

2017 ANNUAL REPORT

BUILDING TOWARDS THE FUTURE





RECOGNIZING POTENTIAL

WE BELIEVE IN INVESTING IN TOMORROW —
THROUGH OUR CUSTOMERS, COMMUNITIES AND
TEAM MEMBERS — MODERN BANKING WITH A
COMMUNITY PERSPECTIVE.



Cynthia C. Merkle | PRESIDENT & CEO

INSPIRED BY OUR MISSION, in 2017 we took many steps toward helping our customers, communities and USB team members plan, grow and succeed. On the financial front, I am pleased to report that we had another strong year, with net income totaling \$11.4 million.

Among the many successes we were able to achieve this year, here are a few of the highlights:

- ▶ Originating a record \$251.7 million in commercial loans, a 43% increase from 2016
- ▶ Growing our commercial portfolio by \$52.4 million or nearly 7%
- ▶ Increasing our small business lending by 10%
- ▶ Increasing our new home financing by 25%
- ▶ Donating a total of \$537,182 to charitable organizations
- ▶ Donating an additional \$4 million to the Union Savings Foundation

It was a pivotal year for Union Savings Bank, largely defined by the successful upgrade of our core banking system; one of the largest initiatives any bank can undertake. Upgrading the bank platform is an investment in our future, leaving us better positioned to deliver the latest products and services. This new system launched this past fall, and it's already simplifying and enhancing our customer experience, and providing us with a strong technological foundation.

This upgrade effort would not have been possible without the vision of the management team and the dedication of our team members — who logged extra hours and late nights to make it happen. I would like to personally thank everyone for their commitment to this project and to providing our customers a best-in-class banking platform.

Along with our back-end system upgrade, we presented a fresh face in the form of a re-imagined unionsavings.com site. We created an improved user experience so customers and prospects alike could find information quickly, while also delivering a “look and feel” more aligned to our brand and core values.

While our branch banking team dedicated much of their time to acclimating themselves and our customers to our new system, core deposits continued to rise — increasing \$34 million over 2016. By providing superior customer service as well as products and services that benefit each customer's unique financial situation, we continue to solidify relationships, including attracting greater core deposits.

Our Solutions Teams also continued to grow — bringing customized solutions to area businesses, business owners and their employees. The Solutions Teams welcomed Canton as a new member in 2017, complementing our existing teams in Monroe, Ridgefield and Southbury.

Early in the year, we unveiled our newly renovated branch on Grassy Plain Street in Bethel. The new design features a more inviting and open space, complete with teller pods, video capabilities and a community room available free of charge to non-profit organizations. We have already seen countless organizations take advantage of this meeting space — placing community at the core of the branch. This branch also serves as the headquarters of **FutureTrack**, our life stage financial planning program aimed at helping our customers reach their financial goals, wherever they may be on their financial journey.

With record returns for many of the market indexes, 2017 was an exciting year in the stock market. As in previous years, our trust and investment areas delivered strong performances, generating nearly \$3.9 million in revenue. We've also seen steady growth from our Raymond James division, and feel they are poised for continued success in the coming year. This is especially evident as we see more and more customers taking advantage of our financial management programs, such as goal-based planning.

Treasury Services also had a strong year, and our system upgrade enabled us to offer customers greater access control and security. We also now offer customers a more robust reporting system for electronic payments, and continue to aid our customers in monitoring transactions and minimizing loss.

COMMUNITY CONTINUES TO BE A VITAL CORNERSTONE OF OUR BANK'S MISSION. In 2017, we again earned an outstanding Community

Reinvestment rating from the FDIC based upon our performance for lending, providing service, and making investments in the communities we serve.

We received recognition for our community work from a number of different organizations. The United Way of Western Connecticut presented us with their Corporate Philanthropy Award for contributing over \$6 million and over 100,000 hours to local non-profits over the past six years. Additionally, we were recognized by the Western Connecticut Health Network for our philanthropic partnership in relation to the educational support of the hospital's Lyme Disease program.

We also built upon the initial success of the USB Teachers' Closet program which we introduced in 2016. We continue to focus on providing free school supplies to children and teachers in the community schools who need them most. In 2017, Vogel-Wetmore School in Torrington and Morris Street School in Danbury were among the first to receive supplies through the program. We continue to expand this initiative and engage corporate partners who will collaborate with us on our mission to provide children with the tools they need to succeed.

For the second year in a row, we collected over 1,400 books in our "Share the Love of Reading" book drive, encouraging our team members and customers to donate new and gently used books to our community partners and the children they serve. These books helped promote summer reading and encouraged children to explore their own love of reading.

Our community commitment continued with the United Way Week of Action. Team members dedicated an entire week of activities to benefit Jericho Partnership, supporting their mission to serve the at-risk community of Danbury.

WE ARE ALWAYS PROUD TO SEE OUR TEAM MEMBERS RECOGNIZED FOR THEIR ACCOMPLISHMENTS AND DEDICATION. In 2017, Michele

Bonvicini, Director of Community Relations and the Executive Director of the Union Savings Bank Foundation, was named a New Leader in Banking by the Connecticut Bankers Association. Michele continues the tradition of USB team members being recognized by the CBA for their leadership. Michele's passion and dedication to our communities is an inspiration to us all. We congratulate Michele on this prestigious achievement.

Jo-Anne Smith, Senior Vice President, Commercial Banking Regional Manager, was elected to The Foundation Board of the Western Connecticut Health Network. The Foundation provides philanthropic support to advance programs and services at Danbury Hospital, New Milford Hospital, Norwalk Hospital, and their Network.

Jason Ginsberg, Vice President, Head of Treasury Services, graduated from the American Banker Association's Stonier Graduate School program at Wharton. Stonier prepares today's banking leaders for tomorrow's opportunities by providing the nation's premier executive education program.

Although we welcomed much new talent in 2017, we also said goodbye to longtime board member Greg Oneglia. I'd like to thank Greg for his hard work, dedication and insight while serving on the Board of Trustees. Greg will be missed and we wish him all the best.

I'd also like to welcome Frank Rowella, Jr., as our newest Trustee. We look forward to Frank's help as we shape the vision of the bank in years to come.

Finally I'd like to once again thank all our USB team members, customers and community partners for their patience and perseverance in making our system upgrade a success. Together, we've created a bridge that will allow us to build towards an exciting future.

On behalf of the Board of Trustees and all of us at Union Savings Bank, I thank you for your continued support.

Sincerely,

Cynthia C. Merkle

Cynthia C. Merkle

President and CEO

NET INCOME

\$11.4 MILLION

COMMERCIAL LENDING

Grew commercial portfolio by
\$52.4 MILLION
a nearly 7% increase from 2016

CONTRIBUTIONS

Since 2011, we've donated over
\$6 MILLION
to local non-profits, and over **100,000**
collective employee volunteer hours

TRUST & INVESTMENT

Revenues totalling nearly
\$3.9 MILLION

NEW INITIATIVES

- ▶ Enhanced banking platform
- ▶ Re-imagined unionsavings.com website
- ▶ Bethel Grassy Plain Street unveiling

A woman with short brown hair and glasses, wearing a red blazer, is leaning over a green table. She is smiling and looking at a small purple object in her hands. Several children are gathered around the table, some looking at the object. The background is slightly blurred, showing other people and what appears to be a community event setting.

INVESTING IN COMMUNITY

2017
FINANCIALS

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FINANCIAL STATEMENTS

BALANCE SHEETS

at December 31 (amounts in thousands) (unaudited)

	2016	2017
Assets		
Cash and due from banks	\$45,545	\$73,474
Securities	311,332	267,576
Federal Home Loan Bank stock	6,844	4,812
Loans, net	1,670,735	1,673,444
Premises and equipment	46,799	45,696
Other assets	124,420	116,550
Total assets	\$2,205,675	\$2,181,552
Liabilities and Capital		
Deposits	\$1,665,637	\$1,682,225
Repurchase agreements	216,183	214,023
Federal Home Loan Bank advances	60,919	12,197
Other liabilities	35,274	35,885
Capital	227,662	237,222
Total liabilities and capital	\$2,205,675	\$2,181,552

INCOME STATEMENTS

Years ended December 31 (amounts in thousands) (unaudited)

	2016	2017
Interest and dividend income	\$73,747	\$75,486
Interest expense	8,477	7,101
Net interest and dividend income	65,270	68,385
Provision for loan losses	1,595	1,192
Net interest and dividend income after provision for loan losses	63,675	67,193
Noninterest income	16,497	23,322
Noninterest expense	62,357	69,535
Income before income taxes	17,815	20,980
Provision for income taxes	5,497	9,550
Net income	\$12,318	\$11,430

FINANCIAL TRENDS

	Assets (in \$millions)	Loans, net (in \$millions)	Core Deposits (in \$millions)	Regulatory Capital Ratio
2017	2,182	1,673	1,660	10.80%
2016	2,206	1,671	1,626	10.12%
2015	2,189	1,667	1,513	9.70%
2014	2,229	1,693	1,449	8.67%
2013	2,289	1,676	1,390	7.90%

Core Deposits

- ▶ Represent the highest level of customer relationship
- ▶ Fiduciary responsibility to safeguard customer deposits is paramount

Regulatory Capital Ratio

- ▶ Represents the "strength" of the balance sheet
- ▶ Growth is impressive since, as a mutual bank, we can only grow capital through earnings

CORPORATORS

Michael Ackerman
Owner, The Pantry, Inc.

Michael J. Allen
President, Danbury Square Box Company

Cheryl A. Bakewell, CPA
Partner, Bakewell & Mulhare LLC

Eduardo Batista
President, Danbury Donuts, Inc.

David Begin
President & CEO, Chemical Marketing Concepts

James J. Blansfield
President, Blansfield Builders, Inc.

Patrick J. Boland**
Retired Managing Director, Credit Suisse First Boston

Emile Buzaid
Retired Owner, Max Gun and Pawn LLC

Maureen Casey Gernert
Retired Director, Career Development Center, WCSU

Jacqueline Cassidy
Controller, Koster Keunen, Inc.

Anthony W. Cirone, Jr., CPA
Partner, Cirone Friedberg LLP

David M. Coelho
Electrical Instructor, Ridley-Lowell Business & Technical Institute

Geoffrey Dent
Sales, Electrical Wholesalers

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President, Tower Realty Corporation

Charles R. Ebersol, Jr., Esq.
Partner, Ebersol & McCormick LLC

Mourad Fahmi
CEO/Principal Owner, Miller-Stephenson Chemical Corp.

Philip M. Farmer
President, Credit Resources, Inc.

Thomas T. Fitzsimons
Executive Vice President, Channel Sources

Clayton H. Fowler
Chairman & CEO, Spinnaker Real Estate Partners LLC

* New Corporators to be elected March, 2018

** Retired January 2018

Ann. L. Fowler-Cruz, Esq.
Attorney/Principal, Cohen & Wolf PC

Martin Handshy*
President, Charter Group Partners

Kathleen A. Harrison
Co-Owner, Fazzone & Harrison Realty LLC

Matthew Karpas
Managing Member, Karpas Strategies LLC

Michael R. Kaufman, Esq.
Attorney, Jones, Damia, Kaufman, Borofsky & DePaul LLC

Kevin J. Kelleher
President & CEO, Cartus

Jeffrey B. Kilberg
Vice President, Nicholas/Tobin Insurance, Inc.

Scott Lavelle
Real Estate Broker/Owner, Remax Experience

Richard J. Lipton, MD
Physician, Advanced Ear, Nose & Throat Care

Mark A. Malkin
Owner, Malkin & Daigle LLC

Martin Marola
President, Marola Motor Sales, Inc.

Wanda McGarry*
Vice President, Corporate Secretary, Kovacs Construction Corp.

Stanley J. McKenney
Vice President, McKenney Mechanical Contractors, Inc.

Rute Mendes Caetano, Esq.
Partner, Ventura Law

Anthony Mercaldo, CPA
Mittler, Mercaldo & Braun PC

Bruce Minoff**
Owner, Hansen's Flower Shop

Andrew W. Morin
President, Servco Oil, Inc.

Maurice A. Nizzardo
Real Estate Developer, Nizzardo Holdings LLC

Thomas J. Oneglia*
Assistant Vice President, O&G Industries, Inc.

Sal Pandolfi
Real Estate Services & Development, Pandolfi Properties

Matthew Paul, MD
Eye Surgeon/Ophthalmologist, Danbury Eye Physicians & Surgeons

Larry Pereira, Esq.
Attorney, Baker Law Firm

William M. Petroccio, Esq.
Attorney, Q & R Associates LLC

Zachary S. Rapp*
President, Sydney A. Rapp Land Surveying, PC

MaryJean Rebeiro
President & CEO, NY-CONN Corporation

Eugene Reelick
Owner, Hollandia Nursery

M. Jeffers Ryer
President, Ryer Associates

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President & CEO, Santa Energy Corporation

Lisa Scails
Executive Director, Cultural Alliance of Western CT

Mary Schinke, Esq.
Mary Schinke Attorney at Law LLC

Valerie Sedelnick
President & CEO, Washington Supply Company

Gregory L. Steiner
Principal, Berkshire Corporate Park

Michael R. Sturdevant
Lieutenant, Danbury Police Department

Luis Tomas
Retired Owner, European's Furniture & Gifts

Lewis J. Wallace, Jr.
Director, Common Fund

William H. Webb, Jr.
President, Pegasys, Inc.

Arthur C. Weinshank, Esq.
Partner, Cramer & Anderson LLP

Ralph Williams III
Principal, Connecticut Business Services LLC

Jordan Young
President, Fairfield Processing

Jack Zazzaro, DMD
Cosmetic & Family Dentistry

TRUSTEES

CHAIRMAN OF THE BOARD OF TRUSTEES

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Owner, Levine Automotive

VICE CHAIRMAN OF THE BOARD OF TRUSTEES

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Senior Vice President, Rose & Kiernan, Inc.

Ray P. Boa
Owner, A & J Construction Company

John A. Brighenti
Vice President & Owner, Avon Plumbing & Heating Co., Inc.

David S. Hawley
President, Hawley Management

Cynthia C. Merkle
President & CEO, Union Savings Bank

John M. Murphy, MD
President & CEO, Western Connecticut Healthcare Network

Stephen G. Rosentel, CPA
President, Leaby's Fuels, Inc.

Frank A. Rowella, Jr., CPA
Managing Partner, Reynolds & Rowella

Cynthia Stevens
Consultant

H. Ray Underwood
Secretary & Treasurer, Underwood Services, Inc.

Lucie H. Voves
President, Church Hill Classics

Trustees are also Corporators

BRANCH LOCATIONS

Bethel	24 Grassy Plain Street 79 Stony Hill Road
Brookfield	200 Federal Road 828 Federal Road
Canton	188 Albany Turnpike
Danbury	71 Newtown Road 116 Main Street 226 Main Street 100 Mill Plain Road 126 North Street
Goshen	4 Sharon Turnpike
Kent	15 Kent Green Boulevard
Litchfield	13 North Street
Marble Dale	253 New Milford Turnpike
Monroe	411 Monroe Turnpike
New Fairfield	24 Route 39
New Milford	169 Danbury Road 41 East Street 100 Park Lane Road (ATM only)
Newtown	1-A Commerce Road
Ridgefield	100 Danbury Road
Roxbury	26 North Street
Southbury	406 Main Street South
Torrington	1057 Torrington Street 397 Main Street
Washington Depot	7 Bryan Plaza

PLANNING FOR TOMORROW



unionsavings.com



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