

Great things are on the horizon

for local banking, our community, and *you*.



2017 YEAR END REPORT

To Our Customers, Community and Employees:

As the only bank headquartered in southwestern New Hampshire, we at Savings Bank of Walpole are extremely grateful for the privilege of supporting and being supported by our community. Mindful of our history, and of our responsibilities as a mutual bank, we believe great things are on the horizon for local banking, for our customers, and for the community we serve.

We know what being a local bank represents. By making decisions every day that support our customers and the local economy, and by giving back to local civic and charitable organizations, we're able to make a difference in the lives of many. This is not a new philosophy; Savings Bank of Walpole has been a local bank for 143 years. Today more than ever, we believe we are positioned for success for the next 143 years.

During 2017, our support for the local economy was demonstrated in numerous ways, including investing in our local community by opening a new branch in Keene, and hiring local vendors whenever possible for administrative services and upkeep of our five local branches. We also funded more than \$78 million in consumer and business loans right here in our community—\$36 million of which were residential mortgages.

In the last year, we donated over \$150,000 to local non-profit organizations, and our employees volunteered at least 1,440 hours to over two dozen local civic organizations and charities. Because the vast majority of our employees reside in the Monadnock Region, we are especially passionate about ways we can enhance and continue to build a vibrant community.

1,440 hours

volunteered at local
non-profit organizations

\$150,000

donated to local
organizations

\$78 million

in consumer & business
loans in our community



THE BEST BANK/CUSTOMER SERVICE

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**BEST BANKS
TO WORK
FOR 2017**

We're proud of our 86 exceptional employees and are focused on providing them with a great work environment—one that encourages professional and personal growth. Last summer, we were honored to have been named to American Banker Magazine's list of **Best Banks to Work For** in the entire USA. Of the 75 banks listed, Savings Bank of Walpole was number 15 and one of only two banks in New England.

From a fiscal standpoint, in 2017, we once again demonstrated that we are the local bank that could—and did. We experienced record growth in assets, deposits, loans and capital. Our total ending assets of \$401 million were \$23.5 million (or 6.2%) above year-end 2016.

While having a physical presence right here in our community is just one of the ways we provide a great banking experience for our customers, we're always looking for products that will make banking easier for them as well. With this in mind, we continued to offer the best products for our local market, including truly free checking, and the latest banking technology with enhanced eBanking services. We also introduced instant issue debit cards and in-house check printing, both of which are less expensive and provide quicker turnaround for our customers.

Our **SBW Wealth Management** division continued to experience meaningful growth in our client base and in assets under management. We welcomed two new team members—**Kevin Beauregard**, who is helping to lead the division alongside **Anthony Scola**; and **Samantha Corliss** who serves as office manager. SBW Wealth Management's Fiscally Fit seminar series, which provides free financial education to the public, once again helped enhance our presence in the community.

Looking forward, we're excited about the positive changes that are on the horizon in 2018. Our pending Affiliation Agreement with **New Hampshire Mutual Bancorp** (NHMB) will position us as the third bank in NHMB's mutual holding company structure—a structure that is designed for the mutual benefit of the holding company and its partner banks, with a commitment to keep our brand and our focus local. Adding Savings Bank of Walpole to the fold at NHMB makes it even more certain that we will have the strength to prevail for generations to come.



Gregg R. Tewksbury
President & CEO



Mark G. Bodin
Senior VP & CFO

2017 Financial Highlights

- **Net income of \$1,083,432 was \$248,200 below 2016 net income of \$1,331,632.** 2017 net income includes a one-time \$239,057 accounting entry to reduce the Bank's deferred tax asset due to the future impact on taxes resulting from the new corporate tax rate reduction.
- **In comparing 2017 net income vs. 2016, the current year was impacted by a \$364,000 loan loss provision, \$287,220 less in gains on security sales, and approximately \$200,000 for the investment in the new Court Street branch.** The after-tax impact of these items was approximately \$550,000.
- **Interest and dividend income of \$11,646,775 was \$1,369,550, or 13.3%, above 2016.** Interest expense, which is essentially interest on deposits, decreased \$61,472, or 7.4%, to \$766,906. As a result of the increase in interest and dividend income and the decrease in interest expense, net interest income increased \$1,431,022, or 15.1%, to \$10,879,869 in 2017. This was the fourth consecutive increase in net interest income after three years of declines, as the Bank's balance sheet management strategy has been effective.
- **The spread between the Bank's yield on earning assets and its cost of funds was 2.89%, up from 2.64% in 2016.** The Bank's net yield on average earning assets or net interest margin was 2.91%, up from 2.66% in 2016. Net interest income increased because of higher volumes of business and the increase in spread.



- **A \$364,000 provision for loan losses was taken in 2017 after not taking a provision since 2011—after \$55 million of loan growth.** The need for a provision was driven by continued loan growth and not credit issues. The allowance for loan losses of \$2,630,000 represented 1.00% of total loans at year-end 2017 as compared to 1.04% of total loans at year-end 2016. Non-performing assets composed of nonaccrual loans and troubled debt restructurings were .49% of assets at year-end 2017 which were down from .59% in 2016.

- **Total non-interest income of \$2,773,439 was \$96,495, or 3.4%, below 2016.** There were few securities sold in 2017 after selling \$17.4 million of securities in 2016 at a gain of \$293,753.

- **Total non-interest expense of \$11,460,750 was \$992,314, or 9.5%, above 2016.** Compensation and benefits increased \$392,534 due to salary rate increases, higher benefit costs and Court Street staffing. Facilities and equipment-related expenses were up \$250,382 due to Court Street costs, facilities projects, higher snow removal costs and new equipment purchases.

- **Total ending assets of \$400,666,411 were \$23,515,997, or 6.2%, above year-end 2016.** This follows an increase of \$16,176,449, or 4.5%, in 2016. Year-end deposits of \$369,184,498 were \$22,647,727, or 6.5%, above the prior year. This follows an increase of \$15,264,673, or 4.6%, in 2015. 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 is necessary as banks must maintain deposits in proportion to their capital base.

- **Investment Securities ended the year at \$111,739,693 which was \$5,161,828, or 4.8%, above year-end 2016.** This follows an increase of \$2,696,651, or 2.6%, in 2016. Investment Securities have grown the past few years as part of a strategy to redeploy funds held at the Federal Reserve Bank into higher yielding assets. The Bank has held a portfolio of high quality, short-term fixed income investments and a high level of liquidity in order to maintain a strong, asset-sensitive balance sheet. At year-end 2017 the Bank had short-term liquidity investments of \$10,223,986 in overnight deposits at the Federal Reserve Bank.

- **Net loans ended the year at \$256,084,006, which was \$22,024,557, or 9.4%, above year-end 2016.** This follows an increase of \$21,952,127, or 10.4%, in 2016. Seventy-eight percent of the loan growth was in commercial lending. The Bank's loan growth reflects a desire by consumers and businesses to maintain local banking relationships.

- **Capital at year-end of \$29,901,214 was \$940,215, or 3.3%, above year-end 2016.** This follows an increase of \$879,707, or 3.1%, in 2016. The Bank's tier one leverage capital ratio at year-end 2017 was 7.66% as compared with 7.80% at year-end 2016. The decrease in 2017 was due to the high level of asset growth, the investment in the Court Street branch and the impact of the change in tax rate.

Statements of Income

	December 31 2017	December 31 2016
Interest and dividend income:		
Loans, including fees	\$ 9,752,992	\$ 8,749,523
Debt securities:		
Taxable	1,506,865	1,155,595
Tax-exempt	207,277	223,069
Interest bearing deposits	179,641	149,038
Total Interest and Dividend Income	11,646,775	10,277,225
Interest expense:		
Deposits	766,758	828,323
Other liabilities	148	55
Total Interest Expense	766,906	828,378
Net Interest Income	10,879,869	9,448,847
Provision for loan losses	364,000	-
Net Interest Income after provision for loan losses	10,515,869	9,448,847
Non-interest income:		
Customer service fees	496,550	507,057
Net gain on sales of securities	6,533	293,753
Net gain on sales of loans	210,508	222,405
Bank-owned life insurance	173,699	181,292
Financial services commissions	200,921	188,449
Interchange revenue	1,183,002	1,121,821
Other	502,226	355,157
Total Non-Interest Income	2,773,439	2,869,934
Non-interest expenses:		
Compensation and benefits	6,564,213	6,171,679
Occupancy and equipment	1,166,058	915,676
Deposit insurance	154,210	202,851
Debit card/ATM network	808,521	737,689
Software licenses and maintenance	533,560	514,720
Other general and administrative	2,234,188	1,925,821
Total Non-Interest Expenses	11,460,750	10,468,436
Income before income taxes	1,828,558	1,850,345
Provision for income taxes (1)	745,126	518,713
Net Income	\$ 1,083,432	\$ 1,331,632

Balance Sheets

	December 31 2017	December 31 2016
Assets		
Cash and due from banks	\$ 4,609,660	\$ 3,788,624
Interest bearing deposits	10,223,986	15,361,583
Total Cash and Cash Equivalents	14,833,646	19,150,207
Securities available for sale	111,739,693	106,577,865
Loans held for sale	357,700	-
Loans, net of allowance for loan losses of \$2,630,000 in 2017 and \$2,453,824 in 2016	256,084,006	234,059,449
Premises and equipment, net	5,769,312	5,305,983
Accrued interest receivable	1,265,621	1,118,199
Deferred tax asset	1,061,585	1,675,228
Bank-owned life insurance	6,630,062	6,456,363
Federal Home Loan Bank of Boston stock	739,800	683,400
Other assets	2,184,986	2,123,720
Total Assets	\$ 400,666,411	\$ 377,150,414
Liabilities and Capital		
Deposits	\$ 369,184,498	\$ 346,536,771
Other liabilities	1,580,699	1,652,644
Total Liabilities	370,765,197	348,189,415
Capital		
Undivided profits	30,787,837	29,556,084
Accumulated other comprehensive loss	(886,623)	(595,085)
Total Capital	29,901,214	28,960,999
Total Liability and Capital	\$ 400,666,411	\$ 377,150,414

Selected Ratios

Return on average assets	0.28%	0.36%
Tier 1 leverage ratio	7.66%	7.80%
Average yield on earning assets	3.12%	2.90%
Average cost of interest bearing liabilities	0.23%	0.26%
Interest rate spread	2.89%	2.64%
Net interest margin**	2.91%	2.66%

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

(1) Note that 2017 includes a one-time \$239,057 accounting entry to reduce the Bank's deferred tax asset due to the tax rate change. See 2017 Financial Highlights.



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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

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