YEAR END REPORT • DECEMBER 31, 2013

Bank Happy.

Savings Bank of Walpole

The Savings Bank of You. SM

To Our Customers and Communities:

Bank Happy! It's easy to smile when you work in an environment that allows you to truly take care of your customer. It's easy to smile when you believe in the products and services that you offer and know that they are designed with the customer in mind. It's easy to smile when you're appreciated for looking after the well-being of your customer. It's easy to smile when you know that by doing all of this, you're contributing to the success of your employer and your community.

I'm pleased to report that Savings Bank of Walpole had another successful year in 2013 by many measures. We grew deposits by nearly $8 million and used this growth to expand our loans by about the same amount. Our growth in loans outpaced the industry average and our credit quality remains very strong, allowing us (for the second year in a row) to avoid having a provision for loan losses. Perhaps most importantly, we achieved modest earnings despite a low interest rate environment (which negatively impacted our margins) and increased costs related to the implementation of new banking regulations.

As I've noted in the past, however, we don't just measure our success in financial terms here at Savings Bank of Walpole. In January 2013, we were extremely proud to be named the Windsor Brooks Business of the Year by the Greater Keene Chamber of Commerce, and we worked hard during the year to uphold the values that earned us the award. Growth in our account base and retention of our loyal customers are both indications that we're meeting people's banking needs and providing them the high level of service to which they've been accustomed. The word has gotten around that our way of banking—doing what's in the customer's best interest—is a welcome approach. Our growth is proof positive that our system is working. Because we are a mutual bank and do not have shareholders or other owners, we are able to remain 100% committed to our customers, our community and our employees for the long term. Another year of doing exactly that allows us to declare the year a success. It's not novel; it's simply the right way to approach community banking.

On the surface, it may seem that the banking industry as a whole had another successful year. After all, total assets, loans and deposits increased for all FDIC-insured banks in 2013. Net interest margins compressed again, but the industry found a way to make more money than the year before. Credit quality has improved, there were fewer bank failures in 2013, and 98% of all insured institutions exceeded the requirements for the highest regulatory capital category.

However, I believe we need to look at some other underlying measures and statistics to shed some light on what's happening in our industry. For one thing, the number of banks is shrinking, with the total falling below 7,000 for the first time since federal regulators began keeping track in 1934. This decline from a peak of over 18,000 banks has come almost entirely in the form of exits by institutions of less than $100 million in assets, with the bulk of those exits occurring between 1984 and 2011. Some of these were failures but the vast majority can be attributed to consolidation and mergers. This trend is expected to continue in 2014 and beyond. The reasons for the consolidation are unacceptable profits resulting from lower net interest margins in this extended low interest rate environment; increased regulatory burdens; and the higher cost for technology to remain relevant in this day and age.

In the American Bankers Association's 2013 survey of mutual bankers, the respondent's biggest concerns were regulatory burden, raising capital, and new capital standards. Though almost all of those surveyed believed that mutuality played a part in their bank's differentiation strategy and remained committed to mutuality, a growing number (62%) considered merging with another mutual to benefit from economies of scale.

Some would say that we still have too many banks, and that this consolidation is warranted. I would counter that a reduction in the number of community banks takes away consumer choice for banking services, especially small business lending and low-cost deposit services. Community banks (banks under $1 billion in assets) represent over 90% of all banks—but less than 10% of the deposit base. It's these same smaller banks, however, that provide over 40% of the small business loans in our country and offer the least costly deposit accounts. There are also many communities that are served only by smaller community banks.

Locally, we've seen a dramatic shift in the banking landscape over a short period of time. There may still be a similar number of bank branches in Keene and Walpole, but the names on the doors are changing—and the new institutions are all larger, sometimes out-of-state banks. This provides Savings Bank of Walpole with an opportunity as the last local community bank in town—and we plan to take advantage of this opportunity, preserving and enhancing our reputation as THE community bank in our area.

In closing, I want to acknowledge with deep gratitude that Jill Batty will be stepping down from her Trustee role at the Bank at our annual meeting in April 2014. Jill's contributions to Savings Bank of Walpole over the past three years have been significant. Her financial talents were immediately recognized and her leadership position on our Audit Committee has been extremely beneficial. But it is her commitment to our employees and to the fabric of our mutual community bank that will be missed the most. Many thanks and best of luck to you, Jill.

Finally, more than anything else, I want to thank our customers who continue to support our community bank by choosing to do business with Savings Bank of Walpole and putting your trust in us. I welcome your feedback on how we are doing and how you think we can do better.

Sincerely,

Gregg

Gregg R. Tewksbury
President & CEO, Savings Bank of Walpole

2013 Financial Highlights

- Net income was $631,872 in 2013, which was a decline of $124,895 from net income of $756,767 in 2012. The decline in net income was due to a decrease in net interest income which was partially offset by higher non-interest income.

- Interest and dividend income declined $744,352, or 7.6%, to $9,026,159 in 2013. Interest expense, which is essentially interest on deposits, decreased $372,925, or 20.2%, to $1,474,332. As a result of the larger decline in interest income over interest expense, net interest income declined $371,427, or 4.7%, to $7,551,827 in 2013.

- The spread between the Bank's yield on earning assets and its cost of funds was 2.27%, down from 2.48% in 2012. The Bank's net yield on average earning assets or net interest margin was 2.33%, down from 2.56% in 2012. Net interest income declined for the third consecutive year because higher volumes of business could not offset the effects of a decline in spread.

- No provision for loan losses was taken against income in either 2013 or 2012 due to continued improvement in the quality of the Bank's loan portfolio. The allowance for loan losses decreased $74,436, or 2.8%, to $2,619,534 in 2013. This represented 1.32% of total loans at year-end 2013 as compared to 1.41% of total loans at year-end 2012. Non-performing assets composed of nonaccrual loans and troubled debt restructurings were .60% and .83% of assets at year-end 2013 and 2012, respectively.

- Total non-interest income increased $202,071, or 8.1%, in 2013. Net gain on the sale of securities was $268,536 in 2013, which was an increase of $113,036, or 72.7%, over 2012. Income from the Bank's debit card/ATM network programs increased $48,299, or 4.9%, mainly due to increased volumes of debit card activity. Other income increased $34,579, or 17.9%, due to a new non-customer ATM fee initiated in the second half of 2013.

- Total non-interest expense increased $38,407, or .4%, to $9,404,880 in 2013. Software maintenance and licensing expenses increased $47,694, or 11.1%, as the cost of IT infrastructure and security continues to increase. Expense associated with the Bank's debit card/ATM network programs increased $42,844, or 9.2%, due to increased debit card use and the negative impact of fraudulent debit card activity. Lower compensation and employee benefits of $92,665, or 1.6%, helped to minimize the overall increase in non-interest expenses.

- Total assets were $333,800,636 on December 31, 2013, which was $8,201,181, or 2.5%, more than year-end 2012. This compares with an increase of $14,705,392, or 4.7%, in 2012. Year-end deposits were $305,351,395, which was an increase of $7,962,467, or 2.7%, over the prior year. This compares with an increase of $13,985,296, or 4.9%, in 2012. The financial crisis, the resulting recession, and the monetary policy response to both have been key factors in the growth of deposits. The monetary response has left short-term rates near zero as the banking system has been flooded with newly created money by the Federal Reserve Bank. Despite falling interest rates, bank deposits have grown steadily as customers continue to keep their money in safe, liquid investments like checking, savings and NOW accounts. In recent years, the Bank took a number of steps to slow the growth of savings and control the growth of certificates of deposit. This became necessary as banks must maintain deposits in proportion to their capital base, especially in an interest rate environment that provides minimal returns on additional deposits.

- Investment Securities ended the year at $93,002,612, up $26,006,290, or 38.8%, in 2013. This compares with an increase of $4,841,483, or 7.8%, in 2012. Investment Securities grew in 2013 as part of a strategy to redeploy funds held at the Federal Reserve Bank into higher yielding assets. To safeguard the Bank in the event of a financial crisis, we have maintained a portfolio of high quality, short-term fixed income investments and have maintained a higher than normal level of asset liquidity. Though there are increasing signs of a modest economic recovery, the financial consequences of the fiscal and monetary policies employed in response to the crisis remain unpredictable. At year-end 2013, the Bank had short-term liquidity investments of $32,731,363 in overnight deposits at the Federal Reserve Bank.

- Net loans ended the year at $195,585,582, which was $7,936,955, or 4.2%, more than year-end 2012. This compares with an increase of $6,021,136, or 3.3%, in 2012. Credit contracts in every recession and this is what we have seen since the beginning of the Great Recession. In fact, overall loan balances have changed little during this period. Though interest rates are at historic lows the demand for credit remains weak as consumers and businesses remain uncertain about the future. The Bank's loan growth over the past two years, despite the challenging lending environment, reflects a desire by consumers and businesses to maintain local banking relationships.

- Capital at year-end was $26,455,884, an increase of $121,893, or .5%, over the prior year-end. This compares with an increase of $580,392, or 2.3%, in 2012. The Bank's capital to asset ratio at year-end 2013 was 7.93% as compared with 8.09% at year-end 2012. It is challenging for mutual banks to increase their capital levels in the current low rate environment.

Statements of Income

	December 31 2013	December 31 2012
Interest and dividend income:		
Loans, including fees	$ 8,267,524	$ 8,758,544
Debt securities:		
Taxable	383,939	668,056
Tax-exempt	235,592	192,286
Interest bearing deposits	139,104	151,625
Total Interest and Dividend Income	9,026,159	9,770, 511
Interest expense:		
Deposits	1,472,079	1,843,699
Other liabilities	2,253	3,558
Total Interest Expense	1,474,332	1,847,257
Net Interest Income	7,551,827	7,923,254
Non-interest income:		
Customer service fees	513,815	511,446
Net gain on sales of securities	268,536	155,500
Net gain on sales of loans	193,779	208,780
Financial services commissions	454,286	435,497
Interchange revenue	1,040,499	992,200
Other	227,913	193,334
Total Non-Interest Income	2,698,828	2,496,757
Non-interest expenses:		
Compensation and benefits	5,590,318	5,682,983
Occupancy and equipment	944,974	988,630
Deposit insurance	221,247	212,599
Advertising and marketing	201,865	199,997
Postage	163,395	169,077
Debit card/ATM network	508,905	466,061
Software maintenance	477,056	429,362
Stationery supplies	217,896	228,762
Other general and administrative	1,079,224	989,002
Total Non-Interest Expenses	9,404,880	9,366,473
Income before income taxes	845,775	1,053,538
Provision for income taxes	213,903	296,771
Net Income	$ $631,872	$ 756,767

Balance Sheets

	December 31 2013	December 31 2012
Assets		
Cash and due from banks	**$ 4,686,392**	$ 6,522,127
Interest bearing deposits	**32,731,363**	56,476,186
Total Cash and Cash Equivalents	**37,417,755**	62,998,313
Securities available for sale	**93,002,612**	66,996,322
Loans held for sale	**118,655**	–
Loans, net of allowance for loan losses of $2,619,534 in 2013 and $2,693,970 in 2012	**195,585,582**	187,648,627
Premises and equipment, net	**4,410,683**	4,635,240
Accrued interest receivable	**866,213**	843,815
Deferred tax asset	**1,091,401**	1,005,906
Prepaid Federal Deposit Insurance Corporation assessment	**–**	471,533
Other assets	**1,307,735**	999,699
Total Assets	**$ 333,800,636**	$ 325,599,455
Liabilities and Capital		
Deposits	**$ 305,351,395**	$ 297,388,928
Other liabilities	**1,993,357**	1,876,536
Total Liabilities	**307,344,752**	299,265,464
Capital		
Guaranty Fund	**10,000,000**	9,000,000
Undivided profits	**16,556,987**	16,925,115
Accumulated other comprehensive income (loss)	**(101,103)**	408,876
Total Capital	**26,455,884**	26,333,991
Total Liabilities and Capital	**$ 333,800,636**	$ 325,599,455

Selected Ratios

Return on average assets	**0.19%**	0.24%
Equity to assets	**7.93%**	8.09%
Average yield on earning assets	**2.79%**	3.16%
Average cost of interest bearing liabilities	**0.52%**	0.68%
Interest rate spread	**2.27%**	2.48%
Net interest margin**	**2.33%**	2.56%

Note **Net interest margin is total interest income and dividends less total interest expense divided by average interest earning assets.

Trustees

Officers

Executive and Administration

Tewksbury, Gregg R., President & CEO
Richardson, Tamara W., Vice President & HRO

Finance

Bodin, Mark G., Vice President & CFO
Smith, Jeffrey P., Treasurer

Information Technology

Guild, Matthew W., Vice President & CIO
Gouger, Heidi, Assistant Vice President
Wilson, Damian P., Web Design & Development Officer

Lending

Bianco, Stephen M., Vice President & Senior Lender
Kebalka, Chris T., Vice President
Lehr, Amy L., Vice President
Greenwood, Christine B., Commercial Loan Officer
Hayward, Michelle A., Mortgage Officer
Tacy, Crystal J., Mortgage Officer

Operations

Tewksbury, Julie A., Vice President, Operations
Hurd, Margaret E., Assistant Vice President
Martin, Dawn M., Assistant Vice President
Sullivan, Cynthia M.S., Assistant Deposit Operations Officer

Retail

Curtis, Martha A., Vice President, Retail
Reney, Wallace A., Assistant Vice President
Perkins, Dominic A., Assistant Vice President
Hanks, Katherine M., Branch Manager & Bank Officer
Howard, Michelle E., Branch Manager & Bank Officer

***Commonwealth Financial Network located at Savings Bank of Walpole**

Migneault, Jeffrey R., Vice President

Corporators

Corporators Emeritus

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*Securities offered through Commonwealth Financial Network Member FINRA/SIPC

*Non-deposit investment products, including insurance are:
- not insured by the FDIC or any other agency or instrumentality of the federal government;
- not deposits or other obligations of, or guaranteed by, the bank or any affiliate of the bank;
- subject to investment risk, including possible loss of principal invested.

Locations & Business Hours

68 Ames Plaza Lane

Walpole, NH 03608 (603) 756-4771

Banking Lobby, Mortgage Lending, Consumer Lending, Drive-Up Banking, and Safe Deposit

Lobby Hours

Monday – Thursday	8:30 am – 5:00 pm
Friday	8:30 am – 6:00 pm
Saturday	8:30 am – Noon

Drive-Up Hours

Monday – Thursday	8:00 am – 5:00 pm
Friday	8:00 am – 6:00 pm
Saturday	8:00 am – Noon

11 Westminster Street

Walpole, NH 03608 (603) 756-4771

Banking Lobby and Safe Deposit

Lobby Hours

Monday – Friday	8:00 am – 2:00 pm

84 Marlboro Street

Keene, NH 03431 (603) 352-1822

*Banking Lobby, Commercial Lending, Mortgage Lending, Consumer Lending, Drive-Up Banking, Safe Deposit, and Financial Services**

Lobby Hours

Monday – Friday	8:30 am – 5:00 pm

Drive-Up Hours

Monday – Friday	8:00 am – 5:00 pm

400 West Street

Keene, NH 03431 (603) 355-1881

Banking Lobby, Consumer Lending and Drive-Up Banking

Lobby Hours

Monday – Thursday	8:30 am – 5:00 pm
Friday	8:30 am – 6:00 pm
Saturday	8:00 am – 2:00 pm

Drive-Up Hours

Monday – Thursday	7:30 am – 5:00 pm
Friday	7:30 am – 6:00 pm
Saturday	8:00 am – 2:00 pm

24-Hour ATM service is available at each location.
ATM service also available at Cheshire Medical Center.
Internet Banking Services at www.walpolebank.com

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The savings bank of You.

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Equal Housing Lender

Member FDIC