



**Savings Bank
of Walpole**
The Savings Bank of You.™

 Equal Housing Lender

Member FDIC



Savings Bank of Walpole
The Savings Bank of You.™

To Our Customers and Communities:

Most years I utilize this space to share with you what's going on at Savings Bank of Walpole, reflect on our financial performance over the past year and provide some insight into our immediate future. Often times I'll update you on our plans for delivering new products or new services as we remain committed to meeting the changing needs of our customers for years to come. After all, when you open the cover of something called a "Year End Report" those are the things I believe you usually expect to read.

This year, however, I'll let our Financial Highlights pages and financial reports speak for themselves. With respect to our immediate future, I'll simply say that the forces against our industry are strong and likely to remain that way for some time to come. That story has been recounted in these pages for a few years now, so I'm not planning on discussing it further at this time.

This year I want to focus on a different topic. I want to bring you inside our bank, give you a glimpse into the SBW *culture* and describe an important influence on our culture. I believe it's this culture that was recognized just a few months ago when the Greater Keene Chamber of Commerce named Savings Bank of Walpole the **2012 Windsor Brooks Business of the Year**. We were proud to be the recipient and are humbled by the recognition. Our bank's culture, as I see it, is not boastful or one that seeks recognition but one that simply strives to meet the needs of our customers every day. It is this culture that provides a pleasant work environment for our employees, ensures a positive experience for our customers and allows us to focus on the economic well-being of our community.

So what is this culture and how is it fostered?

Definitions of corporate culture are far and wide but I'd describe it as a blend of values, beliefs, principles and behaviors that develop over time and determine how an organization's employees interact with one another, their customers, and outside parties. It is a pattern of such collective behaviors and assumptions that are taught to new organizational members as a way of perceiving—even thinking and feeling. It is this, the act of teaching new organizational members a way of thinking about community banking, that I want to focus on this year.

For the past 25 years, Savings Bank of Walpole has been privileged to have Richard Wilson serve as our top "finance person"—most of those years as our Chief Financial Officer. Richard came to SBW with a great deal of experience in banking and it was clear that he could manage the financial responsibilities well. What wasn't so evident at the time was the impact that Richard would have on the *culture* of the bank. In the 25 years that Richard has been associated with Savings Bank of Walpole, he's worked diligently to ensure that all actions taken at our bank are done so *in the best interest of the customer*. He's worked hard to gain insight into risks to our bank, from interest rate risk to reputation risk, and developed extensive safeguards to protect our bank from these risks. He's worked tirelessly to read and interpret regulatory changes that have been enacted over those years and to provide input into the changes necessary to work in our industry's evolving (some would say regressing!) framework—always, always, always keeping *the best*

interest of our customers in mind. But Richard's largest contribution during his tenure at SBW has been his unwavering commitment to teach members of our organization, existing and new, about the long-term implications of decisions made—even the ones that seem so simple and seem, on the surface, to have little impact on our customers, our employees, or on the bank overall.

Since joining Savings Bank of Walpole in 2005 I've personally witnessed Richard's important influence on our management team and staff alike in the area of critical thinking. Richard's time spent researching so many subject matters has given him the authority to ask others to think deeper, wider and more openly about decisions that come before them. He's challenged all of us to ask more questions, to read more, to think long-term, and to gain a better understanding of the impact of even the most subtle decisions. He's taught our staff, our Board, our auditors, and even regulators to think more deeply—perhaps even differently—about banking, economics, accounting, and so many other issues that come before us in the course of running our business.

Richard's impact has been profound. Today our bank is well equipped to deal with the many challenging issues it faces in large part due to his diligence in teaching us to think critically. A culture that thinks deeply about all decisions is a culture that cares deeply about its employees, customers and community. A culture that thinks critically about the risks facing the organization and develops well-thought-out strategies to confront them is a culture that can withstand even the most challenging of times. A culture that supports a customer-focused approach is worthy of receiving a **Business of the Year Award**...even when that's not the organization's objective.

Richard retired on March 1, 2013, but his legacy of teaching us to be critical thinkers will live on and it's up to those remaining at the bank to continue to foster such a culture.

Richard, I want to sincerely thank you for your invaluable contributions to Savings Bank of Walpole. You are dearly missed but will never be forgotten. Best wishes to you and Sharon in your retirement years.

I would be remiss if I didn't mention the passing of Joe Green this past year. Joe was a past Trustee and Corporator of the bank but more importantly, a friend to all of us. His daily presence within the walls of our institution is missed a great deal. We will always hold a special place in our hearts for Joe.

Finally, I want to thank our customers who continue to support our community bank by choosing to do business with Savings Bank of Walpole. Our commitment to you is that we'll continue to do our best in maintaining the culture that Richard Wilson helped create and foster by serving your needs as well as those of our entire community.

Sincerely,



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

2012 Financial Highlights

- Net income was \$756,767 in 2012, which was a decline of \$131,104 from \$887,871 in 2011. The decline in income in 2012 was due to a decrease in net interest income and increase in non-interest expense offset partially by no provision for loan losses and higher non-interest income.
- Interest and dividend income declined \$831,862, or 7.8%, to \$9,770,511 in 2012. Interest expense, which is essentially interest on deposits decreased \$343,930, or 15.7%, to \$1,847,257. As a result of the larger decline in interest income over interest expense, net interest income declined \$487,932, or 5.8%, in 2012 to \$7,923,254.
- The spread between the Bank's yield on earning assets and its cost of funds was 2.48%, down from 2.74% in 2011. The Bank's net yield on average earning assets or net interest margin was 2.56%, down from 2.84% in 2011. Net interest income has declined 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 2012. This was a decline of \$406,500 from the 2011 provision for loan losses. Net interest income after the provision for loan losses was \$7,923,254 in 2012. This was a decrease of \$81,432, or 1.0%, compared with an increase of \$246,319, or 3.2%, in 2011. The allowance for loan losses decreased \$97,716, or 3.5%, to \$2,693,970, or 1.41% of total loans at year-end 2012 as compared to 1.51% of total loans at the prior year-end. Non-performing assets composed of nonaccrual loans, troubled debt restructurings, and other real estate owned were .83% and 1.03% of assets at year-end 2012 and 2011 respectively.
- Total non-interest income increased \$141,868, or 6.0%, to \$2,496,757 in 2012 after decreasing \$862,148, or 26.8%, in 2011. Net gain on the sale of securities was \$155,500 in 2012, which was a decline of \$89,196, or 36.5%, as compared to 2011. Customer service fees increased \$70,890, or 16.1% in 2012 due to growth in the volume of business and an increase in overdraft fees instituted late in 2011. Income from the Bank's debit card/ATM network programs increased \$103,744, or 11.7% mainly due to increased volumes of debit card activity. Net gain on the sale of loans increased \$79,680, or 61.7%. Financial services commissions declined \$12,955, or 2.9%, although the new Commonwealth Financial Services Network has proven more profitable overall.
- Total non-interest expense increased \$299,979, or 3.3%, to \$9,366,473 in 2012 after decreasing \$189,738, or 2.1%, in 2011. Salaries and employee benefits increased \$307,171, or 5.7%, in 2012 after decreasing \$90,463, or 1.7%, in 2011. The 2012 increase primarily related to higher benefit costs. Expense associated with the Bank's debit card/ATM network programs increased \$44,174, or 10.5%, in 2012 after declining \$45,012, or 9.6% in 2011. Each year increasing volumes of debit card activity increase associated costs; however, a more favorable contract was signed in late 2010 that reduced charges to the Bank in 2011. Software maintenance and licensing expenses increased \$20,942, or 5.1%, in 2012 compared with an increase of \$57,732, or 16.5%, in 2011 as the cost of IT infrastructure and security continues to increase. FDIC Deposit Insurance costs declined \$81,318, or 27.7%, in 2012 after declining \$82,199, or 21.9%, in 2011. Deposit insurance has declined due to a change in the formula for calculating insurance premiums and the improved quality of the loan portfolio.
- Total assets were \$325,599,455 on December 31, 2012, which was \$14,705,392, or 4.7%, more than year-end 2011. This compares with an increase of \$15,398,752, or 5.2%, in 2011. Year-end deposits were \$297,388,928, which was an increase of \$13,985,296, or 4.9%, over the prior year. This compares with an increase of \$14,876,400, or 5.5%, in 2011. 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. Another factor is the merger of once local institutions into larger and larger banking organizations with less appealing bank-centric business models. 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. As this situation continued into 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 no bank can allow deposits to grow out of proportion to its capital base, especially in an interest rate environment that provides little, no, or negative returns on additional deposits, which further exacerbates the situation.
- Investment Securities ended the year at \$66,996,322 up \$4,841,483, or 7.8%, after increasing \$9,482,122, or 18.0% in 2011. Investment Securities have increased mainly due to deposit growth exceeding loan growth. To safeguard the Bank in the event of a national 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 the crisis itself has receded, the financial consequences of the fiscal and monetary policies employed remain unpredictable. At year-end 2012 the Bank had short-term liquidity investments of \$56,476,186 in overnight deposits at the Federal Reserve Bank.
- Net loans were \$187,648,627, which was an increase of \$6,021,136, or 3.3%, compared with an increase of \$874,582, or .5%, in 2011. Credit contracts in every recession and this is what we have seen in recent years. Overall loan balances have changed little since the beginning of the Great Recession. Though interest rates are at historic lows the demand for credit is weak and outstanding loan volumes are most likely shrinking in our market area. Widespread unease and concern about the economy has placed a damper on commercial, residential, and consumer activities that require financing. While monetary policy is encouraging customers to borrow more, customers of all kinds are choosing instead to reduce their debt. We see this across the spectrum of borrowers with residential borrowers refinancing to shorter maturity mortgages and paying down balances in the process.
- Capital at year-end was \$26,333,991, an increase of \$580,392, or 2.3%, over the prior year-end compared with an increase of \$761,325, or 3.1%, in 2011. The Bank's capital to asset ratio at year-end 2012 was 8.09% compared with 8.28%, at year-end 2011.

Statements of Income

	December 31 2012	December 31 2011
Interest and dividend income:		
Loans, including fees	\$ 8,758,544	\$ 9,313,129
Debt securities:		
Taxable	668,056	1,015,846
Tax-exempt	192,286	133,010
Interest bearing deposits	151,625	140,388
Total Interest and Dividend Income	9,770,511	10,602,373
Interest expense:		
Deposits	1,843,699	2,186,176
Other liabilities	3,558	5,011
Total Interest Expense	1,847,257	2,191,187
Net Interest and Dividend Income	7,923,254	8,411,186
Provision for loan losses	-	406,500
Net interest income, after provision for loan losses	7,923,254	8,004,686
Non-interest income:		
Customer service fees	511,446	440,556
Net gain on sales of securities	155,500	244,696
Net gain on sales of loans	208,780	129,100
Financial services commissions	435,497	448,452
Interchange revenue	992,200	888,456
Other	193,334	203,629
Total Non-Interest Income	2,496,757	2,354,889
Non-interest expenses:		
Compensation and benefits	5,682,983	5,375,812
Occupancy and equipment	988,630	971,103
Deposit insurance	212,599	293,917
Advertising and marketing	199,997	185,194
Postage	169,077	178,225
Debit card/ATM network	466,061	421,887
Software maintenance	429,362	408,420
Stationery supplies	228,762	240,888
Other general and administrative	989,002	991,048
Total Non-Interest Expenses	9,366,473	9,066,494
Income before income taxes	1,053,538	1,293,081
Provision for income taxes	296,771	405,210
Net Income	\$ 756,767	\$ 887,871

Balance Sheets

	December 31 2012	December 31 2011
Assets		
Cash and due from banks	\$ 6,522,127	\$ 4,255,160
Interest bearing deposits	56,476,186	54,154,565
Total Cash and Cash Equivalents	62,998,313	58,409,725
Securities available for sale	66,996,322	62,154,839
Loans held for sale	-	403,800
Loans, net of allowance for loan losses of \$2,693,970 in 2012 and \$2,791,686 in 2011	187,648,627	181,627,491
Premises and equipment, net	4,635,240	4,758,247
Accrued interest receivable	843,815	932,295
Deferred tax asset	1,005,906	891,680
Prepaid Federal Deposit Insurance Corporation assessment	471,533	665,090
Foreclosed assets	-	192,651
Other assets	999,699	858,245
Total Assets	\$ 325,599,455	\$ 310,894,063
Liabilities and Capital		
Deposits	\$ 297,388,928	\$ 283,403,632
Other liabilities	1,876,536	1,736,832
Total Liabilities	299,265,464	285,140,464
Capital		
Guaranty Fund	9,000,000	9,000,000
Undivided profits	16,925,115	16,168,348
Accumulated other comprehensive income	408,876	585,251
Total Capital	26,333,991	25,753,599
Total Liabilities and Capital	\$ 325,599,455	\$ 310,894,063

Selected Ratios

Return on average assets	0.24%	0.29%
Equity to assets	8.09%	8.28%
Average yield on earning assets	3.16%	3.58%
Average cost of interest bearing liabilities	0.68%	0.84%
Interest rate spread	2.48%	2.74%
Net interest margin**	2.56%	2.84%

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

Trustees

Tisdale, Donald J., Chairman of the Board
Tewksbury, Gregg R., President & CEO
Batty, Jill I.
Houston, Jason D.
Kinyon, Esq., Gary J.
McBeth, Sylvia M.
Robbins, Linda W.
Rust, Lynn C.
Ryder, Steven J.
Shaw, Dr. Charles P.

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

Lending

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

Operations

Pearson, Julie A., Vice President, Operations
Hurd, Margaret E., Assistant Vice President
Martin, Dawn M., Assistant Vice President
Flower, Tracy S., Compliance Administration Officer

Retail

Curtis, Martha A., Vice President, Retail
Perkins, Dominic A., Assistant Vice President
Renev, Wallace A., Assistant Vice President
Nichols, Geraldine A., Assistant Treasurer
Hanks, Katherine M., Branch Manager
Howard, Michelle E., Branch Manager

*Commonwealth Financial Network located at Savings Bank of Walpole

Migneault, Jeffrey R., Vice President

Corporators

Bates, Thomas S.
Batty, Jill I.
Bradeen, Sarah A.
Curtis, Martha A.
Daniels, Randall
Davis, Philip J.
Dunbar, Bradley P.
Dunbar, Jayson B.
Duncan, Dayton R.
Fitz-Simon, James E.
Furlone, Robert K.
Galloway, Jerome S.
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 Emeritus

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

*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 – Wednesday 8:30 am – 5:00 pm
Thursday and Friday 8:30 am – 6:00 pm
Saturday 8:30 am – Noon

Drive-Up Hours

Monday – Wednesday 8:00 am – 5:00 pm
Thursday and 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

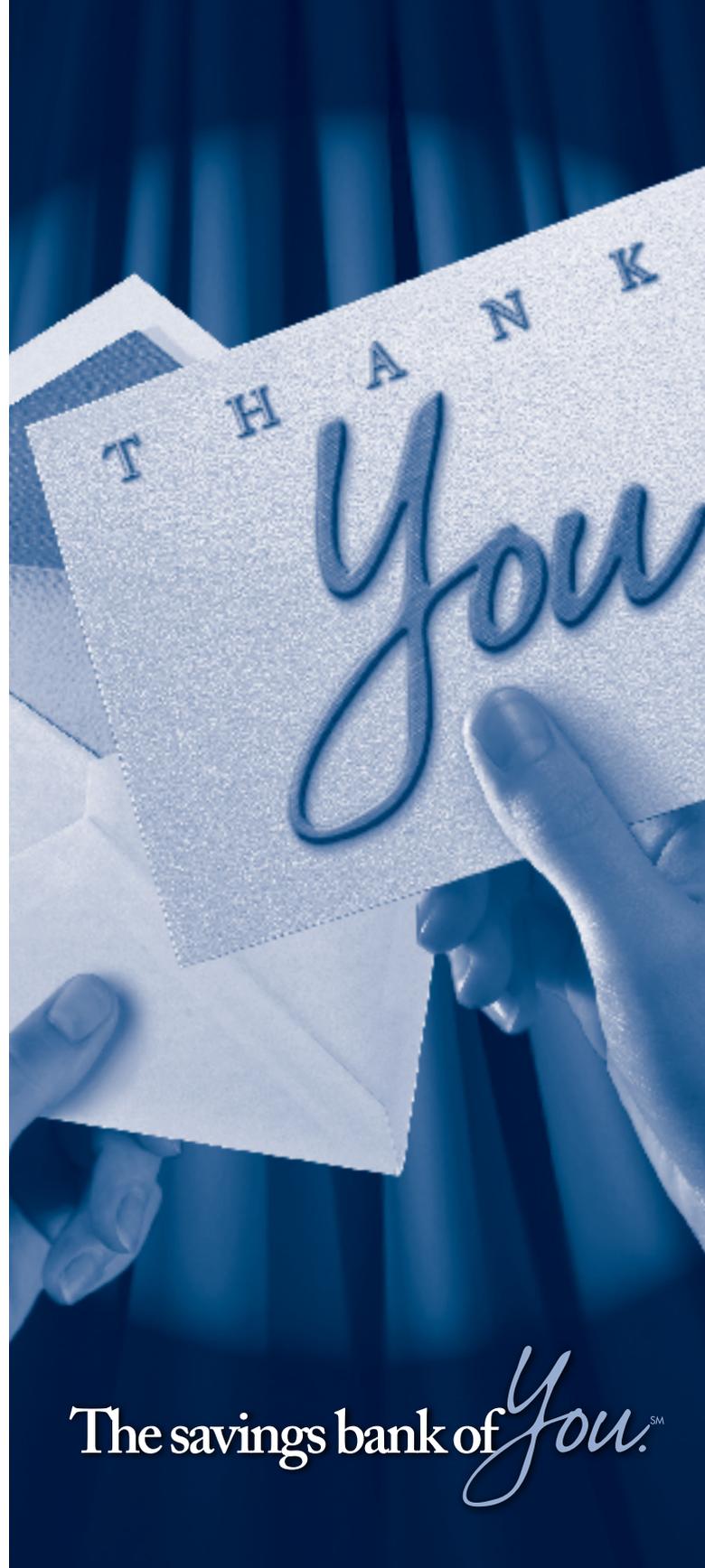
Lobby Hours

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**



The savings bank of *You*.SM