Still local after all these years.

SAVINGS BANK OF WALPOLE
2014 YEAR END REPORT

To Our Customers, Communities and Employees:

On December 16, 2008 the Federal Open Market Committee of the Federal Reserve Board announced that they were going to lower the targeted federal funds rate to a near-zero target range. By lowering this key rate this committee's goal was to put downward pressure on longer-term interest rates, thus supporting economic activity and job creation by making financial conditions more accommodative. Another way of saying this, is that easy money was going to be made available for a period of time to help borrowers weather a difficult economic period.

Over six years later, this rate has not moved. In fact, many additional efforts have been made by the Federal Reserve and other central banks around the world to maintain a near-zero interest rate environment. The longer-term consequences of these actions are unknown but during this extended period of time, lower rates have spawned lending activity and borrowers have been afforded opportunities they may not have otherwise had in a higher interest rate period.

But what are the consequences for your bank and its depositors?

Community banks like SBW rely heavily on net interest income, the difference between earnings made on our loans and investments and the interest expense paid to depositors. As rates have come down to historic lows we've seen our margin percentage erode to some of the lowest levels since the bank first opened its doors. We've taken steps to adjust our business model to ensure the sustainability of the bank and for the first time in four years, our net interest income in 2014 was greater than the year before. This was due in large part to the success we've had in growing both our residential and commercial loan portfolios over the past two years, both of which provide for higher yielding assets, relatively speaking. In addition efforts have been made to deploy some of our overnight funds into higher yielding investments, all the while being mindful of the importance of liquidity in uncertain times. Our balance sheet continues to grow at a measured pace; our earnings have stabilized and were higher in 2014; and our capital levels reached all-time highs as we closed out the year.

With respect to our valued depositors, we are a savings bank—and as such, we encourage savings, believing that everyone's and every business' well-being is better off with some level of financial reserves. Some refer to this as a rainy-day fund, some as short-term liquidity, and others see this as the means for investment at a later date. Forgoing spending today for the opportunities that lie ahead or for unforeseen challenges, just makes for good common and business sense. But there's always been an unwritten promise in this approach: namely, that your savings will provide you with reasonable returns as interest rates will likely hover above real rates of inflation. Over the past six years, however, this hasn't been the case. So we often ask ourselves, and are asked by our customers here at Savings Bank of Walpole, what are we doing today for our depositors? The answer is that we're doing a great deal —although it may not always be obvious, as interest rates don't convey the whole story. While the interest rate environment has not allowed the bank to earn reasonable rates of return (which, in turn, would allow us to pay higher rates to our depositors,) we've remained committed to providing the highest levels of service to our customers in many ways. Our branch staffing model provides for talented and tenured employees to serve you when you need to be served, not when it's convenient for us. Our investment in technology remains robust, providing you with online and mobile banking opportunities. A great deal more will be rolled out in 2015, including mobile capture (depositing checks remotely using your mobile device) and person-to-person mobile device payments. In addition, we'll be offering instant-issue debit cards so that customers will be able to leave the bank with a debit card after opening an account. But most importantly, we've maintained the lowest fee structure for deposit accounts in our market area. Rather than increase these fees to offset the bank's lower margin, we've made the decision to accept lower earnings in the best interest of our depositors. Eventually, interest rates will rise and will once again reward those who make the responsible decision to save. In the meantime, we're committed to providing our depositors other benefits that remain in their best interest rather than have them penalized even more.

Another way that we help our customers is by offering an alternative to our deposit products if they are looking for investment and retirement options. In 2014, we introduced SBW Wealth Management and hired Anthony Scola to lead this important division for the bank. Tony's 15 years of experience in financial advising, along with his years in insurance, and valuable experience serving in the U.S. armed forces, provide him the background to serve our financial services customers well.

Speaking of serving our customers well, it was with mixed emotions that I announced a few weeks ago that our Vice President of Retail Administration, Martha Curtis, will be retiring as a full-time employee of the bank effective in mid-2015. Martha's senior leadership responsibilities at SBW have been invaluable, as she has worn many hats and has accomplished a great deal during her 7 ½ years with us. But what we are most appreciative of is her unwavering commitment to her branch staff and to our depositors; qualities that have served to strengthen our bank over her years with us. We wish Martha the very best as she enters this next phase of her life.

Here at Savings Bank of Walpole, our approach to community banking has been simple but purposeful: Take care of our customers and the community and their loyalty will be the basis for our success. As we enter 2015, we'll be celebrating our 140th anniversary carrying out this business strategy. We're proud of our accomplishments and humbled by the growing number of customers choosing SBW as their bank. We were recently named the best bank in the Monadnock Region for the eighth consecutive year and were honored to receive the 2014 Spirit of Monadnock Award, the Monadnock United Way's highest honor. This award is reserved for the organization and its employees who best exemplify the Spirit of our region through a culture of strong commitment, positive attitude and demonstrated broad-based support for the community. Your bank has done a lot of good over the past 140 years—and we believe the best is yet to come.

I want to thank our customers who continue to support community banking by choosing to do business with Savings Bank of Walpole and putting your trust in us. As always, 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

2014 Financial Highlights

- Net income was $645,853 in 2014, which was an increase of $13,981 from net income of $631,872 in 2013. The increase in net income was driven by an increase in net interest income.

- Interest and dividend income increased $114,075, or 1.3%, to $9,140,234 in 2014. Interest expense, which is essentially interest on deposits decreased $286,796, or 19.5%, to $1,187,536. As a result of the increase in interest and dividend income and decrease in interest expense, net interest income increased $400,871, or 5.3%, to $7,952,698 in 2014. This was the first increase in net interest income since 2010.

- The spread between the Bank's yield on earning assets and its cost of funds was 2.38%, up from 2.27% in 2013. The bank's net yield on average earning assets or net interest margin was 2.43%, up from 2.33% in 2013. Net interest income increased after three consecutive years of decreases because of higher volumes of business and the increase in spread.

- No provision for loan losses was taken against income in either 2014 or 2013 due to continued improvement in the quality of the Bank's loan portfolio. The allowance for loan losses decreased $91,130, or 3.5%, to $2,528,404 in 2014. This represented 1.23% of total loans at year-end 2014 as compared to 1.32% of total loans at year-end 2013. Non-performing assets composed of nonaccrual loans and troubled debt restructurings were .69% and .60% of assets at year-end 2014 and 2013 respectively.

- Total non-interest income decreased $175,204, or 6.5%, in 2014. Decreases of $225,568 in the bank's financial services program, $69,257 in the sale of loans to the secondary market and $46,731 in gains on the sale of securities offset increases in other areas.

- Total non-interest expense increased $254,792, or 2.7%, to $9,659,672 in 2014. Compensation and benefits increased $146,046, or 2.6%, due to higher health insurance costs and employee bonuses. Advertising and marketing expenses increased $70,089, or 34.0%, in support of greater lending activity and the promotion of the Bank's brand in the face of increased local competition. Expense associated with the Bank's debit card/ATM network programs increased $39,330, or 7.7%, due largely to the negative impact of data breaches and fraudulent debit card activity.

- Total assets were $339,919,153 on December 31, 2014, which was $6,118,517, or 1.8%, more than year-end 2013. This compares with an increase of $8,201,181, or 2.5%, in 2013. Year-end deposits were $310,747,748, which was an increase of $5,396,353, or 1.8%, over the prior year. This compares with an increase of $7,962,467, or 2.7%, in 2013. The financial crisis, the resulting recession, and the monetary policy response to both have been key factors in the growth of deposits. Despite extremely low 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 CD deposits. 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 $97,589,497 up $4,586,885, or 4.9%, in 2014. This compares with an increase of $26,006,290, or 38.8%, in 2013. Investment Securities have grown the past two years 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 domestically, the global economic picture remains foggy and the potential financial consequences of the fiscal and monetary policies employed in response to the crisis are yet to be seen. At year-end 2014 the Bank had short-term liquidity investments of $20,982,583 in overnight deposits at the Federal Reserve Bank.

- Net loans ended the year at $202,815,919, which was $7,230,337, or 3.7%, more than year-end 2013. This compares with an increase of $7,936,955, or 4.2%, in 2013 as compared to 2012. Credit contracts in every recession and this is what we have seen since the beginning of the Great Recession. 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 $27,185,762, an increase of $729,878, or 2.8%, over the prior year-end. This compares with an increase of $121,893, or .5%, in 2013. The Bank's capital to asset ratio at year-end 2014 was 8.00% as compared with 7.93% at year-end 2013. It is challenging for mutual banks to increase their capital levels in the current low rate environment.

Statements of Income

	December 31 2014	December 31 2013
Interest and dividend income:		
Loans, including fees	$ 8,142,782	$ 8,267,524
Debt securities:		
Taxable	667,041	383,939
Tax-exempt	239,661	235,592
Interest bearing deposits	90,750	139,104
Total Interest and Dividend Income	9,140,234	9,026,159
Interest expense:		
Deposits	1,186,683	1,472,079
Other liabilities	853	2,253
Total Interest Expense	1,187,536	1,474,332
Net Interest Income	7,952,698	7,551,827
Non-interest income:		
Customer service fees	545,557	557,450
Net gain on sales of securities	221,805	268,536
Net gain on sales of loans	124,522	193,779
Bank-owned life insurance	97,773	-
Financial services commissions	228,718	454,286
Interchange revenue	1,054,168	1,040,499
Other	251,081	184,278
Total Non-Interest Income	2,523,624	2,698,828
Non-interest expenses:		
Compensation and benefits	5,736,364	5,590,318
Occupancy and equipment	946,994	944,369
Deposit insurance	218,563	221,247
Advertising and marketing	276,504	206,415
Postage	170,229	163,395
Debit card/ATM network	548,235	508,905
Software maintenance	459,380	477,056
Stationery supplies	189,802	217,896
Other general and administrative	1,113,601	1,075,279
Total Non-Interest Expenses	9,659,672	9,404,880
Income before income taxes	816,650	845,775
Provision for income taxes	170,797	213,903
Net Income	$ 645,853	$ 631,872

Balance Sheets

	December 31 2014	December 31 2013
Assets		
Cash and due from banks	$ 4,654,540	$ 4,686,392
Interest bearing deposits	20,982,583	32,731,363
Total Cash and Cash Equivalents	25,673,123	37,417,755
Securities available for sale	97,589,497	93,002,612
Loans held for sale	–	118,655
Loans, net of allowance for loan losses of $2,528,404 in 2014 and $2,619,534 in 2013	202,815,919	195,585,582
Premises and equipment, net	4,256,632	4,410,683
Accrued interest receivable	833,626	866,213
Deferred tax asset	1,168,232	1,091,401
Bank-owned life insurance	6,097,773	-
Other assets	1,520,351	1,307,735
Total Assets	$ 339,919,153	$ 333,800,636
Liabilities and Capital		
Deposits	$ 310,747,748	$ 305,351,395
Other liabilities	1,985,643	1,993,357
Total Liabilities	312,733,391	307,344,752
Capital		
Guaranty Fund	10,000,000	10,000,000
Undivided profits	17,202,840	16,556,987
Accumulated other comprehensive income (loss)	(17,078)	(101,103)
Total Capital	27,185,762	26,455,884
Total Liabilities and Capital	$ 339,919,153	$ 333,800,636

Selected Ratios

Return on average assets	0.19%	0.19%
Equity to assets	8.00%	7.93%
Average yield on earning assets	2.79%	2.79%
Average cost of interest bearing liabilities	0.41%	0.52%
Interest rate spread	2.38%	2.27%
Net interest margin**	2.43%	2.33%

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

Lending

Bianco, Stephen M., Senior 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., Senior 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
Perkins, Dominic A., Assistant Vice President
Reney, Wallace A., Assistant Vice President
Hanks, Katherine M., Branch Manager & Bank Officer
Howard, Michelle E., Branch Manager & Bank Officer

*SBW Wealth Management located at Savings Bank of Walpole

Scola, Anthony J., Vice President

Corporators

Bates, Thomas S.
Batty, Jill I.
Bradeen, Sarah A.
Coneeny, Joseph A.
Curtis, Martha A.
Davis, Philip J.
Dunbar, Bradley P.
Dunbar, Jayson B.
Duncan, Dayton R.
Fitz-Simon, James E.
Furlone, Robert K.
Galloway, Jerome S.
Gavin, Mark A.
Harrington, Kathleen A.
Hicks, Dianne O.
Hicks, Randall P.
Houston, Jason D.
Howard, Susan L.
Jacobs, Ruth F.
Johnson, David B.
Kimball, Robert I.
Kinyon, Esq., Gary J.
Koson, Peter D.
Lacey, Linda A.
McBeth, Sylvia M.
Miller, Robert F.
Neal, James H.
O'Meara, William R.
Perry, Robert S.
Potter, Edward R.
Putnam, Mark A.
Reardon, Jr., Edward F.
Robbins, Linda W.
Rogers, Thomas T.
Rust, Lynn C.
Ryder, Steven J.
Shaw, Dr. Charles P.
Snide, P. Michael
Szmit, Frederick A.
Tewksbury, Gregg R.
Tisdale, Donald J.
Trask, Paul S.
Tyson, William C.
Walier, Joseph C.
Whittemore, Peter T.
Wichland, David P.
Wilson, Richard A.

Corporators Emeriti

Buck, Ralph N.
Burr, I. Tucker
Daniels, Randall
Fletcher, William S.
Houghton, Donald C.
Hubbard, John A.
Macri, Jr., Gregory J.
McMahon, Esq., Lewis A.
Zimmerman, Esq., John J.

The savings bank of you.

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