emmons, Jr.  
 William G. Gothorpe  
 David S. Beckwith  
 Alexander K. Leith

Peter S. Gregory  
 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  
 Gary Eeve

Clerk of the Corporation  
 and Board of Trustees  
 Charles T. Spiegel

### Executive Committee

John H. Emmons, Jr.  
 Kevin F. Hampe

Alexander K. Leith  
 Peter S. Gregory

Peter G. Brown  
 and alternate Trustees each month

### Audit-Risk Committee

Joan K. Coughlin

Philip R. Weber  
 Louis A. Rizoli

Mark R. Epker  
 Gary Eeve

## Members of the Corporation

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 Juanita Allen Kingsley  
 Fotios Barounis  
 Michael A. Beaumont  
 David S. Beckwith  
 Milton J. Benjamin, Jr.  
 James M. Brady  
 Peter G. Brown  
 Joan K. Coughlin  
 Susan Curtin  
 John Czyzewski  
 George Doherty, III  
 James L. Elcock  
 John H. Emmons, Jr.  
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 James W. Evans, Jr.  
 Thomas J. Filbin  
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 Stephen N. Gifford  
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Peter S. Gregory  
 William B. Gutfarb  
 Keith P. Hampe  
 Kevin F. Hampe  
 Robert B. Hanson  
 Edward R. Jastrem  
 Bret D. Jordan  
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 Hope McDermott  
 Timothy McDonough  
 Nancy R. Mobley  
 Stephen G. Moorhead  
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 Juliet W. Onderdonk

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 Allan D. Parker, III  
 Lora M. Pellegrini  
 Giorgio Petruzzello  
 Helen A. Phinney  
 Richard P. Quincy, Jr.  
 Louis A. Rizoli  
 Francis J. Ryan, Jr.  
 Jeffrey Scheer  
 Barbara Shea  
 Jeffrey J. Skerry  
 Charles T. Spiegel  
 Jason R. Spiegel  
 Dean H. Steeger  
 Robert W. Taylor  
 Christine L. Todd  
 Francis M. Walley, III  
 Rev. Rali Weaver  
 Philip R. Weber  
 David Winick  
 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

### South Boston

636 East Broadway  
South Boston, MA 02127  
617-268-2088

### Dedham Square

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

### Norwood

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

### Walpole

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

### East Dedham

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

### Sharon

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

### Westwood

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

## 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*

Michael Pugliese

Assistant Vice President - Investment Center at Dedham Savings  
SPF Financial Advisor  
781-320-4805

### 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 has joined Allpoint Network, which means Dedham Savings customers now have access to America's largest surcharge-free ATM network, with some 55,000 surcharge-free ATMs worldwide. To find the Allpoint ATMs closest to you, please visit <http://www.allpointnetwork.com/locator.aspx>



# Dedham Savings

*your bank*

DEDHAM INSTITUTION FOR SAVINGS since 1831



Dedham, Massachusetts  
[www.dedhamsavings.com](http://www.dedhamsavings.com)



Member FDIC/Member DIF  Equal Housing Lender