

*The Feeling is Mutual*

**Kennebec Savings Bank** 

2008 ANNUAL REPORT



A young boy with short brown hair, wearing a dark blue cardigan over a white shirt, is sitting on a bed. He is smiling broadly and holding a small white coin in his right hand and a green piggy bank in his left hand. The bed has a colorful quilt with a baseball field pattern. In the background, there is a red headboard, a soccer ball on a shelf, and some books. The overall scene is a child's bedroom.

## OUR MISSION

*Kennebec Savings Bank is committed to operating as a profitable, conservative mutual savings bank that:*

Serves as the primary bank of individuals, families, self-employed professionals and small-to-medium sized businesses in our market by satisfying their financial needs with personalized, quality service and up-to-date products and technology;

Positively contributes to the quality of life in our Kennebec Valley communities;

Offers a challenging and rewarding work environment to the KSB team of employees.

Charlie Hippler III  
KSB Customer since 2001

## PRESIDENT'S LETTER

Mutuality. It's a big word but a word that is definitely at the heart of what makes Kennebec Savings Bank so special. Driving our success in 2008 was our strength as a mutual savings bank, which provided us and our customers with a safe haven during turbulent times.

Like many mutual savings banks begun in the 1800s, Kennebec Savings Bank has survived depressions and recessions, wars and natural disasters. That's because of a management strategy that has never wavered from focusing on the long term future of our institution and the community—your community.

This continued resilience kept the Bank strong through a year riddled with uncertainty within the financial services industry both at the local and national level. With banks merging and closing, and stocks rising and falling, for us, it was business as usual.

Our mission and culture as a mutual savings bank led KV Federal Credit Union (KV) to consider us as a natural partner in their search to ensure their future viability. Maine history will be made if members of KV approve a merger of our 138-year old institution and theirs.

As we move into 2009, we are grateful for the commitment and loyalty of our valued customers, employees, trustees, corporators and community. It is with this realization that we are likewise committed and loyal to these stakeholders.

We are Kennebec Savings Bank . . .  
and the feeling is mutual.



Mark L. Johnston  
*President & Chief Executive Officer*



**mu·tu·al·ity** : A reciprocal relationship between interdependent entities (objects or individuals or groups).  
A relation of mutual dependence or action.





## *Our Customers*

“KSB really cares about customers and it shows. It’s that special care that makes us want to do all our banking here and also why we tell all our friends about KSB.”

*Darin & Sarah White, Sidney  
KSB Customers since 2001*

## OUR CUSTOMERS—MUTUAL ADMIRATION

It goes without saying that we could not exist without the support and patronage of our loyal base of customers. Our commitment to them and their financial needs has not faltered since our inception in 1870 and our customer care is regularly noted as the singlemost reason why they choose and stay with us. This could not have held more true than in 2008, when we saw uncharacteristic growth during an economic downturn.

At both state and national levels, mortgage activity was reportedly slow. Even so, our customers put their faith in us and we recorded all-time highs, with just under \$83 million in new mortgage business. This amount represented 20% of all recordings in Kennebec County, further solidifying our place as the premier mortgage lender in the County.

The collapse on Wall Street led many to rightfully fear for the safety of their assets, and we were able to turn an otherwise negative situation into a positive one as we advertised the strength of our Bank as a ‘safe haven’ for our customers and their deposits. This brought peace of mind to our current customers, who were concerned about the safety of their money, and also brought us over 2,300 new customers and net deposit growth of over \$28 million (7.5%).

In a year of troubling economic times, we remained loyal to our customers and their needs . . . and the feeling was mutual.

## NEW ELECTRONIC BANKING CENTER—MUTUALLY EXCLUSIVE

We opened our second KSB Anytime 24-Hour Electronic Banking Center (EBC) in the foyer of our Augusta office, promoting the value of “getting out of line” to our customers who want the speed of doing transactional banking business on their schedules, not ours. Our EBCs allow access to KSB customers exclusively, to make deposits of cash and checks directly into the ATM. In fact, all of KSB’s ATMs have this technology. One third of the Bank’s customer-initiated deposits are made through our ATMs. The EBC also provides customers with the ability to use an Internet Banking kiosk where they can pay their bills online 24/7.

Our goal in the coming year is for this new EBC to be as successful as our flagship EBC in Manchester, which is now accepting three times as many deposits as the cash that it is dispensing.

Technology continues to play an integral role in the Bank’s ability to serve more customers in more ways. From Bank by Phone to Internet Banking and our ATM network, we are seeing our customers’ appreciation of this in their adoption and usage habits. This year alone we processed almost a million transactions through these alternate delivery channels, a considerable spike from years past.

ELECTRONIC BANKING CENTER

**KSB** *Anytime*  
AUGUSTA

### *Our Customers*

“I love the idea that I can literally deposit my cash and checks into my account in the middle of the night, and turn around and use the Internet Banking kiosk to pay bills. Thanks KSB, for being so forward-thinking.”

*Julie McKeon-Yahn, Oakland  
KSB Customer since 1998*





## *Our Community*

“The new park in Waterville is testament to KSB’s commitment to the greater Waterville community. We are fortunate to have such a community-oriented business in our area.”

*Michael Roy, City Manager, City of Waterville*

## *Our Future* OUR FUTURE—MUTUALLY BENEFICIAL

Every decision that we make as an institution is made with the customer in mind and decisions in 2008 were no exception. Our philosophy of “building for the future” in the past several years helped to set the stage for some great opportunities this year and we could not have imagined how some of the seeds we had sown in the past would germinate.

After many months of deliberation and planning, the boards of KV Federal Credit Union and Kennebec Savings Bank voted unanimously to proceed with a merger of the two institutions, subject to a vote by KV members in the spring of 2009. The merger, if approved, will ensure that KV members continue to have access to their current branches and to additional financial services. KV employees will have the safety and security of knowing that they will be working for a stable employer in the Kennebec Valley that was named one of Maine’s Best Places to Work.

We made a decision to change our charter in 2008 to also align us with future opportunities. Changing from a state charter to a federal charter has many benefits, not the least of which will be to help facilitate the proposed merger between KV and KSB.

We finalized the purchase of property on Civic Center Drive for future use to be determined, and we acquired the final few parcels of land on the triangle in Waterville, turning them into a wonderful park with lots of green space for the Waterville community to enjoy viewing.

# *Your Future* YOUR FUTURE—MUTUALLY BENEFICIAL

The major facility expansion in Waterville allowed Kennebec Savings Bank to enter into an agreement with LPL Financial to host a branch office in the new first floor wing of the Bank. The entity, Kennebec Wealth Management, is led by LPL Representative, Joe Jabar, CFP®, a Waterville native who comes to Kennebec Wealth Management with an established book of business and client base. Our expectation is that this new resource will be welcomed and utilized by KSB customers, who may need these investment-type services.

As a Certified Financial Planner, Joe will use his experience and knowledge of the marketplace to understand what clients value and help them to enhance their options and choices with a tailored solution to their long term financial objectives.

The LPL branch office will augment the Bank's eight-year old Investment Management & Trust Department headed by Amos Byron. The Department achieved great success in 2008 in spite of unfavorable market conditions, adding \$7.7 million in new money and 20 new accounts to the Bank's assets under management.



## *Our Customers*

“This is my dream job. I’m working where I live, doing what I love and helping people achieve their dreams in the process.”

*Joe Jabar, CFP*



As a KSB customer, as well as someone who cares deeply about community, I appreciate the Bank's commitment to central Maine. I am humbled by the opportunity to serve at this very successful, well-respected and stable institution.

—Dorcas Riley, VP, CFO



## OUR EMPLOYEES—MUTUAL COMMITMENT

KSB is considered a preferred employer in the Kennebec Valley and it has been said that the Bank's benefits package is arguably one of the best in the state. Our customers comment regularly about the good-natured helpful personalities that make up the staff, and we feel strongly that a happy work environment ensures happy employees which likewise ensures happy customers.

Andrew Silsby, the Bank's Senior Vice President & Treasurer, was promoted to Executive Vice President & Treasurer. Silsby becomes "second in command" in this position, maintaining his current oversight of operations, technology and finances, and elevating his role in the Bank's succession planning.

Andrew hired Dorcas Riley, CPA, as Vice President & Chief Financial Officer. Riley has an impressive career in the field of public accounting and financial management, with over twenty-five years in those capacities, most recently as CFO for PFG NorthCenter located in Augusta.

Two employees were promoted to Assistant Vice President & Loan Officer: Craig Garofalo, who works out of the Augusta office and Tracy Warren, who works out of the Waterville office. Anthony "Andy" Rhoades, was named as Waterville Branch Manager and Loan Officer, reporting to David Roy, Waterville's Regional Vice President.

Mary Hammond, Vice President &

Human Resources Officer, received the REM Community Service Award. Mark Johnston, the Bank's President, received the Town of Manchester's Spirit of America award. Mark was also named to the Independent Community Bankers Association's national board of directors.

Amos Byron, Assistant Vice President & Trust Officer, received his Certified Trust and Financial Advisor (CTFA) designation from the American Bankers Association. Two employees graduated this year; Craig Garofalo from National Banking School and Sarah Brown, from the Kennebec Leadership Institute, bringing the number of KLI alumni at the Bank to eighteen.



# Kennebec Foundation

The Kennebec Foundation is the nonprofit organization through which Kennebec Savings Bank supports charitable organizations throughout the Greater Kennebec Valley. Underscoring the Bank's deep commitment to charitable activities in this community, the Foundation was established in 1985 with the primary goal of helping nonprofit organizations through donations to programs that foster education, family and health.

Major recipients of Foundation dollars in 2008 include:

**Big Brothers Big Sisters of Kennebec Valley**

**Boys & Girls Club/YMCA**

**Capital Area Recreation Association**

**Friends of Belgrade Public Library**

**Good Shepherd Food Bank**

**Holocaust & Human Rights Center**

**Kennebec Historical Society**

**Kennebec Valley YMCA**

**Thomas College**

**United Way of Kennebec Valley**



## OUR COMMUNITIES— MUTUALLY INCLUSIVE

For the past 138 years, the communities of the Kennebec Valley have embraced the Bank, not just as a business, but as a partner. And for Kennebec Savings Bank, the feeling is mutual. This reciprocal partnership drove our decisions in 2008 about how we spent our time and our dollars at the community level.

Our investment portfolio took a hit this year but we did not allow that to stop us from doing our part with donations from our Community Dividends program, which includes the Bank's foundation. The Kennebec Foundation made donations totaling over \$307,000 to qualifying not-for-profit organizations.



# DONATIONS

The Bank's community involvement was more significant than ever. Beyond the Foundation donations, KSB made hundreds of additional donations to events and projects that were important to us.

Of major significance was our role with the American Lung Association of Maine's (ALAM) Trek Across Maine. In its fifth year, "The Loan Rangers of Kennebec Savings Bank" raised approximately \$37,000, riding 183 miles from Sunday River to Belfast. ALAM recognized the Bank and team for being in the top three teams for fundraising (out of 148 teams) and second largest in the number of participants.

Also of importance was our continued role as the major sponsor of the Festival de la Bastille, held in Augusta in celebration of the area's Franco-American community. The Festival was organized by friends Edna Doyon and Joyce Gagne of Le Club Calumet. And out of the darkness came Ricky Gibson, whose request that his Make-A-Wish donation be turned into lighting for the Maranacook football field touched us all, and taught us all about the true meaning of giving.

And as the year ended, the community showed its support of all we do by once again nominating Kennebec Savings Bank as Market Surveys of America's Best Place to Do Banking in both the Greater Waterville and Greater Augusta market areas.

All in all, 2008 was a good year for Kennebec Savings Bank. In spite of a tough year in the mortgage industry and a tougher year for investments, we reported strong asset growth of 8%. Out of 31 banks statewide, MaineBiz ranked KSB 11th in terms of asset size and we continue to maintain a 5-star rating from Bauer Financial as a superior financial institution. We have held this distinction for all consecutive quarters for the past 18 years running and it is a distinction held by less than 6% of institutions in the nation.

Our customers, our employees and the communities continue to show us year after year that they are fiercely loyal to Kennebec Savings Bank and . . . the feeling is mutual.





# BALANCE SHEET

ASSETS	12/31/08	12/31/07
Cash and Cash Equivalents	\$25,113,549	\$13,481,085
U.S. Government and Agencies	2,535,132	14,365,304
Other Bonds	23,833,801	27,320,918
Corporate Stock	8,935,464	14,544,573
Real Estate Loans	500,368,958	461,637,057
Commercial Loans	68,733,891	54,255,545
Other Loans	2,818,118	3,439,214
Allowance for Loan Losses	(2,576,495)	(2,739,337)
Bank Premises and Equipment	12,911,205	12,746,415
Other Assets	29,328,465	20,845,945
<b>Total Assets</b>	<b>\$672,002,088</b>	<b>\$619,896,719</b>
LIABILITIES & CAPITAL	12/31/08	12/31/07
Checking Account Deposits	\$67,949,360	\$64,350,942
Savings Account Deposits	124,819,693	101,291,559
Certificates of Deposit	214,696,762	213,192,211
Other Borrowings	190,095,073	163,046,298
Other Liabilities	10,580,594	5,478,829
Reserves and Undivided Profits	63,860,606	72,536,880
<b>Total Liabilities and Capital</b>	<b>\$ 672,002,088</b>	<b>\$619,896,719</b>

# STATEMENT OF EARNINGS

	YEAR ENDED	
	12/31/08	12/31/07
Interest on Loans	\$33,437,140	\$32,215,003
Interest and Dividends on Investments	2,633,660	2,487,317
	<u>36,070,800</u>	<u>34,702,320</u>
Interest and Dividends paid on Deposits	(11,087,144)	(13,166,028)
Interest Paid on Borrowed Funds	(8,342,334)	(7,632,574)
	<u>(19,429,478)</u>	<u>(20,798,602)</u>
Net Interest Income	16,641,322	13,903,718
Provision for Loan Losses	-	-
Other Operating Income	1,857,245	3,280,669
Security Gains/(Losses)	(6,991,042)	287,515
Operating Expenses	(11,482,571)	(10,518,356)
Earnings Before Income Taxes	24,954	6,953,546
Income Taxes	155,103	(2,391,200)
Net Income	<u>\$180,057</u>	<u>\$4,562,346</u>
Net Income, excluding after-tax effect of Securities Gains/Losses	\$4,794,145	\$4,372,586

# Senior Management



Mark L. Johnston  
*President & CEO*

Andrew E. Silsby  
*Executive Vice President & Treasurer*

William S. Hill  
*Regional Vice President & Loan Officer*

David J. Roy  
*Regional Vice President & Loan Officer*

Mary A. Hammond  
*Vice President & Human Resources Officer*

Laura J. Hudson  
*Vice President & Marketing Officer*

James R. Lagasse  
*Vice President & Chief Technology Officer*

Dorcas B. Riley  
*Vice President & Chief Financial Officer*

George W. Diplock, Jr.  
*Vice President & Loan Officer*

Gary Lapierre  
*Vice President & Loan Officer*

D. Mark Stebbins  
*Vice President & Commercial Loan Officer*

Erin N. Bechard  
*Asst. Vice President & Compliance Officer*

Amos M. Byron  
*Asst. Vice President & Trust Officer*

Matthew W. Dwyer  
*Asst. Vice President & Branch Manager*

Craig J. Garofalo  
*Asst. Vice President & Loan Officer*

## Officers

Cheryl A. Holmes  
*Asst. Vice President & EDP Manager*

Kelley J. Madore  
*Asst. Vice President & Operations Officer*

Tracy L. Plourde  
*Asst. Vice President & Loan Officer*

Tracy L. Warren  
*Asst. Vice President & Loan Officer*

Anthony W. Rhoades  
*Branch Manager & Loan Officer*

Michelle L. Richardson  
*Asst. Branch Manager & Loan Officer*

Heather O. Knowles  
*Controller*