

2016

Assabet Valley Bancorp Annual Report



Enhancing the
**Customer
Experience.**



Avidia Bank





Our Mission

Our Mission

Avidia Bank is a locally controlled and operated mutual community bank **providing modern banking and financial services** to individuals, families and businesses primarily in our local community.

We take pride in **delivering highly responsive services and an excellent value to our customers** while instilling confidence and trust in Avidia to be their primary financial institution.

The Bank invests in developing and supporting our employees and positioning our organization to be highly competitive and being a **responsible citizen and strong business partner**.

Our Vision

A **growth-oriented institution** that is well capitalized.

A **profitable community bank** with a strong risk profile.

An **innovative institution** that continues to think outside the box and pursue non-traditional strategies.

A **premier community bank** in our area, serving our various customers well and efficiently, providing services and products that are tailored to their needs.

A **deeper connection with the small business market** with relationship managers. We can enhance economic development in our markets.

An **independent mutual bank** that has strong commitments to the communities it serves.

Our Values

These **values and expectations** guide us and provide the foundation of Avidia Bank, helping us every day to **live our mission** and **achieve our vision**.

President's Message



As consumers demand more from their financial institutions, Avidia Bank has listened, watched trends and responded by taking definitive action. We pursued the opportunities to create a competitive advantage through adopting various niche banking channels and tech platforms. This competitive advantage was achieved by understanding that it is no longer possible to continue doing things as they've been done before. We have adjusted to the new environment and the challenges that have been created; and most importantly, we look for and create new opportunities. Customers are seeking ever-higher levels of service and value and we will continue to deliver.

For example, our participation in Massachusetts' \$30 million solar loan program has allowed us to offer low-interest rate financing for residential solar systems for all property owners. Under this program, participants have the opportunity to reduce their electricity bills by 50% or more. We are thrilled to be able to provide the Massachusetts market with a low-cost financing product that has the potential to greatly

increase solar energy accessibility. During 2016, our rooftop solar initiative generated 319 individual loans totaling \$11.7 million, which placed Avidia as one of the top three producers of solar loans of all banks participating in the Mass Solar Loan program. Furthermore, the Bank originated \$42.2 million to finance Massachusetts-based Community Shared Solar (CSS) projects and another \$8.6 million for other solar projects. Additionally, we financed \$11.6

exceed expectations as we closed out 2016 with nearly 86,000 accounts and \$95 million in deposits. To give you some sense of our growth in this area, we now have customers in all 50 states and these HSA customers are pleased with the no maintenance and no check fee features of the account.

In addition to traditional real estate and C&I, the Bank's record loan growth of 10% or \$100 million based on \$486 million in new loan

"We have adjusted to the new environment and the challenges that have been created; most importantly, we look for and create new opportunities."

- Mark R. O'Connell, President and CEO

million for commercial solar projects that power low-income housing authorities in the Commonwealth.

The number of SBA loans more than doubled in 2016 compared to 2015. In 2015, we closed 15 SBA loans for \$11.7 million and 2016 yielded 32 loans for \$16.8 million. For the last quarter of 2016, Avidia Bank was recognized as SBA's Lender of the Quarter. This award was given to acknowledge our significant SBA loan growth and loan quality as a preferred lender of SBA-based loans.

Progress in Health Savings Accounts (HSA) continues to

originations can be attributed to our diverse commercial banking initiatives. As of December 31, we had a loan portfolio of \$1.1 billion, which is an increase of 10% over 2015. Loan quality is the best we've had since 2006 and 2016 was our best year ever in terms of asset growth and net income.

Overall deposit growth was driven largely by MMDA and DDA increases on the Commercial side of the house and health savings account growth. We ended 2016 with \$964 million in deposits which was a 7.8% increase over 2015.

By leveraging these recent achievements, we can build

upon existing innovation while preserving the option to proactively capitalize on new market opportunities. Concurrent with expanding Bank offerings, we remain mindful that risk management will continue to be a challenge for us as both financial and nonfinancial regulations broaden and cyber-attacks grow in frequency and sophistication.

In 2017, we will recognize and celebrate the Bank's ten year anniversary and all that has been accomplished during

To continue our momentum, we remain committed to making investments in our people and technology. The bar for customer expectations will continue to rise, making it a real challenge, but with continued attention, it's certainly not an insurmountable one. The Bank will continue to support and invest in its employees, each of whom is essential in overseeing the many moving parts that make up the success we realize each year. So to everyone in the Avidia family...THANK YOU!!!

We remain an independent and mutual institution and are well positioned to continue on that path while other banks are losing their identity through M & A activity.

Avidia Bank also has advantages that larger banks do not. Specifically, we know our customers and they trust us. We are nimble and accessible and with technological innovations, we continue to enhance customer experiences.

Our customers and communities we serve can rest assured that Avidia Bank will remain a staple in this area for years to come.

Best regards,



Mark R. O'Connell
President and CEO

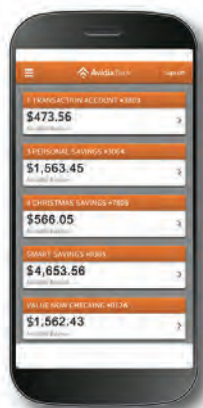
"We remain an independent and mutual institution and are well positioned to continue on that path while other banks are losing their identity through M & A activity." - Mark R. O'Connell, President and CEO

that time, which includes expanding the footprint of the Bank by opening our Avidia Financial Center (Hudson) and Framingham locations. The Avidia Financial Center provides additional accessibility to experts representing all of our business lines as well as a community room that is in keeping with our commitment to be a good corporate neighbor.

I would be remiss if I didn't recognize James Tashjian for the 44 years he has dedicated to the Bank. James was named a Corporator in 1970, Director in 1973 and Board Chair in 2015. His insight and guidance on many of the issues we faced over the years has made Avidia Bank a better place for all of us.



Retiring Board Chair, James Tashjian (center), with incoming Board Chair, Paul Blazar (left) and Mark O'Connell, President and CEO.



The Basics

Check your balances, transactions and more. Just tap an account to view.

Transfer money.



The Fun Stuff

Depositing a check is safe & secure. You will receive an email confirmation.

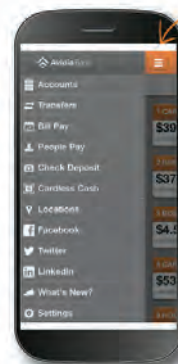
No card? No problem! Scan a code on the ATM. Get your cash. Easy!



The Menu

You can access all of these features by using the mobile app menu.

Find fee-free AllPoint® ATMs* using the 'Locations' tab or visit any of Avidia's social media profiles.



Now offering!



Visit www.apple.com/apple-pay

Digital Wallet

In the 2015 annual report, we referred to the rapid and changing landscape of the technology available to consumers and the subsequent adoption of such tech. Our results of 2016 would bear witness to that trend as Avidia closed out 2015 with 1,300 active* mobile users but 2016 saw customers enthusiastically embrace our mobile app, with more than a 280% increase to almost 3,700 active users.

Given the increase in our mobile users, it would also be expected to see an uptick in the manner in which they use our mobile application. For example, mobile bill pay has exceeded 16,000 transactions with more than \$6.1 million in funds moved through this channel. Cardless Cash has been used over 2,500 times and mobile check deposit customers have completed nearly 83,000 remote deposits totaling \$59 million.



*Active user is defined as a customer having at least one monetary transaction in Q4 of the respective year.

Framingham

In keeping with our strategic plan, Avidia Bank has begun the process of putting roots down further to the east at 270 Cochituate Road in Framingham. In 2016, we broke ground and started to build what will become our state-of-the-art presence in Framingham. Our anticipated summer 2017 opening will provide access to opportunities for new business, employment and community outreach. In addition to having existing customers in the area that promote our brand, we have been building awareness of our arrival for the past couple of years through donations, participation in local events and community support.

A few years ago, Framingham launched a campaign named

“Choose Framingham for Business” as part of the town’s entrepreneurial spirit to overhaul economic development policies that encourage growth. This approach to attract companies of all sizes to the town is one of the reasons why Avidia Bank has been drawn here for several years now.

At our groundbreaking in September 2016, Mark O’Connell stated that he is very pleased to get this project underway and to see the site ready for construction. “We are thrilled about opening in Framingham in 2017 and to continue our tradition as a community-driven and forward-thinking organization. This is a very exciting time for Avidia Bank.”

In recognition of breaking ground in Framingham, Representative Walsh and Dennis Giombetti from State Senator Karen Spilka’s office, presented Avidia Bank a citation from the State House signed by members of the Massachusetts legislative leadership.



(Top Photo) With shovels in the dirt, Avidia Bank officially broke ground in September 2016 on our new location in Framingham which is slated for a mid-2017 opening. Among those on hand for the ceremony were State Representative Chris Walsh, Art Robert, Director of Community and Economic Development in Framingham and other town officials.



SBA

The owner of Release Well-Being Center in Westborough recognized Avidia commercial lender Joe Sova and his team for making the dream of starting her own business a reality. "Avidia Bank was terrific to partner with and assisted me through every phase to get the financing I needed to bring my vision to fruition."

Above: The finished Release Well-Being Center in Westborough.

Below right: Senior Vice President, Senior Commercial Relationship Officer of Avidia Bank, Joe Sova as he toured construction of the Release Well-Being Center with owner Linda Townsend. Avidia Bank, in conjunction with the Small Business Administration (SBA), has provided funding to Release Well-Being for the construction of the new facility and the renovation of the Nathan Fisher House on Route 9 in Westborough.

Below left: View of the completed wellness complex from Route 9 East. Final touches are still being added.



Twenty-eight million small businesses across the country face the daily dilemma of figuring out where to procure capital. Banks are the starting point in this journey for most, and to incentivize banks to lend, the Small Business Administration (SBA) provides a guarantee to banks. In our second year as a preferred SBA lender, we continue to expedite approval and allow local small businesses to have quicker access to funds to start, expand or acquire a business and for those businesses that otherwise may have difficulty getting approved outside of the SBA process.

We are proud to have realized more than 100% growth in number of loans in 2016 (versus 2015) and as a result, lent \$16.8 million that has helped more businesses to grow and get more people to work. SBA lending allows Avidia to play an integral part at any point, in the business customer's journey which is key to a long-term relationship.





Charitable Giving

Whether in the form of volunteer hours or funds sent directly to organizations, support for our communities is based on the mindset that our long-term success is directly linked to the success of our customers and the communities we serve. Since 2006, the Avidia Charitable Foundation has donated nearly \$1 million to many local causes and additionally, in 2016, the Bank had given \$142,000 to more than 250 organizations.

Through a combination of strategic relationships with local nonprofits, grants, activities and other community investments, we help strengthen the places where we operate and grow local economies. We work with a wide range of nonprofits and organizations to stabilize

and strengthen low-to-moderate income neighborhoods and address economic challenges.

The Foundation provides monetary support and expertise to local nonprofit organizations that align with our business priorities, values and geographies. We focus our philanthropic activities on creating long-term, strategic relationships with nonprofits and other organizations to create innovative, sustainable solutions to meet local needs. Our team members help us make an even bigger impact by donating their time, treasure and leadership.

"Avidia Bank has become an incredible partner of ours in building a community respect, inclusion and opportunity through the power of sports in Greater Marlborough. Avidia supports us in a variety of ways including financial support, volunteerism and business expertise. Most importantly, they are great people and true partners that we can always count on." - **Nick Savarese, Vice President Philanthropy, Special Olympics of MA.**

Top photo: Employees of Avidia Bank who dedicate their time by delivering meals to home-bound elders through the Meals on Wheels program in Hudson.



Check out Avidia Bank's Facebook page to keep updated on the various organizations that are supported through the Avidia Charitable Foundation or directly from the Bank.

Avidia and the Community

Our employees love being out in our community. You can find #AvidiaLife everywhere! They may be supporting an organization at a gala, volunteering time, raising money through jeans days, food and clothing drives or cleaning up the environment. You may even find them plunging in a pool of water in the middle of winter. Follow these dedicated employees' adventures online at <http://avidialife.hscampaigns.com>



Shrewsbury Youth and Family Services Gala!

Employee sock drive for the homeless.



Polar Plunge for the Special Olympics!



Red Nose Day in support of ending childhood poverty.



Evening of Giving in support of Roland's House.



Town of Hudson Clean Up.



Once a month, employees are able to wear jeans to work for a donation of \$5 to an organization.

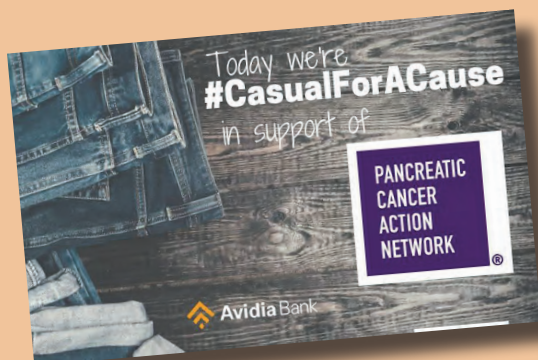


Volunteering for the Special Olympics Summer Games.

Trivia bee for the Westborough Education Foundation.



Helping prepare Thanksgiving baskets at the Worcester County Food Bank.





Health Savings

With nearly 86,000 accounts and \$95 million in deposits, Health Savings Accounts have been a successful high growth vertical for Avidia Bank. To give you some sense of our growth in this area, we now have customers in every state.

To help customers across the country manage their HSA accounts, Avidia offers a state-of-the-art HSA website and mobile app. Customers can view account balances and claims, pay medical bills, manage HSA debit cards and more.

Avidia Bank now has a nationwide presence with HSAs in all 50 states. Our team Bob Conery, Lynda Westbrook, Emily Braga, Mary Newton, Tara DeBoer, Kaitlin Langen, Laurie Santos and Hannah Denning, works hand-in-hand with Alegeus Technologies and our TPA partners daily to provide superior service in this fast-growing, ever-changing consumer-driven healthcare industry.

- Lynda Westbrook, Vice President, Healthcare Solutions



The robust Avidia Health website is located at www.avidiahealth.com

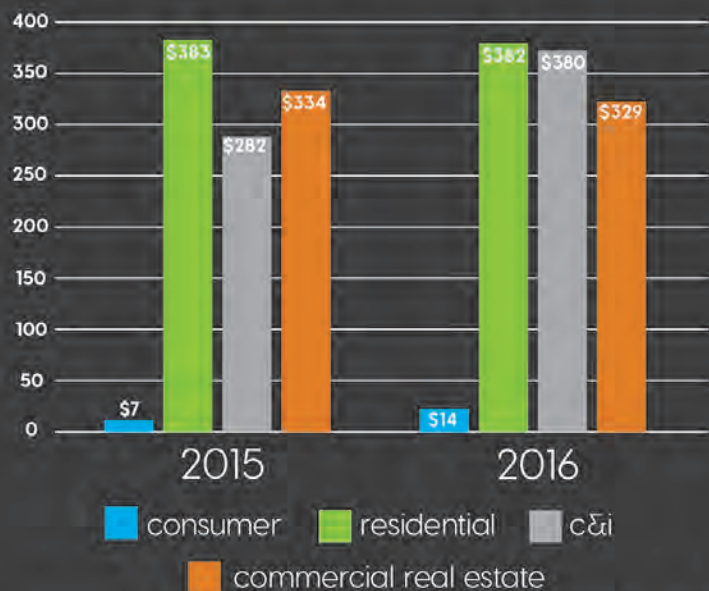


Avidia Health trade show set up



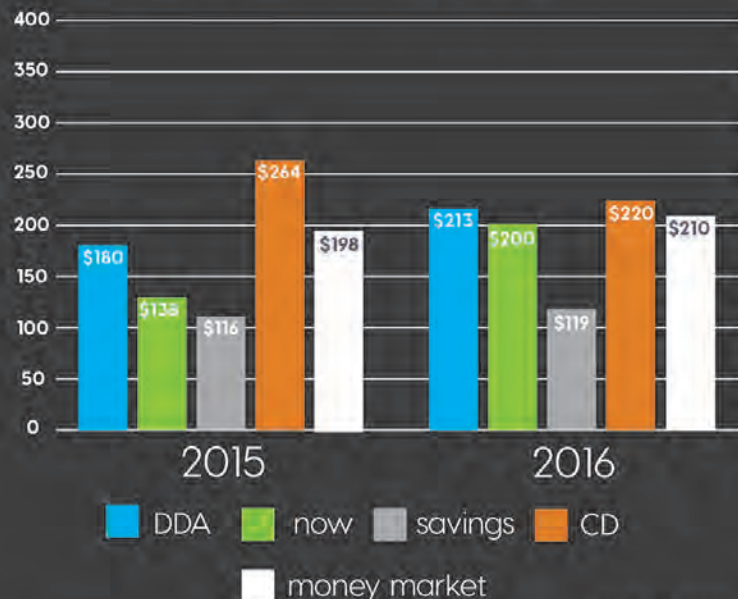
Avidia Health mobile app welcome screen and menu

loans (in millions*)



*excludes loan loss reserves

deposits (in millions*)



*includes brokered

1,191 likes



1,412 followers



1,468 followers



social growth
during 2016



497 followers



451 followers

social media

residential lending (in millions)



Officers

Chairman of the Board
James E. Tashjian

President & CEO
Mark R. O'Connell

Executive Vice President &
Chief Operations Officer
Robert W. Conery

Executive Vice President &
Chief Operating Officer
Gerald L. Curley

Executive Vice President &
Chief Lending Officer
Bartholomew H. Murphy, Jr.

Executive Vice President &
Chief Financial Officer
Margaret B. M. Sullivan

Senior Vice President, Senior
Commercial Relationship Officer
Thomas Allain

Senior Vice President, Marketing
Michael Allard

Senior Vice President, Risk,
Security & Compliance
Neil Buckley

Senior Vice President,
Human Resources
Thomas Doane

Senior Vice President,
Residential Lending
Donald Frost III

Senior Vice President,
Commercial
Relationship Officer
Stephen McAndrew

Senior Vice President,
Commercial Relationship Officer
Andrew Miller

Senior Vice President,
Cash Management
Sharon Quinn

Senior Vice President & Senior
Commercial Lending Officer
Dick Schrader

Senior Vice President &
Commercial Relationship Officer
Michael Semizoglou

Senior Vice President,
Chief Information Officer
Daniel J. Serafin, Sr.

Senior Vice President, Senior
Commercial Relationship Officer
Joseph Sova

Senior Vice President,
Credit Administration Manager
Lee Thompson

Senior Vice President,
Commercial Relationship Officer
James Wilkins

Vice President, Internal Audit
Jocelyn Arsenault

Vice President,
Commercial Loan Administration
Andrea Blood

Vice President,
Deposit Operations
Emily Braga

Vice President, Enterprise
Project Management
Joyce Burke

Vice President, Merchant Services
Cheryl Cain

Vice President, Retail Officer
CarrieAnne Cormier

Vice President,
Investment Services
Robert Cote

Vice President, Collections
Richard T. Harrity

Vice President, Community
Association Banking
Howard Himmel

Vice President,
Residential Loan Administration
Laura Hughes

Vice President,
Community Banking
Rita Janeiro

Vice President, Information
Security Officer
Philip Maio

Vice President, Commercial
Relationship Officer
Maureen Marshall

Vice President,
Investment Services
Mary McDonald

Vice President,
Financial Analyst
Karen Moe

Vice President,
Branch Administrator
David Morticelli

Vice President, Facilities
Ray Murphy

Vice President, Training
Cori Olson

Vice President, Commercial
Relationship Officer
Ron Notaro

Vice President,
Workout Manager
Charles L. Park, Jr.

Vice President,
Commercial Relationship Officer
Daniel Provencher

Vice President,
Commercial Relationship Officer
Avnish Puri

Vice President,
Loan Operations
Andrew Sabine

Vice President,
Investment Services
Edward J. Stearns III

Vice President,
Business Development Officer
Clifford Thompson

Vice President, Health Care
Solutions Relationship Officer
Lynda Westbrook

Vice President, Commercial
Relationship Officer
Robert Williamson

Assistant Vice President,
Creative and Branding Manager
Jessica Bonetti

Assistant Vice President, Market
Manager, Northborough Office
Jennifer Cardoso

Assistant Vice President, Social
Media and Brand
Communications Manager
Katelin Cwieka

Assistant Vice President,
Loan Operations
Patricia DeSantis

Assistant Vice President,
Controller
Mark Gaynor

Assistant Vice President,
Clerk of the Corporation
Mikala D. Geurtsen

Assistant Vice President, Market
Manager, Westborough Office
Rhannon Hernandez

Assistant Vice President,
Consumer Lending
Missy Lindberg

Assistant Vice President, Market
Manager, Shrewsbury and
Marlborough Offices
Stephanie Luz

Assistant Vice President,
Cash Management
Jill Mollica

Assistant Vice President,
Cash Management
Pamela O'Brien

Assistant Vice President,
BSA Officer
Elizabeth Owen

Assistant Vice President,
Loan Operations
Amanda Ramsden

Assistant Vice President,
Merchant Services
Heather Schneider

Assistant Vice President,
Residential Loan Officer
Natalie Sousa

Assistant Vice President,
Residential Loan Officer
Kelly Tierney

Assistant Vice President,
Deposit Operations
Patti Wood

Branch Manager,
Hudson South Office
Lisette Arbelli

Branch Manager,
Clinton Office
Kristin Costello

Branch Manager,
Main Office
Keith Dwinells

Branch Manager,
Leominster Office
Denise Fernald

Branch Manager,
Westborough Office
Suzanne Laperle

Branch Manager,
Willows Office
Kimberly Perkins

Officer, Human Resources
Generalist
Danielle Avery

Payment Solutions Officer
Erin Curry

Officer, Commercial
Loan Portfolio
Ana Czapkowski

Assistant Controller
Kathleen Davis

Facilities Officer
Daniel DeAngelis

Officer, Senior Credit Analyst
Robert Eggleston

Officer, Internal Audit
Tammy Gulcius

Officer, Senior Credit Analyst
John Iacobucci

Officer, Electronic Services
Lisa Joyce

Residential Loan Officer
William A. Kinsella III

Financial Advisor
Rachael Linnehan

Workout Officer
Lisa Luz

Residential Loan Officer
Andrew Nawrocki

HSA Client Relationship Officer
Mary Newton

Residential Loan Officer
Edward Perachi

Officer, Senior Credit Analyst
Justin Provencher

Commercial Relationship Officer
Tina Ramsey

Residential Loan Officer
Shrenik Shah

Residential Loan Officer
K. Joy Sullivan

E-manager
Todd Wood

Directors & Corporators

Directors

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Paul Blazar
Nancy M. Carlson
Benjamin H. Colonero, Jr.
Neil Flanigan
Michael R. Girard
Joseph Grimaldo
Lona M. Lamson
Jeffrey B. Leland
Arthur E. Lemire
Joseph F. MacDonough
Paul F. McGrath
Michael Murphy
Mark R. O'Connell
Brian Parker
Phyllis A. Stone
James E. Tashjian
Nicholas Zayka

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Christine Alessandro
Michael Allard
Marlene Aron
Ronald Aspero
Charles J. Bacon
David Bagdon
Daniel S. Ball
James Ball
John A. Bartolini, Jr.
Paul Blazar
Richard A. Braga, Jr.
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David M. Carlstrom
Richard Casaceli
John L. Casagrande
Peter Cellucci
Preben Christensen
Barbara Clifford
Benjamin H. Colonero, Jr.
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Joseph J. Connolly

Donna Cox
Gerald L. Curley
Jack Cutone
Fred Daley
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Patricia E. Delaney
Lee Dinner
John M. Dombrowski
Benjamin P. Donnarumma
Joseph J. Durant
Ronald G. Ebb
Edward R. Ethier
Neil Flanigan
Dennis P. Flynn
Victor Galvani
Mikala D. Geurtsen
Linda Ghiloni
Robert B. Gibbons
Michael R. Girard
Catherine Gregory-Mogavero
Joseph Grimaldo
Michael Hanley
Terry E. Hardy
Richard T. Harritty
Douglas H. Harvey
James Hastings
Richard E. Hastings
Thomas H. Hays III
Lester Hensley
Maria Hopkins
Scott Hughes
Ian Johnson
Craig S. Johnston
Richard A. Kerdok
Lona M. Lamson
John I. Lebeaux
Stephen LeDuc
Jeffrey B. Leland
Arthur E. Lemire
Mark Leonard
Thomas Lowe
Joseph F. MacDonough
Todd C. McDonald
Paul F. McGrath
David McLaren
Kevin E. McNamara
Helen F. Miller
Arthur R. Moore, Sr.

James J. Morais
Nancy Moran
Susanne Morreale-Leeber
Michael Murphy
Bartholomew H. Murphy, Jr.
Jack Naughton
Roland G. Nentwich
Mark R. O'Connell
Joel C. O'Toole
Philip B. O'Toole
Brian Parker
Carol Parker
John R. Parsons, Jr.
George Pember
David A. Philbin
David A. Pickering
William Reynolds
Ernest L. Rooney
Michael P. Saliga
Joseph Santos
Gilbert C. Schiappa
Michael Seymour
Joseph C. Shay
Phyllis A. Stone
Garrett F. Sullivan
Margaret B. M. Sullivan
James E. Tashjian
Donald Taylor
Kelly Thomas
Patricia A. Thomas-Fuller
Kim E. Underwood
Naray Viswanathan
Carol Vittoriosio
Barry J. Whitney
Scott Young
Constantino Zahariadis
Nicholas Zayka

Trustees Emeritus

Walter Kinell
David F. Lamson
Roger B. Leland
Oliver F. Nunes, Jr.
Fred B. Williams

consolidated statements of financial condition (Unaudited)

December 31, 2016

December 31, 2015

December 31, 2014

ASSETS

Cash and Cash Equivalents

Cash and due from banks	\$24,442,300	\$16,808,575	\$11,566,836
Federal funds sold	<u>2,409,238</u>	<u>5,086,118</u>	<u>1,989,039</u>
Total cash and cash equivalents	<u>26,851,538</u>	<u>21,894,693</u>	<u>13,555,875</u>

Investment Securities

Securities held-to-maturity	1,568,781	2,685,921	2,601,046
Securities available-for-sale (at fair value)	<u>83,201,917</u>	<u>83,948,040</u>	<u>92,565,410</u>
Total investment securities	<u>84,770,698</u>	<u>86,633,961</u>	<u>95,166,456</u>

Mortgage-backed and related securities	108,023,978	103,531,896	110,395,529
Loans receivable, net	1,096,010,202	997,205,100	905,422,385
Accrued interest receivable	3,530,714	3,084,949	2,962,315
Premises and equipment, net	15,809,279	13,249,548	13,448,865
Foreclosed real estate	-	380,000	1,747,328
Federal Home Loan Bank stock, at cost	12,434,300	11,044,500	10,626,800
Refundable federal and state income taxes	1,893,873	2,289,857	1,802,167
Deferred income taxes	3,425,000	3,196,349	2,485,580
Other assets	<u>37,510,645</u>	<u>35,971,245</u>	<u>36,053,260</u>
	<u>\$1,390,260,227</u>	<u>\$1,278,482,098</u>	<u>\$1,193,666,560</u>

LIABILITIES AND RETAINED EARNINGS

Liabilities

Deposits	\$963,615,355	\$896,190,969	\$810,692,334
Advances from Federal Home Loan Bank	239,383,208	201,222,877	199,124,543
Repurchase agreements	45,194,642	57,335,948	67,775,753
Advances from borrowers for taxes and insurance	1,917,334	2,125,437	1,858,389
Accrued interest payable	97,246	101,670	299,276
Accrued expenses and other liabilities	<u>18,639,470</u>	<u>10,945,104</u>	<u>7,283,974</u>
	<u>1,268,847,255</u>	<u>1,167,922,005</u>	<u>1,087,034,269</u>

Retained Earnings

Unrealized gain (loss) on securities available for sale, net of applicable deferred income taxes of \$456,860 in 2016, \$685,511 in 2015, and \$1,396,729 in 2014.	<u>986,383</u>	<u>1,344,233</u>	<u>2,620,981</u>
	<u>121,412,970</u>	<u>112,991,346</u>	<u>106,632,291</u>

<u>\$1,390,260,227</u>	<u>\$1,278,482,098</u>	<u>\$1,193,666,560</u>
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consolidated statements of income (Unaudited)

December 31, 2016 December 31, 2015 December 31, 2014

INTEREST INCOME

Mortgage loans	\$31,456,401	\$31,230,958	\$31,270,851
Commercial loans	16,064,891	11,621,249	8,958,577
Other loans	373,991	365,209	391,508
Investment securities	1,741,764	1,840,025	1,587,617
Mortgage-backed and related securities	1,975,341	1,793,367	1,793,241
Other interest earning assets	43,483	8,555	8,374
	<u>51,655,871</u>	<u>46,859,363</u>	<u>44,010,168</u>

INTEREST EXPENSE

Deposits	3,192,618	3,864,448	4,331,978
Borrowed funds	2,966,101	2,802,943	2,728,974
	<u>6,158,719</u>	<u>6,667,391</u>	<u>7,060,952</u>

NET INTEREST INCOME	45,497,152	40,191,972	36,949,216
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PROVISION FOR LOAN LOSSES	<u>2,625,000</u>	<u>1,650,000</u>	<u>1,550,000</u>
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NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>42,872,152</u>	<u>38,541,972</u>	<u>35,399,216</u>
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NON-INTEREST INCOME

Fees and service charges	5,212,324	5,017,809	4,164,730
Gain on sale of investment securities, net	985,286	950,967	1,374,278
Investment management income	684,556	816,747	858,307
	<u>6,882,166</u>	<u>6,785,523</u>	<u>6,397,315</u>

NON-INTEREST EXPENSE

Compensation and employee benefits	20,668,643	19,377,811	17,300,832
Occupancy and equipment	2,548,948	2,658,789	2,541,494
Marketing	1,041,796	938,886	1,111,918
Deposit insurance	940,485	910,222	831,204
Data processing	3,698,284	2,993,149	2,383,503
Depreciation	1,324,398	1,334,444	1,360,302
Other operating expenses	5,970,786	5,748,734	5,726,927
	<u>36,193,340</u>	<u>33,962,035</u>	<u>31,256,180</u>

INCOME BEFORE FEDERAL AND STATE INCOME TAXES	13,560,978	11,365,460	10,540,351
FEDERAL AND STATE INCOME TAXES	<u>4,781,504</u>	<u>3,729,657</u>	<u>3,162,150</u>
NET INCOME	<u>\$ 8,779,474</u>	<u>\$ 7,635,803</u>	<u>\$ 7,378,201</u>



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