Eastern Bank Corporation
2016 Annual Report

Eastern Bank Corporation

Management's Letter

Since Eastern Bank opened its doors in 1818, the fundamental services we provide – accepting deposits and making loans – haven't changed. What has changed, and continues to evolve at an increasingly rapid pace, is how we meet the needs of you, our customers.

As we approach our 200th anniversary in 2018, we'll be sure to celebrate this unique milestone. But, just as important, a bicentennial is about the future: what we must do, and where we must focus our attention, to ensure we grow, thrive and remain relevant over the next 200 years.

That's why in 2016, we've introduced what we call our "Agenda for the Next 200 Years." We're not trying to predict the future. Rather, the title reinforces our belief that the work we do today establishes a solid foundation to serve customers for many generations to come.

Carefully crafted over time by our Board and senior leadership team, this foundation consists of five building blocks: Innovation, Analytics, Delivery, Talent and Advocacy.

Until quite recently, **Innovation** and banking weren't mentioned in the same paragraph, let alone the same sentence. But with today's advances in technology and customers' ever higher expectations with respect to speed, ease, convenience and transparency, banks need an innovative culture to survive and thrive. That's why, in 2014, we launched a 130-employee research and development team, Eastern Labs, and why, over the last few years, you've seen us introduce a wide range of mobile and online services.

Helping us maintain an innovative frame of mind is **Analytics,** the effective use of the data we gather through the thousands of customer transactions we process every day. This helps us deliver greater value to our customers by constantly refining and expanding our product offerings.

Delivery, our third building block, is where innovation and analytics meet. By combining analytics with an innovative culture, we are working to improve the customer experience, whether online, face-to-face or over the phone. Recent examples include redesigned and digitized branches, voice biometrics and steadily improved online and mobile banking capabilities.

To be a progressive, innovative company requires a robust, collective employee mindset, which helps us better adapt to changes in our industry and our society. That's why having the right **Talent** is so critical to our success, and by talent we mean a diverse and inclusive team including our Board, senior leadership, and all of our employees, who bring different perspectives and experience to our business. By hiring and developing a diverse workplace, we improve our ability to be innovative, enhance our ability to serve a broader group of customers, support our efforts to build strong ties to our communities and build strength within our company.

We define **Advocacy**, the fifth and final building block of our 200-Year Agenda, as the active support of social justice causes, from equal pay to transgender rights. We believe these efforts are the right and smart thing to do, and we believe they go a long way toward attracting the diverse mix of employees we need at Eastern.

These five areas of focus – Innovation, Analytics, Delivery, Talent and Advocacy – must be part of our DNA over the next 200 years, but they don't mean we can or will forget the foundational building blocks that brought us to where we are today. These commitments – to mutuality, to our Vision, Purpose and Values, to growth, to safe, ethical business practices, and to our community – are sacrosanct to our business. These commitments are not only the foundation of who we are today as a company, but ensure our relevancy and success in the centuries ahead.

Sincerely,

Robert F. Rivers
Chairman and
Chief Executive Officer

Wendell J. Knox
Lead Director

Quincy Miller
Vice Chairman
and President

Financial Highlights

(Dollars in thousands)	December 31 2016	2015	2014	2013	2012
Balance Sheet Data					
Total assets	**$ 9,801,109**	$ 9,588,786	$ 9,447,895	$ 8,662,265	$ 8,569,495
Securities and short-term investments	**1,284,080**	1,651,562	1,892,865	2,649,731	3,191,066
Residential loans	**1,153,735**	1,041,072	1,032,066	923,231	828,439
Consumer loans	**1,539,534**	1,607,804	1,587,400	1,343,702	1,165,721
Commercial loans and leases	**5,011,862**	4,482,592	4,148,394	3,002,543	2,584,478
Total loans and leases	**7,705,131**	7,131,468	6,767,860	5,269,476	4,578,638
Total deposits	**8,188,950**	8,133,730	7,802,133	7,058,794	6,940,910
Repurchase agreements	**-**	-	268,189	243,603	290,754
Total retained earnings	**1,254,927**	1,205,014	1,143,256	1,112,413	1,044,820
Average total assets	**9,913,145**	9,667,907	8,927,931	8,540,635	7,967,969
Average earning assets	**9,077,633**	8,871,112	8,205,256	7,854,060	7,276,056
Average total deposits	**8,416,777**	8,031,975	7,282,736	6,938,013	6,413,090
Operating Data					
Net interest income	**$ 293,574**	$ 274,977	$ 234,588	$ 219,907	$ 227,226
Provision for credit losses	**7,900**	(325)	1,750	(6,500)	-
Noninterest income	**169,128**	153,007	147,382	149,436	144,657
Noninterest expense	**367,643**	333,695	298,131	284,594	277,460
Income before income taxes	**87,159**	94,614	82,089	91,249	94,423
Net income	**62,714**	62,564	55,050	61,502	60,849
Other Data					
Return on average assets	**0.63%**	0.65%	0.62%	0.72%	0.76%
Return on average equity	**5.06%**	5.33%	4.78%	5.76%	5.99%
Net interest margin (FTE)	**3.33%**	3.17%	2.93%	2.86%	3.18%
Equity to assets ratio	**12.80%**	12.57%	12.06%	12.84%	12.19%

Average Balance Sheets

The following tables present average balances, interest rates and yields (tax equivalent basis) for the years indicated:

	2016		
(Dollars in thousands)	Average Balance	Interest Income/Expense	Average Yield/Rate
Assets			
Loans and leases:			
Residential mortgage loans	$ 1,096,417	$ 39,921	3.64%
Commercial loans and leases	4,725,676	182,597	3.86
Consumer loans	1,575,471	48,597	3.08
Total loans and leases	7,397,564	271,115	3.66
Investment securities	992,316	32,888	3.31
Federal funds sold and other short-term investments	687,753	3,463	0.50
Total earning assets	9,077,633	307,466	3.39
Noninterest-bearing assets	835,512		
Total assets	$ 9,913,145		
Liabilities and Retained Earnings			
Deposits:			
Savings accounts	$ 956,936	453	0.05
Interest checking accounts [(1)]	1,473,303	474	0.03
Money market investment [(1)]	2,271,011	2,020	0.09
Time accounts	445,313	2,139	0.48
Total interest-bearing deposits	5,146,563	5,086	0.10
Borrowed funds	44,444	534	1.20
Total interest-bearing liabilities	5,191,007	5,620	0.11
Demand accounts [(1)]	3,270,214		
Other noninterest-bearing liabilities	212,262		
Retained earnings	1,239,662		
Total liabilities and retained earnings	$ 9,913,145		
Net interest income		$ 301,846	
Interest spread			3.28%
Net interest income to earning assets			3.33%

(1) Balances shown for interest checking accounts, money market investments and demand accounts do not reflect the impacts of certain sweep programs designed to manage reserve requirements at the Federal Reserve Bank of Boston.

(Dollars in thousands)	2015 Average Balance	Interest Income/Expense	Average Yield/Rate
Assets			
Loans and leases:			
Residential mortgage loans	$ 1,054,319	$ 38,589	3.66%
Commercial loans and leases	4,283,000	164,505	3.84
Consumer loans	1,613,441	46,595	2.89
Total loans and leases	6,950,760	249,689	3.59
Investment securities	1,043,450	35,470	3.40
Federal funds sold and other short-term investments	876,902	2,235	0.25
Total earning assets	8,871,112	287,394	3.24
Noninterest-bearing assets	796,795		
Total assets	$ 9,667,907		
Liabilities and Retained Earnings			
Deposits:			
Savings accounts	$ 885,375	515	0.06
Interest checking accounts (1)	1,426,249	609	0.04
Money market investment (1)	2,175,022	2,130	0.10
Time accounts	597,973	1,835	0.31
Total interest-bearing deposits	5,084,619	5,089	0.10
Borrowed funds	274,769	730	0.27
Total interest-bearing liabilities	5,359,388	5,819	0.11
Demand accounts (1)	2,947,356		
Other noninterest-bearing liabilities	186,884		
Retained earnings	1,174,279		
Total liabilities and retained earnings	$ 9,667,907		
Net interest income		$ 281,575	
Interest spread			3.13%
Net interest income to earning assets			3.17%

(1) Balances shown for interest checking accounts, money market investments and demand accounts do not reflect the impacts of certain sweep programs designed to manage reserve requirements at the Federal Reserve Bank of Boston.

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Report of Independent Auditors

The Board of Directors
Eastern Bank Corporation

We have audited the accompanying consolidated financial statements of Eastern Bank Corporation, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in retained earnings and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eastern Bank Corporation at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Report on Internal Control Over Financial Reporting

We also have audited, in accordance with auditing standards generally accepted in the United States, Eastern Bank Corporation's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria) and our report dated February 24, 2017 expressed an opinion that Eastern Bank Corporation maintained effective internal control over financial reporting, including internal control over the preparation of regulatory financial statements, in accordance with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C), and our report dated February 24, 2017 expressed an unqualified opinion thereon.

Ernst + Young LLP

February 24, 2017

Eastern Bank Corporation

Consolidated Balance Sheets

	December 31	
	2016	**2015**
Assets	*(In Thousands)*	
Cash and due from banks	**$ 79,929**	$ 72,931
Other short-term investments	**24,821**	610,865
Cash and cash equivalents	**104,750**	683,796
Trading securities	**51,663**	61,050
Securities available for sale	**1,207,596**	979,647
Loans held for sale	**2,038**	21,998
Loans and leases, net of allowance for credit losses of $70,188 in 2016 and $65,500 in 2015	**7,635,838**	7,069,066
Federal Home Loan Bank stock, at cost	**15,342**	10,548
Premises and equipment	**75,125**	72,842
Bank-owned life insurance	**73,834**	71,931
Goodwill and other intangibles, net	**362,980**	362,762
Deferred income taxes, net	**69,757**	59,009
Rabbi trust assets	**70,930**	67,543
Other assets	**131,256**	128,594
Total assets	**$ 9,801,109**	$ 9,588,786
Liabilities and retained earnings		
Liabilities:		
Deposits:		
Demand	**$ 376,686**	$ 3,005,194
Savings	**978,947**	899,613
Interest checking	**133,274**	1,451,151
Money market investment	**6,326,432**	2,287,890
Time	**339,666**	415,187
Time - $250,000 and over	**33,945**	74,695
Total deposits	**8,188,950**	8,133,730
Borrowed funds	**154,331**	53,048
Other liabilities	**202,901**	196,994
Total liabilities	**8,546,182**	8,383,772
Retained earnings	**1,292,309**	1,229,595
Accumulated other comprehensive income, net of tax:		
Unrealized appreciation on securities available for sale	**4,971**	16,315
Funded status of defined benefit postretirement plans	**(42,353)**	(40,896)
Total retained earnings	**1,254,927**	1,205,014
Total liabilities and retained earnings	**$ 9,801,109**	$ 9,588,786

See accompanying notes.

Eastern Bank Corporation

Consolidated Statements of Income

	Year Ended December 31	
	2016	**2015**
	(In Thousands)	
Interest and dividend income:		
Loans, including fees	**$ 266,895**	$ 246,371
Trading securities	**853**	476
Taxable securities available for sale	**21,718**	26,514
Tax-exempt securities available for sale	**6,265**	5,200
Federal funds sold and other short-term investments	**3,463**	2,235
Total interest and dividend income	**299,194**	280,796
Interest expense:		
Deposits	**5,086**	5,089
Borrowed funds	**534**	730
Total interest expense	**5,620**	5,819
Net interest income	**293,574**	274,977
Provision for (release of) allowance for credit losses	**7,900**	(325)
Net interest income after provision for credit losses	**285,674**	275,302
Noninterest income:		
Insurance commissions	**74,369**	69,691
Service charges on deposit accounts	**24,456**	22,917
Debit card processing fees	**19,282**	18,175
Trust and investment advisory fees	**16,262**	15,495
Interest rate swap income	**7,734**	4,197
Income from investments held in rabbi trusts	**2,161**	698
Trading securities gains, net	**2,085**	2,365
Net gain on sales of mortgage loans held for sale	**1,771**	1,835
Gains (losses) on sales of securities available for sale, net	**261**	(62)
Other	**20,747**	17,696
Total noninterest income	**169,128**	153,007
Noninterest expense:		
Salaries and employee benefits	**222,323**	199,897
Office occupancy and equipment	**35,893**	34,259
Data processing	**37,730**	33,760
Professional services	**13,956**	11,537
Charitable contributions	**7,012**	7,152
Marketing	**7,983**	7,488
FDIC insurance	**4,121**	4,969
Amortization of intangible assets	**2,908**	2,703
Other	**35,717**	31,930
Total noninterest expense	**367,643**	333,695
Income before income tax expense	**87,159**	94,614
Income tax expense	**24,445**	32,050
Net income	**$ 62,714**	$ 62,564

See accompanying notes.

Eastern Bank Corporation

Consolidated Statements of Comprehensive Income

	Year Ended December 31	
	2016	**2015**
	(In Thousands)	
Net income		
Other comprehensive income, net of tax:	**$ 62,714**	$ 62,564
Unrealized gains (losses) on securities available for sale:		
Change in fair value of securities available for sale	**(11,177)**	(8,054)
Less: reclassification adjustment for (gains) losses included in net income	**(167)**	37
Net change in fair value of securities available for sale	**(11,344)**	(8,017)
Defined benefit pension plans:		
Amortization of actuarial net loss	**3,280**	3,946
Change in actuarial net loss	**(4,763)**	3,239
Amortization of prior service cost	**26**	26
Net change in actuarial net loss	**(1,457)**	7,211
Total other comprehensive income	**(12,801)**	(806)
Comprehensive income	**$ 49,913**	$ 61,758

See accompanying notes.

Eastern Bank Corporation

Consolidated Statements of Changes in Retained Earnings

	Retained Earnings	Accumulated Other Comprehensive Income	Total
		(In Thousands)	
Balance at December 31, 2014	$ 1,167,031	$ (23,775)	$ 1,143,256
Net income	62,564	-	62,564
Other comprehensive income, net of tax	-	(806)	(806)
Balance at December 31, 2015	1,229,595	(24,581)	1,205,014
Net income	**62,714**		**62,714**
Other comprehensive income, net of tax		**(12,801)**	**(12,801)**
Balance at December 31, 2016	**$ 1,292,309**	**$ (37,382)**	**$ 1,254,927**

See accompanying notes.

Eastern Bank Corporation

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2016	**2015**
	(In Thousands)	
Operating activities		
Net income	**$ 62,714**	$ 62,564
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (release of) allowance for credit losses	**7,900**	(325)
Depreciation	**12,039**	10,260
Amortization of intangible assets	**2,908**	2,703
Deferred income tax benefit	**(3,461)**	(3,440)
Amortization of premiums, discounts, and fees, net	**357**	3,097
Increase in cash surrender value of bank-owned life insurance, net of benefit proceeds	**(1,891)**	(1,588)
Decrease in trading securities, net	**9,387**	52,807
(Gain) loss on sale of securities available for sale, net	**(261)**	62
Net gain on sales of mortgage loans held for sale	**(1,771)**	(1,835)
Net decrease (increase) in loans held for sale	**19,960**	(4,344)
Other, net	**(7,599)**	1,053
Net cash provided by operating activities	**100,282**	121,014
Investing activities		
Proceeds from sales of securities available for sale	**6,728**	5,794
Proceeds from maturities and principal paydowns of securities available for sale	**171,295**	172,423
Purchases of securities available for sale	**(425,895)**	(125,891)
Proceeds from sale of Federal Home Loan Bank stock	**3,256**	8,401
Purchases of Federal Home Loan Bank stock	**(8,050)**	-
Net increase in outstanding loans	**(570,887)**	(361,401)
Acquisitions, net of cash and cash equivalents acquired	**(2,648)**	(7,950)
Purchased bank-owned life insurance	**(12)**	(69)
Proceeds from sale of other real estate owned, net of acquired	**331**	515
Purchased banking premises and equipment, net	**(9,949)**	(13,510)
Net cash used in investing activities	**(835,831)**	(321,688)
Financing activities		
Net increase in demand, savings, interest checking, and money market investment deposit accounts	**171,491**	569,546
Net decrease in time deposits	**(116,271)**	(237,949)
Net increase (decrease) in borrowed funds	**101,283**	(296,687)
Net cash provided by financing activities	**156,503**	34,910
Net decrease in cash and cash equivalents	**(579,046)**	(165,764)
Cash and cash equivalents at beginning of year	**683,796**	849,560
Cash and cash equivalents at end of year	**$ 104,750**	$ 683,796

See accompanying notes.

Eastern Bank Corporation

Notes to Consolidated Financial Statements

December 31, 2016

1. Summary of Significant Accounting Policies

Nature of Operations

Eastern Bank Corporation (the Corporation) is a Massachusetts chartered mutual bank holding company. Through its wholly owned subsidiary, Eastern Bank (the Bank), the Corporation provides a variety of banking, trust and investment, and insurance services.

The activities of the Corporation and the Bank are subject to the regulatory supervision of the Federal Reserve Board and the Federal Deposit Insurance Corporation (FDIC), respectively. The Corporation is also subject to various Massachusetts business and banking regulations, and the Bank is also subject to various Massachusetts and New Hampshire business and banking regulations.

Basis of Presentation

The consolidated financial statements include the accounts of the Corporation, its wholly owned subsidiaries and a consolidated tax credit investment company. All significant intercompany accounts and transactions have been eliminated in consolidation. The Corporation consolidates wholly-owned subsidiaries and a voting interest entity (VOE) where the VOE was determined to overcome the presumption of control of the general partner.

Certain previously reported amounts have been reclassified to conform to the current year presentation.

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States (GAAP) and to the general practices of the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to change relate to the determination of the allowance for credit losses, valuation and fair value measurements, other-than-temporary impairment on investment securities, the liabilities for benefit obligations (particularly pensions) and the provision for income taxes.

The Corporation has evaluated subsequent events through February 24, 2017, which is the date that the consolidated financial statements were available to be issued.

1. Summary of Significant Accounting Policies (continued)

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method of accounting. Accordingly, the net assets of the companies acquired are recorded at their fair values at the date of acquisition. Goodwill represents the excess of purchase price over the fair value of net assets acquired. Other intangible assets represent acquired assets that lack physical substance, but can be distinguished from goodwill because of contractual or other legal rights, or because the asset is capable of being sold or exchanged either on its own, or in combination with a related contract, asset, or liability.

The Corporation evaluates goodwill on an annual basis or whenever there is an indicator of impairment. Other intangible assets are reviewed for impairment whenever there is an indicator of impairment, however, useful lives are evaluated annually. Any impairment losses are charged to earnings. The Corporation amortizes other intangible assets over their respective estimated useful lives. The estimated useful life of core deposit identifiable intangible assets fall within a range of seven to ten years and the estimated useful life of customer lists from insurance agency acquisitions is ten years. The estimated useful life of non-compete agreements resulting from insurance agency acquisitions are dependent upon the terms of the agreement. Intangible assets are stated at cost less accumulated amortization.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, Federal funds sold, and other short-term investments, all of which mature within 90 days.

Securities

Debt and equity securities that are bought and held principally for the purpose of resale in the near term are classified as trading and reported at fair value, with unrealized gains and losses included in earnings.

1. Summary of Significant Accounting Policies (continued)

Debt and equity securities classified as available for sale are reported at fair value, with unrealized gains and losses reported as a separate component of other comprehensive income, net of tax.

Management evaluates impaired securities available for sale (e.g., those for which fair value is less than cost) for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, current market conditions, the financial condition and near-term prospects of the issuer, performance of collateral underlying the securities, the ratings of the individual securities, the interest rate environment, the Corporation’s intent to sell the security or whether it is more likely than not that the Corporation will be required to sell the debt security before its anticipated recovery, as well as other qualitative factors.

Premiums and discounts on investments and mortgage-backed securities are amortized or accreted to income using the effective interest rate method. If a decline in fair value below the amortized cost basis of an investment is judged to be other than temporary, the investment is written down to fair value. The portion of the impairment related to credit losses is included in earnings, and the portion of the impairment related to other factors is included in other comprehensive income. Gains and losses on sales of investments are recognized at the time of sale on the specific-identification basis.

Loans

Loans are reported at their principal amount outstanding, net of deferred loan fees and any unearned discount or unamortized premium for acquired loans. Unearned discount and unamortized premium are accreted and amortized, respectively, to income on a basis that results in level rates of return over the terms of the loans. Origination fees and related direct incremental origination costs are offset, and the resulting net amount is deferred and amortized over the life of the related loans using the interest method, assuming a certain level of prepayments. When loans are sold or repaid, the unamortized fees and costs are recorded to income.

1. Summary of Significant Accounting Policies (continued)

Interest accruals are generally discontinued when management has determined that the borrower may be unable to meet contractual obligations and/or when loans are 90 days or more in arrears, unless management believes that collateral held by the Corporation is clearly sufficient and full satisfaction of both principal and interest is highly probable or the loan is accounted for as a purchased credit-impaired loan. When a loan is placed on nonaccrual, all interest previously accrued but not collected is reversed against current period income and amortization of deferred loan fees is discontinued. Interest received on nonaccrual loans is either applied against principal or reported as income according to management's judgment as to the collectability of principal. Nonaccrual loans may be returned to an accrual status when principal and interest payments are no longer delinquent, and the risk characteristics of the loan have improved to the extent that there no longer exists a concern as to the collectability of principal and interest. Loans are considered past due based upon the number of days delinquent according to their contractual terms.

Impaired loans consist of all loans for which management has determined it is probable the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreements. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. The Corporation measures impairment of loans using a discounted cash flow method, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

The Corporation periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring (TDR). All TDR loans are considered impaired and therefore are subject to a specific review for impairment loss. The impairment analysis discounts the present value of the anticipated cash flows by the loan's contractual rate of interest in effect prior to the loan's modification or the fair value of collateral if the loan is collateral dependent. The amount of impairment loss, if any, is recorded as a specific loss allocation to each individual loan in the allowance for loan losses. Commercial loans (commercial and industrial, commercial real estate, commercial construction, and small business loans) and residential loans that have been classified as TDRs and which subsequently default are reviewed to determine if the loan should be deemed collateral dependent. In such an instance, any shortfall between the value of the collateral and the book value of the loan is determined by measuring the recorded investment in the loan against the fair value of the collateral less costs to sell.

1. Summary of Significant Accounting Policies (continued)

Acquired Loans

All acquired loans are recorded at fair value with no carryover of the allowance for loan losses. At acquisition, loans are also reviewed to determine if the loan has evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that all contractually required payments will not be collected. Such loans are deemed to be purchased credit impaired (PCI) loans. Under the accounting model for PCI loans, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the “accretable yield”, is accreted into interest income over the life of the loans using the effective yield method. Accordingly, PCI loans are not subject to classification as nonaccrual in the same manner as originated loans. Rather, acquired loans are considered to be accruing loans because their interest income relates to the accretable yield recognized and not to contractual interest payments at the loan level. The difference between contractually required principal and interest payments and the cash flows expected to be collected, referred to as the “nonaccretable difference”, includes estimates of both the impact of prepayments and future credit losses expected to be incurred over the life of the loans.

The estimate of cash flows expected to be collected is regularly re-assessed subsequent to acquisition. These re-assessments involve updates, as necessary, of the key assumptions and estimates used in the initial estimate of fair value. Generally speaking, expected cash flows are affected by:

- *Changes in the expected principal and interest payments over the estimated life* – Changes in expected cash flows may be driven by the credit outlook and actions taken with borrowers. Changes in expected future cash flows resulting from loan modifications are included in the assessment of expected cash flows.

- *Change in prepayment assumptions* – Prepayments affect the estimated life of the loans, which may change the amount of interest income expected to be collected.

- *Change in interest rate indices for variable rate loans* – Expected future cash flows are based, as applicable, on the variable rates in effect at the time of the assessment of expected cash flows.

1. Summary of Significant Accounting Policies (continued)

A decrease in expected cash flows in subsequent periods may indicate that the loan is impaired which would require the establishment of an allowance for loan losses by a charge to the provision for loan losses. An increase in expected cash flows in subsequent periods serves, first, to reduce any previously established allowance for loan losses by the increase in the present value of cash flows expected to be collected, and results in a recalculation of the amount of accretable yield for the loan. The adjustment of accretable yield due to an increase in expected cash flows is accounted for as a change in estimate. The additional cash flows expected to be collected are reclassified from the nonaccretable difference to the accretable yield, and the amount of periodic accretion is adjusted accordingly over the remaining life of the loans.

A PCI loan may be resolved either through receipt of payment (in full or in part) from the borrower, the sale of the loan to a third party, or foreclosure of the collateral. For PCI loans accounted for on an individual loan basis and resolved directly with the borrower, any amount received from resolution in excess of the carrying amount of the loan is recognized and reported within interest income.

A refinancing or modification of a PCI loan accounted for individually is assessed to determine whether the modification represents a TDR. If the loan is considered to be a TDR, it will be included in the total impaired loans reported by the Company. The loan will continue to recognize interest income based upon the excess of cash flows expected to be collected over the carrying amount of the loan.

Allowance for Credit Losses

The allowance for credit losses is established to provide for probable losses incurred in the Corporation’s loan portfolio at the balance sheet date and is established through a provision for credit losses charged to earnings. The allowance is based on management’s assessment of many factors, including the risk characteristics of the loan portfolio, current economic conditions, and trends in loan delinquencies and charge-offs. Charge-offs, net of recoveries, are charged directly to the allowance. Commercial and residential loans are charged-off in the period in which they are deemed uncollectible. Delinquent loans in these product types are subject to ongoing review and analysis to determine if a charge-off in the current period is appropriate. For consumer finance loans, policies and procedures exist that require charge-off consideration at various stages of delinquency depending on the product type. Other credit quality indicators are also considered, such as collateral position and adequacy.

1. Summary of Significant Accounting Policies (continued)

The allowance for credit losses is evaluated on a regular basis by management. While management uses current information in establishing the allowance for losses, future adjustments to the allowance may be necessary if economic conditions or conditions relative to borrowers differ substantially from the assumptions used in making the evaluation. Management uses a methodology to systematically estimate the amount of credit loss incurred in the portfolio. Commercial real estate and commercial and industrial loans are evaluated using a loan rating system, historical losses and other factors which form the basis for estimating incurred losses. Portfolios of more homogeneous populations of loans, including residential mortgages and consumer loans, are analyzed as groups taking into account delinquency ratios, historical loss experience and charge-offs.

The allowance consists of specific and general components. The specific component consists of reserves for impaired loans (defined as those where management has determined it is probable it will not collect all payments when due), typically classified as either doubtful or substandard. For impaired loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the loan is lower than the carrying value of the loan. The general component covers nonimpaired nonclassified loans, and is based on historical loss experience adjusted for qualitative factors.

In the ordinary course of business, the Corporation enters into commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable. The credit risk associated with these commitments is evaluated in a manner similar to the allowance for loan losses. The reserve for unfunded lending commitments is included in other liabilities in the balance sheet.

Additionally, various regulatory agencies, as an integral part of the Corporation's examination process, periodically assess the appropriateness of the allowance for loan losses and may require the Corporation to increase its provision for loan losses or recognize further loan charge-offs, in accordance with U.S. GAAP.

1. Summary of Significant Accounting Policies (continued)

Mortgage Banking Activities

Mortgage loans held for sale to the secondary market are carried at the lower of cost or estimated market value. The Corporation enters into commitments to fund residential mortgage loans with an offsetting forward commitment to sell them in the secondary markets in order to mitigate interest rate risk. Gains or losses on sales of mortgage loans are recognized at the time of sale. Interest income is recognized on loans held for sale between the time the loan is funded and the loan is sold. Direct loan origination costs and fees are deferred upon origination and are recognized on the date of sale.

Premises and Equipment Used in Operations

Land is carried at cost. Buildings, leasehold improvements and equipment are stated at cost less accumulated depreciation and amortization, computed principally on the straight-line method over the estimated useful lives of the related assets or the terms of the leases, if shorter.

Premises and Equipment Held for Sale

Banking premises and equipment held for sale are carried at the lower of cost or estimated fair value less costs to sell.

Retirement Plans

The Corporation provides pension benefits to its employees through various pension plans. At the measurement date, plan assets are determined based on fair value, generally representing observable market prices. The actuarial cost method used to compute the pension liabilities and related expense is the projected unit credit method. The projected benefit obligation is principally determined based on the present value of the projected benefit distributions at an assumed discount rate. The discount rate which is utilized is based on the investment yield of high quality corporate bonds available in the marketplace with maturities equal to projected cash flows of future benefit payments as of the measurement date. Periodic pension expense (or income) includes service costs, interest costs based on the assumed discount rate, the expected return on plan assets, if applicable, based on an actuarially derived market-related value and amortization of actuarial gains and losses. The overfunded or underfunded status of the plans is recorded as an asset or liability on the consolidated balance sheets, with changes in that status recognized through other comprehensive income, net of related taxes.

1. Summary of Significant Accounting Policies (continued)

Rabbi Trust Assets

The Corporation holds securities in rabbi trust investments that are used to fund certain executive non-qualified retirement benefits and deferred compensation. These rabbi trust investments consist primarily of cash and cash equivalents, U.S. government agency obligations, equity securities, mutual funds and other exchange-traded funds, and are recorded at fair value.

Bank Owned Life Insurance

Primarily as a result of mergers and acquisitions, the Corporation holds life insurance on the lives of certain participating executives. The amount reported as an asset on the balance sheet is the sum of the cash surrender values reported to the Corporation by the various insurance carriers. Certain policies are split-dollar life insurance policies whereby the Corporation recognizes a liability for the postretirement benefit related to the arrangement. This postretirement benefit is included in other liabilities on the balance sheet.

Income Taxes

The Corporation accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Corporation's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. Interest and penalties paid on the underpayment of income taxes are classified as income tax expense.

The Corporation periodically evaluates the sustainability of its tax positions as to whether it is more likely than not its position would be upheld upon examination by the appropriate taxing authority. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the consolidated financial statements. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement.

1. Summary of Significant Accounting Policies (continued)

Variable Interest Entities and Voting Interest Entities

The Corporation is involved in the normal course of business with various types of special purpose entities, some of which meet the definition for variable interest entities (VIEs) and VOEs. The Corporation is required by GAAP to consolidate a VIE when the Corporation is deemed to be the primary beneficiary. This determination is evaluated periodically as facts and circumstances change.

The Corporation would consolidate entities deemed to be VIEs when it is determined to be the primary beneficiary, which is the party involved with the VIE that will absorb a majority of the expected losses, receive a majority of the expected residual returns or both. A legal entity is referred to as a VIE if any of the following conditions exist: (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties; or (2) the entity has equity investors that cannot make significant decisions about the entity's operations or that do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

Under GAAP, investments in limited partnerships and similar entities that are not VIEs should be evaluated for potential consolidation under the voting model. Under this model, the general partner in a limited partnership is presumed to control the partnership and thus consolidate the partnership, regardless of the general partner's level of ownership. The presumption of control by the general partner may be overcome if the limited partners have either: 1) the substantive ability, either by a single limited partner or through a simple majority vote, to dissolve (liquidate) the limited partnership or otherwise remove the general partner "without cause" (as distinguished from "with cause"); or 2) substantive participating rights. The Corporation consolidates VOEs when it is determined to have control of the VOE.

Low Income Housing Tax Credits and Other Tax Credit Investments

As part of its community reinvestment initiatives, the Corporation invests in qualified affordable housing projects and other tax credit investment projects. The Corporation receives low-income housing tax credits, investment tax credits, rehabilitation tax credits and other tax credits as a result of its investments in these limited partnership investments.

1. Summary of Significant Accounting Policies (continued)

The Corporation accounts for its investments in qualified affordable housing projects using the proportional amortization method and amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits allocated to the Corporation. The amortization of the excess of the carrying amount of the investment over its estimated residual value is included as a component of income tax expense. At investment inception, the Corporation records a liability for the committed amount of the investment. This liability is reduced as contributions are made.

The Corporation consolidates a tax credit investment company using the VOE model.

Other tax credit investment projects are accounted for using either the cost method or equity method.

Advertising Costs

All advertising costs are expensed in the period in which they are incurred.

Insurance Commissions

The Corporation acts as an agent in offering property, casualty and life and health insurance to both personal and commercial customers. Personal lines insurance products include life, accident and health, automobile, and property and liability insurance including fire, condominium, home and tenants, among others. Commercial insurance products include group life and health, commercial property and liability, surety, and workers compensation insurance, among others. The Corporation recognizes insurance commission revenues when earned based upon the effective date of the insurance policy.

Trust Operations

The Bank is a full-service trust company that provides a wide range of trust services to customers that includes managing customer investments, safekeeping customer assets, supplying disbursement services, and providing other fiduciary services. Trust assets held in a fiduciary or agency capacity for customers are not included in the accompanying consolidated balance sheets as they are not assets of the Corporation. Revenue from administrative and management activities associated with these assets is recorded on an accrual basis.

1. Summary of Significant Accounting Policies (continued)

Derivative Financial Instruments

The Corporation enters into interest rate swap agreements to provide for the needs of its customers. An interest rate swap is an agreement whereby one party agrees to pay a floating rate of interest on a notional principal amount in exchange for receiving a fixed rate of interest on the same notional amount for a predetermined period of time from a second party. These customer derivatives are offset with matching derivatives with correspondent bank counterparties in order to minimize interest rate risk to the Corporation. These interest rate derivative instruments are recorded on the consolidated balance sheets as either an asset or liability measured at its fair value. Exposure with respect to these derivatives is largely limited to nonperformance by either the customer or the other counterparty. These derivatives do not qualify for hedge accounting. As such, all changes in fair value of these derivative instruments are included in other noninterest income.

The Corporation enters into foreign currency forward exchange contracts to provide for the needs of its customers. These customer derivatives are offset with matching derivatives with correspondent bank counterparties in order to minimize foreign exchange rate risk to the Corporation. Exposure with respect to these derivatives is largely limited to nonperformance by either the customer or the other counterparty. These derivatives do not qualify for hedge accounting. As such, all changes in fair value are included in other noninterest income.

Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Topic also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

1. Summary of Significant Accounting Policies (continued)

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Corporation in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Statements of Cash Flows

Supplemental disclosures of cash flow information for the years ended December 31 follows:

	2016	2015
	(In Thousands)	
Cash paid for:		
Interest	**$ 5,854**	$ 6,048
Income taxes	**$ 25,928**	$ 37,846
Non-cash investing activities:		
Transfer of loans to other real estate owned	**$ 189**	$ 760

Recent Accounting Pronouncements

FASB ASC Subtopic 310-40 "Receivables – Troubled Debt Restructurings by Creditors: Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure" Update No. 2014-04. Issued in January 2014, the purpose of this update is to reduce diversity in reporting by clarifying when an in substance repossession or foreclosure occurs. That is, when a creditor should be considered to have taken physical possession of the residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments in this Update can be applied using either a modified retrospective method or a prospective method. The adoption of this standard on January 1, 2015 did not have a material impact on the Corporation's consolidated financial position.

1. Summary of Significant Accounting Policies (continued)

FASB ASC Topic 606 "Revenue from Contracts with Customers" Update No. 2014-09. Issued in May 2014, the purpose of this update is to address the previous revenue recognition requirements in GAAP that differ from those in International Financial Reporting Standards (IFRS). Accordingly, the FASB and the International Accounting Standards Board (IASB) initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS. The largely converged revenue recognition standards will supersede virtually all revenue recognition guidance in GAAP and IFRS. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Since the issuance of Update 2014-09, the FASB has finalized various amendments to the standard as summarized below:

FASB ASC Topic 606 "Revenue from Contracts with Customers" Update No. 2016-12.
FASB ASC Topic 606 "Revenue from Contracts with Customers" Update No. 2016-10.
FASB ASC Topic 606 "Revenue from Contracts with Customers" Update No. 2016-08.
FASB ASC Topic 606 "Revenue from Contracts with Customers" Update No. 2015-14.

Through Updates 2016-12, 2016-10 and 2016-08, the FASB amended its new revenue guidance on licenses of intellectual property, identification of performance obligations, collectability, noncash consideration and the presentation of sales and other similar taxes. The FASB also clarified the definition of a completed contract at transition and added a practical expedient to ease transition for contracts that were modified prior to adoption. The FASB also amended the new revenue recognition guidance on determining whether an entity is a principal or an agent in an arrangement which affects whether revenue should be reported gross or net.

Following the issuance of Update 2015-14, Update 2014-09, as amended, is effective for the Corporation for annual reporting periods beginning after December 15, 2018, including interim reporting periods within that reporting period. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. A full or modified retrospective transition method is required. The Corporation's revenue is comprised of net interest income on financial assets and liabilities, which is explicitly excluded from the scope of the new guidance, and noninterest income. The Corporation plans to adopt the revenue recognition guidance in the first quarter of 2019 and is currently evaluating the potential impact on noninterest income, other presentation and disclosure issues, as well as evaluating its selection of transition method.

1. Summary of Significant Accounting Policies (continued)

FASB ASC Topic 860 "Transfers and Servicing: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures" Update No. 2014-11. Issued in June 2014, the purpose of this update is to respond to stakeholders' concerns about current accounting and disclosures for repurchase agreements and similar transactions. The amendments in this Update change the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting. In addition, the amendments also require two new disclosures. The first requires an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. The second provides increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The adoption of this standard on January 1, 2015 did not have a material impact on the Corporation's consolidated financial position.

FASB ASC Subtopic 310-40 "Receivables – Troubled Debt Restructurings by Creditors: Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure" Update No. 2014-14. Issued in August 2014, the purpose of this update is to reduce diversity in reporting by addressing the classification of certain foreclosed mortgage loans held by creditors that are either fully or partially guaranteed under government programs. The adoption of this standard on January 1, 2016 did not have a material impact on the Corporation's consolidated financial position.

FASB ASC Subtopic 205-40 "Presentation of Financial Statements - Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" Update No. 2014-15. Issued in August 2014, the purpose of this update is to provide guidance in U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The adoption of this standard for the reporting period ending December 31, 2016 did not have a material impact on the Corporation's consolidated financial statements.

FASB ASC Subtopic 225-20 "Income Statement – Extraordinary and Unusual Items: Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items" Update No. 2015-01. Issued in January 2015, the purpose of this update is to eliminate from GAAP the concept of extraordinary items. The adoption of this standard on January 1, 2016 did not have a material impact on the Corporation's consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

FASB ASC Topic 810 "Consolidation: Amendments to the Consolidation Analysis" Update No. 2015-02. Issued in February 2015, the purpose of this update is to respond to stakeholders' concerns about the current accounting for consolidation of certain legal entities. The amendments in this Update change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Specifically, the amendments: 1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; 2) Eliminate the presumption that a general partner should consolidate a limited partnership; 3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and 4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments are effective for public business entities for reporting periods beginning after December 15, 2015. For nonpublic entities, the amendments are effective for reporting periods beginning after December 15, 2016. The adoption of this standard is not expected to have a material impact on the Corporation's consolidated financial statements.

FASB ASC Subtopic 350-40 "Intangibles – Goodwill and Other – Internal-Use Software: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement" Update No. 2015-05. Issued in April 2015, the purpose of this update is to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. In addition, the Update is intended to provide guidance to customers about whether a cloud computing arrangement includes a software license. The adoption of this standard on January 1, 2016 did not have a material impact on the Corporation's consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

FASB ASC Topic 820 "Fair Value Measurement: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)" Update No. 2015-07. Issued in May 2015, the purpose of this update is to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. In addition, the update removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Instead, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The amendments are effective for public business entities for reporting periods beginning after December 15, 2015. For nonpublic entities, the amendments are effective for reporting periods beginning after December 15, 2016. The adoption of this standard is not expected to have a material impact on the Corporation's consolidated financial statements.

FASB ASC Topic 805 "Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments" Update No. 2015-16. Issued in September 2015, the purpose of this update is to eliminate the requirement that acquirers in business combinations retrospectively apply adjustments made to provisional amounts recognized in a business combination. The amendments in the update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments are effective for public business entities for reporting periods beginning after December 15, 2015. For nonpublic entities, the amendments are effective for reporting periods beginning after December 15, 2016. The adoption of this standard is not expected to have a material impact on the Corporation's consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

FASB ASC Topic 825-10 "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" Update No. 2016-01. Issued in January 2016, the purpose of this update is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in this update: 1) Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; 2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) Eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; 4) Eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; 5) Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 6) Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; 7) Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or accompanying notes to the financial statements; 8) Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments are effective for public business entities for reporting periods beginning after December 15, 2017. For nonpublic entities, the amendments are effective for reporting periods beginning after December 15, 2018. Early adoption is permitted for nonpublic entities, but not before the public business entity effective date. Entities that are not considered public business entities may early adopt the provision that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost, and the Corporation has early adopted this provision in 2016. The Corporation is considering the impacts of the other provisions of this standard on the consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

FASB ASC Topic 842 "Leases" Update No. 2016-02. Issued in February 2016, this update affects any entity that enters into a lease (as that term is defined in this update), with some specified scope exemptions. The core principle of this update is that a lessee should recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease have not significantly changed from previous GAAP. In addition, the accounting applied by a lessor is largely unchanged from that applied under previous GAAP. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2019. The Corporation is currently assessing the impact of the adoption of this standard on the Corporation's consolidated financial position.

FASB ASC Topic 323 "Investments -Equity Method and Joint Ventures" Update No. 2016-07. Issued in March 2016, this update eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments in this update require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments in this update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Corporation's consolidated financial position.

1. Summary of Significant Accounting Policies (continued)

FASB ASC Topic 605 "Revenue Recognition" and Topic 815 "Derivatives and Hedging" Update No. 2016-11. Issued in May 2016, this update is a rescission of SEC guidance because of ASU Updates 2014-09 and 2014-16 pursuant to staff announcements at the March 3, 2016 Emerging Issues Task Force meeting. The amendments in this update are effective upon adoption of Topic 606 "Revenue from Contracts with Customers." The Corporation is currently assessing the impact of the adoption of this standard on the Corporation's consolidated financial position.

FASB ASC Topic 326 "Financial Instruments - Credit Losses" Update No. 2016-13. Issued in June 2016, this update was intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with earlier adoption permitted as of fiscal years beginning after December 15, 2018, including interim periods with those fiscal years. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2020. The Corporation is currently assessing the impact of the adoption of this standard on the Corporation's consolidated financial position.

1. Summary of Significant Accounting Policies (continued)

FASB ASC Topic 230 "Statement of Cash Flows" Update No. 2016-15. Issued in August 2016, this update was intended to reduce diversity of practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this update provide guidance on the following eight specific cash flow issues; (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (6) distributions received from equity method investees, (7) beneficial interests in securitization transactions, and (8) separately identifiable cash flows and application of the Predominance Principle. The amendments in this topic will provide guidance for these eight issues, thereby reducing the current and potential future diversity in practice. For public business entities, the amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 31, 2017. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018. Earlier adoption is permitted, including interim reporting periods within that reporting period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The adoption of this standard is not expected to have a material impact on the Corporation’s consolidated financial position.

1. Summary of Significant Accounting Policies (continued)

FASB ASC Topic 805 "Business Combinations" Update No. 2017-01. Issued in January 2017, the purpose of this update is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this update provide a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the group of assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, the amendments in this update: 1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and; (2) remove the evaluation of whether a market participant could replace missing elements. The amendments provide a framework to assist entities in evaluating whether both an input and a substantive process are present. The framework includes two sets of criteria to consider that depend on whether a set has outputs. Although outputs are not required for a set to be a business, outputs generally are a key element of a business; therefore, the Board has developed more stringent criteria for sets without outputs. For public business entities, the amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018. The adoption of this standard is not expected to have a material impact on the Corporation's consolidated financial position.

1. Summary of Significant Accounting Policies (continued)

FASB ASC Topic 350 "Intangibles – Goodwill and Other" Update No. 2017-04. Issued in January 2017, the purpose of this update is to simplify the subsequent measurement of goodwill for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. This update eliminates Step 2 from the goodwill impairment test, whereby an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under the amendments in this update, an entity should instead perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The Board also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment test applies to all reporting units. For public business entities that are U.S. Securities and Exchange (SEC) filers, the amendments in this update are effective for annual goodwill impairment tests and any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. For public business entities that are not SEC filers, the amendments in this update are effective for annual goodwill impairment tests and any interim goodwill impairment tests in fiscal years beginning after December 15, 2020. For all other entities, the amendments in this update are effective for annual goodwill impairment tests and any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this standard is not expected to have a material impact on the Corporation's consolidated financial position.

2. Mergers and Acquisitions

In 2016, the Corporation acquired certain assets and assumed certain liabilities from two separate insurance agencies for total consideration of $2.6 million in cash and potential future consideration. Each of these agency acquisitions were considered to be business combinations to be accounted for using the acquisition method since the Corporation obtained control through the acquisition of the operating assets. As a result of these business combinations, the Corporation increased its goodwill and insurance agency intangible assets by $1.7 million and $1.4 million, respectively. The intangible assets recorded as part of these acquisitions consisted of a $1.3 million customer list intangible asset and a $0.1 million non-compete intangible asset. For tax purposes, both of the transactions were considered asset acquisitions and as such, the amortization of goodwill and intangible assets is deductible for tax purposes. Included in goodwill was $0.5 million of contingent consideration based upon a percentage of revenues retained over a period of time after the acquisition dates. The amount of contingent consideration included in goodwill was based upon management’s best estimate of possible outcomes. According to the purchase agreements, the contingent consideration payouts may range from $0 to $0.6 million. Acquisition-related legal and professional fee costs associated with these agency acquisitions of $0.1 million were charged to expense in 2016 and were included in the professional fee line item of the consolidated statement of income.

In 2015, the Corporation acquired certain assets and assumed certain liabilities from three separate insurance agencies for total consideration of $8.0 million in cash and potential future consideration. All three of these agency acquisitions were considered to be business combinations to be accounted for using the acquisition method since the Corporation obtained control through the acquisition of the operating assets. As a result of these business combinations, the Corporation increased its goodwill and insurance agency intangible assets by $6.5 million and $3.7 million, respectively. The intangible assets recorded as part of these acquisitions consisted of a $3.3 million customer list intangible asset and a $0.4 million non-compete intangible asset. For tax purposes, all three transactions were considered asset acquisitions and as such, the amortization of goodwill and intangible assets is deductible for tax purposes. Included in goodwill was $2.2 million of contingent consideration based upon a percentage of revenues retained over a period of time after the acquisition dates. The amount of contingent consideration included in goodwill was based upon management’s best estimate of possible outcomes. According to the purchase agreements, the contingent consideration payouts may range from $0 to $2.7 million. Acquisition-related legal and professional fee costs associated with these agency acquisitions of $0.1 million were charged to expense in 2015 and were included in the professional fee line item of the consolidated statement of income. In 2016 and 2015, $0.5 million and $0.2 million was charged to expense to adjust the acquisition-related contingent consideration liabilities.

3. Securities

Trading Securities:

Trading securities, at fair value, were as follows:

	Year Ended December 31 2016	2015
	(In Thousands)	
Debt securities:		
Municipal bonds and obligations	**$ 51,663**	$ 60,475
U.S. Treasury bills	**-**	575
	$ 51,663	$ 61,050

For the years ended December 31, 2016 and 2015, the net unrealized (loss) on trading activities for trading securities still held at the reporting date were $(52,000) and $(38,000), respectively.

Securities Available for Sale:

The amortized cost, gross unrealized gains and losses, and fair value of securities available for sale for the periods below were as follows:

	December 31, 2016 Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In Thousands)			
Debt securities				
Government-sponsored residential mortgage-backed securities	**$ 851,270**	**$ 10,601**	**$ (2,278)**	**$ 859,593**
Single issuer trust preferred securities issued by banks	**40,220**	**64**	**(4,725)**	**35,559**
Pooled trust preferred securities issued by banks and insurers:				
Senior tranches	**19,533**	**3,528**	**(3,551)**	**19,510**
Junior tranches	**-**	**10,307**	**-**	**10,307**
State and municipal bonds and obligations	**282,425**	**2,445**	**(8,120)**	**276,750**
Qualified zone academy bond	**5,827**	**-**	**-**	**5,827**
Foreign corporate bond	**50**	**-**	**-**	**50**
	$ 1,199,325	**$ 26,945**	**$ (18,674)**	**$ 1,207,596**

3. Securities (continued)

	December 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In Thousands)			
Debt securities				
Government-sponsored residential mortgage-backed securities	$ 695,747	$ 16,485	$ -	$ 712,232
Single issuer trust preferred securities issued by banks	49,220	349	(4,956)	44,613
Pooled trust preferred securities issued by banks and insurers:				
Senior tranches	25,168	3,650	(4,990)	23,828
Junior tranches	-	10,203	-	10,203
State and municipal bonds and obligations	177,875	5,291	(138)	183,028
Qualified zone academy bond	5,718	-	-	5,718
Foreign corporate bond	25	-	-	25
	$ 953,753	$ 35,978	$ (10,084)	$ 979,647

A schedule of the contractual maturities of securities available for sale as of December 31, 2016, follows:

	Amortized Cost	Fair Value
	(In Thousands)	
Maturing within one year	**$ 3,755**	**$ 3,755**
Maturing after one year but within five years	**32,853**	**33,266**
Maturing after five years but within ten years	**264,639**	**272,233**
Maturing after ten years	**898,078**	**898,342**
	$ 1,199,325	**$ 1,207,596**

Mortgage-backed securities and callable securities are shown at their contractual maturity dates. However, both are expected to have shorter average lives due to expected prepayments and callable features, respectively. Included in the securities available for sale at December 31, 2016, were $317.1 million of callable securities at fair value.

3. Securities (continued)

Gross realized gains from sales of securities available for sale were $0.3 million and $0.1 million for the years ended December 31, 2016 and 2015, respectively. Gross realized losses from sales of securities available for sale were $15,000 and $0.2 million for the years ended December 31, 2016 and 2015, respectively.

As of December 31, 2016, management expects to recover the amortized cost basis of available-for-sale securities with unrealized losses, has no intention to, and is not more likely than not to be required to sell the available-for-sale securities with unrealized losses.

Management prepares an estimate of the expected cash flows for investment securities available for sale that potentially may be deemed to have OTTI. This estimate begins with the contractual cash flows of the security. This amount is then reduced by an estimate of probable credit losses associated with the security. When estimating the extent of probable losses on the securities, management considers the credit quality and the ability to pay of the underlying issuers. Indicators of diminished credit quality of the issuers include defaults, interest deferrals, or "payments in kind." Management also considers those factors listed in the Investments – Debt and Equity Securities topic of the FASB ASC when estimating the ultimate realizability of the cash flows for each individual security.

The resulting estimate of cash flows after considering credit is then subject to a present value computation using a discount rate equal to the current yield used to accrete the beneficial interest or the effective interest rate implicit in the security at the date of acquisition. If the present value of the estimated cash flows is less than the current amortized cost basis, an OTTI is considered to have occurred and the security is written down to the fair value indicated by the cash flow analysis. As part of the analysis, management considers whether it intends to sell the security or whether it is more than likely that it would be required to sell the security before the expected recovery of its amortized cost basis.

Information pertaining to securities available for sale with gross unrealized losses at December 31, 2016 and 2015, which the Corporation has not deemed to be OTTI, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

3. Securities (continued)

	December 31, 2016				
		Less than 12 Months		12 Months or Longer	
	# of Holdings	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In Thousands)				
Government-sponsored residential mortgage-backed securities	**6**	**$ 2,278**	**$ 456,536**	**$ -**	**$ -**
Single issuer trust preferred securities issued by banks	**4**	**-**	**-**	**4,725**	**22,775**
Pooled trust preferred securities issued by banks and insurers:					
Senior tranches	**3**	**-**	**-**	**3,551**	**15,983**
State and municipal bonds and obligations	**234**	**8,120**	**151,644**	**-**	**-**
	247	**$ 10,398**	**$ 608,180**	**$ 8,276**	**$ 38,758**

	December 31, 2015				
		Less than 12 Months		12 Months or Longer	
	# of Holdings	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In Thousands)				
Single issuer trust preferred securities issued by banks	4	$ -	$ -	$ 4,956	$ 22,544
Pooled trust preferred securities issued by banks and insurers:					
Senior tranches	3	-	-	4,990	20,178
State and municipal bonds and obligations	13	90	6,451	48	1,983
	20	$ 90	$ 6,451	$ 9,994	$ 44,705

The Corporation does not intend to sell these investments and has determined based upon available evidence that it is more likely than not that the Corporation will not be required to sell the security before the expected recovery of its amortized cost basis. As a result, the Corporation does not consider these investments to be OTTI. The Corporation made this determination by reviewing various qualitative and quantitative factors regarding each investment category, such as current market conditions, extent and nature of changes in fair value, issuer rating changes and trends, and volatility of earnings.

3. Securities (continued)

As a result of the Corporation’s review of these qualitative and quantitative factors, the causes of the impairments listed in the table above by category are as follows at December 31, 2016:

- *Government-sponsored Residential Mortgage-backed Securities:* The securities with unrealized losses in this portfolio have contractual terms that generally do not permit the issuer to settle the securities at a price less than the current par value of the investment. The decline in market value of these securities is attributable to changes in interest rates and not credit quality. Additionally, these securities are implicitly guaranteed by the U.S. Government or one of its agencies.
- *Single Issuer Trust Preferred Securities Issued by Banks:* The securities with unrealized losses in this portfolio consist of four securities, two of which are below investment grade. The unrealized loss on these four securities is attributable to the illiquid nature of the trust preferred market in the current economic environment. Management evaluates various financial metrics for each of the issuers, including capital, asset quality, earnings and liquidity. Based on its credit analyses, management believes that the Corporation will receive all principal and interest payments related to these securities in accordance with the contractual terms of the securities.
- *Pooled Trust Preferred Securities Issued by Banks and Insurers:* The securities with unrealized losses in this portfolio consist of three securities, all of which are investment grade. The unrealized loss on these securities is attributable to the illiquid nature of the trust preferred market and the significant risk premiums required in the current economic environment. Management evaluates collateral credit and instrument structure, including current and expected deferral and default rates and timing. In addition, discount rates are determined by evaluating comparable spreads observed currently in the market for similar instruments. Based on its credit analyses, management believes that the Corporation will receive all principal and interest payments related to these securities in accordance with the contractual terms of the securities.
- *State and municipal bonds and obligations*: The securities with unrealized losses in this portfolio have contractual terms that generally do not permit the issuer to settle the securities at a price less than the current par value of the investment. The decline in market value of these securities is attributable to changes in interest rates and not credit quality.

3. Securities (continued)

At December 31, 2016 and 2015 the Corporation had two junior tranche pooled trust preferred securities and one senior tranche pooled trust preferred security issued by banks and insurers that totaled $13.8 million and $13.9 million, respectively, on which the Corporation no longer accrues interest. In 2016, the Corporation received payments of $1.7 million, all of which was applied to interest income under the cost recovery method. In 2015, the Corporation received payments of $5.0 million, of which $0.5 million was applied to principal and $4.5 million was applied to interest income under the cost recovery method.

4. Loans

A comparative summary of loans at December 31 follows:

	2016	2015
	(In Thousands)	
Commercial and industrial	**$ 1,268,980**	$ 1,125,247
Commercial real estate	**3,010,149**	2,746,032
Business banking	**732,733**	611,313
Residential real estate	**1,153,735**	1,041,072
Consumer home equity	**892,241**	850,677
Automobile	**536,424**	655,276
Other consumer	**110,869**	101,851
	7,705,131	7,131,468
Allowance for credit losses	**(70,188)**	(65,500)
Unamortized premiums, net of unearned discounts and deferred fees	**895**	3,098
	$ 7,635,838	$ 7,069,066

The Corporation's lending activities are conducted principally in the New England area. The Corporation originates single-family and multifamily residential loans, commercial real estate loans, commercial loans, airplane loans for commercial and consumer use, and a variety of other consumer loans. Commercial and consumer airplane loans are included in commercial and industrial and other consumer loans, respectively, in the table above. In addition, the Corporation originates loans for the construction of residential homes, multifamily properties, commercial real estate properties, and for land development. Most loans originated by the Corporation are either collateralized by real estate or other assets, or guaranteed by federal and local governmental authorities. The ability and willingness of the single-family residential and consumer borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the borrowers' geographic areas and real estate values. The ability and willingness of commercial real estate, commercial and industrial, and construction loan borrowers to honor their repayment commitments is generally dependent on the health of the real estate economic sector in the borrowers' geographic areas and the general economy. The ability and willingness of airplane loan borrowers to repay is generally dependent on the health of the general economy.

4. Loans (continued)

The following tables summarize changes in the allowance for loan losses by loan category and bifurcate the amount of allowance allocated to each loan category based on collective impairment analysis and loans evaluated individually for impairment:

(In Thousands)	As of December 31, 2016								
	Commercial and Industrial	Commercial Real Estate	Business Banking	Residential Real Estate	Consumer Home Equity	Automobile	Other Consumer	Unallocated	Total
Allowance for Loan Losses:									
Beginning balance	$ 12,634	$ 30,900	$ 5,699	$ 6,748	$ 3,846	$ 3,604	$ 1,481	$ 588	$ 65,500
Charge-offs	(1,859)	(368)	(1,547)	(206)	(202)	(957)	(752)	-	(5,891)
Recoveries	1,470	-	244	274	104	398	189	-	2,679
Provision	1,174	3,035	2,005	741	289	(95)	920	(169)	7,900
Ending balance	$ 13,419	$ 33,567	$ 6,401	$ 7,557	$ 4,037	$ 2,950	$ 1,838	$ 419	$ 70,188
Ending balance: individually evaluated for impairment	$ 1,057	$ 248	$ 54	$ 3,064	$ 499	$ -	$ -	$ -	$ 4,922
Ending balance: acquired with deteriorated credit quality	$ 88	$ 871	$ -	$ 459	$ -	$ -	$ -	$ -	$ 1,418
Ending balance: collectively evaluated for impairment	$ 12,274	$ 32,448	$ 6,347	$ 4,034	$ 3,538	$ 2,950	$ 1,838	$ 419	$ 63,848
Financing Receivables:									
Ending balance: individually evaluated for impairment	$ 16,559	$ 5,912	$ 5,300	$ 31,178	$ 4,814	$ -	$ -	$ -	$ 63,763
Ending balance: acquired with deteriorated credit quality	6,764	12,512	-	5,812	-	-	-	-	25,088
Ending balance: collectively evaluated for impairment	1,245,657	2,991,725	727,433	1,116,745	887,427	536,424	110,869	-	7,616,280
Ending balance: total loans by group	$ 1,268,980	$ 3,010,149	$ 732,733	$ 1,153,735	$ 892,241	$ 536,424	$ 110,869	$ -	$ 7,705,131

4. Loans (continued)

(In Thousands)	As of December 31, 2015								
	Commercial and Industrial	**Commercial Real Estate**	**Business Banking**	**Residential Real Estate**	**Consumer Home Equity**	**Automobile**	**Other Consumer**	**Unallocated**	**Total**
Allowance for Loan Losses:									
Beginning balance	$ 10,178	$ 27,548	$ 5,175	$ 6,748	$ 3,254	$ 3,864	$ 1,408	$ 5,908	$ 64,083
Charge-offs	(75)	-	(1,489)	(939)	(250)	(1,122)	(864)	-	(4,739)
Recoveries	514	4,502	275	395	97	468	230	-	6,481
Provision	2,017	(1,150)	1,738	544	745	394	707	(5,320)	(325)
Ending balance	$ 12,634	$ 30,900	$ 5,699	$ 6,748	$ 3,846	$ 3,604	$ 1,481	$ 588	$ 65,500
Ending balance: individually evaluated for impairment	$ 249	$ 344	$ 354	$ 2,719	$ 484	$ -	$ -	$ -	$ 4,150
Ending balance: acquired with deteriorated credit quality	$ 80	$ 470	$ -	$ 161	$ -	$ -	$ -	$ -	$ 711
Ending balance: collectively evaluated for impairment	$ 12,305	$ 30,086	$ 5,345	$ 3,868	$ 3,362	$ 3,604	$ 1,481	$ 588	$ 60,639
Financing Receivables:									
Ending balance: individually evaluated for impairment	$ 2,862	$ 8,546	$ 4,172	$ 31,861	$ 5,356	$ -	$ -	$ -	$ 52,797
Ending balance: acquired with deteriorated credit quality	6,956	19,038	-	6,450	-	-	-	-	32,444
Ending balance: collectively evaluated for impairment	1,115,429	2,718,448	607,141	1,002,761	845,321	655,276	101,851	-	7,046,227
Ending balance: total loans by group	$ 1,125,247	$ 2,746,032	$ 611,313	$ 1,041,072	$ 850,677	$ 655,276	$ 101,851	$ -	$ 7,131,468

As shown in the above table, at January 1, 2015 the allowance included an unallocated component in addition to specific and general reserves. The unallocated element of the allowance was maintained to cover uncertainties that could affect management’s estimate of probable losses. This component of the allowance reflected qualitative adjustments for the imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. In 2015, the Corporation refined its allowance estimate. This refinement allowed the Corporation to improve its attribution of the qualitative adjustments to the different loan categories.

4. Loans (continued)

For the purpose of estimating the allowance for loan losses, management segregates the loan portfolio into the categories noted in the above tables. Each of these loan categories possess unique risk characteristics that are considered when determining the appropriate level of the allowance for each category. Examples of these characteristics include:

Commercial and Industrial
Loans in this category consist of revolving and term loan obligations extended to businesses and corporate enterprises for the purpose of financing working capital, equipment purchases and acquisitions. Collateral frequently consists of a first lien position on business assets including, but not limited to: accounts receivable, inventory, airplanes and equipment. The primary repayment source is operating cash flow and, secondarily, the liquidation of assets. The Bank generally obtains personal guarantees from individuals holding material ownership in the borrowing entity.

Commercial Real Estate
Loans in this category consist of mortgage loans on investment real estate. In addition to term loans on cash flowing, stabilized properties, loans are also granted to construct new structures. Property types financed include office, industrial, multi-family, retail, hotel and other single-purpose use properties. Collateral values are established by independent third-party appraisals and evaluations. Primary repayment sources include: operating income generated by the real estate, permanent debt refinancing, sale of the real estate and, secondarily, by liquidation of the collateral. The Bank often obtains personal guarantees from individuals holding material ownership in the borrowing entity.

Business Banking
The business banking portfolio segment consists of loans granted to commercial borrowers with more modest financing requirements than those found in the commercial real estate and commercial and industrial portfolio segments. Bank policy limits borrower exposure limits at amounts materially lower than in the other commercial borrowing segments. In general, the business banking portfolio includes commercial and industrial loan exposures of $1 million or less and commercial real estate loan exposures of $3 million or less.

4. Loans (continued)

Residential Real Estate

Residential real estate loans originated for the Bank's portfolio are made to borrowers who demonstrate the ability to repay principal and interest on a monthly basis. Underwriting considerations include, among others; income sources and their reliability, willingness to repay as evidenced by credit repayment history, financial resources including cash reserves and the value of the collateral. The Bank maintains policy standards for minimum credit score and cash reserves and maximum loan to value consistent with a "prime" portfolio. Collateral consists of mortgage liens on 1-4 family residential dwellings. The Bank does not originate or purchase sub-prime or other high risk loans.

Consumer Home Equity

The Bank originates home equity lines of credit and home equity loans. Home equity lines of credit are granted for ten years with monthly interest-only repayment requirements. Full principal repayment is required at the end of the ten year draw period. Home equity loans are term loans that require the monthly payment of principal and interest such that the loan will have fully amortized at maturity. Underwriting considerations are materially consistent with those utilized in residential real estate. Collateral consists of a senior or subordinate lien on owner-occupied residential property.

Automobile

The Bank originates loans secured by new and used automobiles. Origination sources include automobile dealerships principally located in southern New England and through the Bank's branch network. Bank policy and underwriting in this portfolio segment include the following, among others: income sources and reliability, credit histories, term of repayment and collateral value.

Other Consumer

Other consumer loans consist of personal lines of credit, overdraft protection, airplane loans and student loans. This portfolio segment is typically granted on an unsecured basis with the exception of airplane loans.

4. Loans (continued)

Credit Quality

For the commercial real estate, commercial and industrial and certain segments of the business banking portfolio, the Bank utilizes a 10-point risk rating system to manage risk and identify potential problem loans. Risk rating assignment is based upon a number of quantitative and qualitative factors that are under continual review. Factors include cash flow, collateral coverage, liquidity, leverage, position within the industry, internal controls and management, financial reporting, and other considerations. The risk rating categories are defined as follows:

<u>1-6 Risk Rating – Pass</u>
Loans risk rated 1-6 comprise those loans that range from "substantially risk free," which indicates borrowers of unquestioned credit standing, well-established national companies with a very strong financial condition, and loans fully secured by cash, through acceptable rated loans that may be experiencing weak cash flow, impending lease rollover or minor liquidity concerns.

<u>7 Risk Rating – Special Mention (Potential Weakness)</u>
Loans to borrowers in this category exhibit potential weaknesses or downward trends deserving management's close attention. While potentially weak, no loss of principal or interest is envisioned. Included in special mention are borrowers who are performing as agreed, are weak when compared to industry standards, may be experiencing an interim loss and may be in declining industries. An element of asset quality, financial flexibility or management is below average. Management and owners may have limited depth, particularly when operating under strained circumstances. Eastern Bank does not consider borrowers within this category as new business prospects. Borrowers rated special mention may find it difficult to obtain alternative financing from traditional bank sources.

<u>8 Risk Rating – Substandard (Well-Defined Weakness)</u>
Borrowers with an 8 risk rating exhibit well-defined weaknesses that, if not corrected, may jeopardize the orderly liquidation of the debt. A substandard loan is inadequately protected by the repayment capacity of the obligor or by the collateral pledged. Repayment under market rates and terms, or by the requirements under the existing loan documents, is in jeopardy, however, no loss of principal or interest is envisioned. There is a possibility that a partial loss of principal and/or interest will occur if the deficiencies are not corrected. Loss potential, while existing in the aggregate portfolio of substandard assets, does not have to exist in individual assets classified substandard. Credits in this category often may have reported a loss in the most recent fiscal year end and are likely to continue to report losses in the interim period, or interim losses are expected to result in a fiscal year end loss. Non-accrual is possible, but not mandatory, in this class.

4. Loans (continued)

9 Risk Rating – Doubtful (Loss Probable)
Borrowers classified as doubtful have the weaknesses found in the substandard borrowers with the added provision that the weaknesses make collection of the debt in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Serious problems exist such that partial loss of principal is likely. The probability of loss exceeds 50% but because of reasonably specific pending factors that may work to strengthen the credit, estimated losses are deferred until a more exact status can be determined. Pending factors may include the sale of the company, a merger, capital injection, new profitable purchase orders, and refinancing plans. Specific reserves will be the amount identified after specific review. Non-accrual is mandatory in this class.

10 Risk Rating – Loss
Loans to borrowers in this category are deemed incapable of repayment. Loans to such borrowers are considered uncollectable and of such little value that continuance as active assets of the Bank is not warranted. This classification does not mean that the loans have no recovery or salvage value, but rather, it is not practical or desirable to defer writing off these assets even though partial recovery may be affected in the future. Loans in this category will have a recorded investment of $0 at the time of the downgrade.

The credit quality of the commercial loan portfolio is actively monitored and is supported by a comprehensive credit approval process that vests approval of all large dollar transactions to a committee of seasoned business line and credit professionals. Risk ratings are periodically reviewed and the Corporation maintains an independent credit risk review function that reports directly to the Risk Management Committee of the Board of Directors. Credits that demonstrate significant deterioration in credit quality are transferred to a specialized group of seasoned workout officers for individual attention.

4. Loans (continued)

The following table details the internal risk grading categories for the Corporation's commercial and industrial, commercial real estate and business banking portfolios:

(Dollars in thousands)

		As of December 31					
		Commercial and Industrial		Commercial Real Estate		Business Banking	
Category	**Risk Rating**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Pass	1-6	**$ 1,224,932**	$ 1,082,836	**$ 2,947,307**	$ 2,691,317	**$ 724,293**	$ 601,674
Special mention	7	**22,095**	18,712	**42,117**	34,156	**2,472**	4,752
Substandard	8	**13,544**	20,317	**18,519**	18,870	**5,968**	3,306
Doubtful	9	**8,409**	3,382	**2,206**	1,689	**-**	1,581
Loss	10	**-**	-	**-**	-	**-**	-
Total		**$ 1,268,980**	$ 1,125,247	**$ 3,010,149**	$ 2,746,032	**$ 732,733**	$ 611,313

For the Bank's residential real estate, home equity, and a segment of the business banking portfolio, the quality of the loan is best indicated by the repayment performance of an individual borrower. However, the Bank does supplement performance data with current credit scores for the business banking portfolio on a quarterly basis. Updated appraisals, broker opinions of value and other collateral valuation methods are employed in the residential and home equity portfolios, typically for credits that are deteriorating. Delinquency status is determined using payment performance, while accrual status may be determined using a combination of payment performance, expected borrower viability and collateral value.

Nonaccrual residential loans that have been restructured must perform for a period of six months before being considered for accrual status. Delinquent consumer loans are handled by a team of seasoned collection specialists.

As a general rule, loans more than 90 days past due with respect to principal and interest are classified as a nonaccrual loan unless the loan is accounted for as a PCI loan. As permitted by banking regulations, certain consumer loans past due 90 days or more may continue to accrue interest. The Bank may also use discretion regarding other loans over 90 days delinquent if the loan is well secured and in the process of collection.

4. Loans (continued)

The following table shows the age analysis of past due financing receivables as of the dates indicated:

(Dollars in thousands)

	December 31, 2016						
	30-59 Days Past Due	**60-89 Days Past Due**	**90 Days or More**	**Total Past Due**	**Current**	**Total Financing Receivables**	**Recorded Investment >90 Days and Accruing**
Commercial and industrial	**$ 1,238**	**$ 327**	**$ 117**	**$ 1,682**	**$ 1,267,298**	**$1,268,980**	**$ -**
Commercial real estate	**1,784**	**646**	**3,035**	**5,465**	**3,004,684**	**3,010,149**	**1,978**
Business banking	**1,307**	**820**	**2,531**	**4,658**	**728,075**	**732,733**	**-**
Residential real estate	**11,431**	**2,004**	**3,543**	**16,978**	**1,136,757**	**1,153,735**	**510**
Consumer home equity	**1,757**	**457**	**387**	**2,601**	**889,640**	**892,241**	**9**
Automobile	**3,365**	**230**	**151**	**3,746**	**532,678**	**536,424**	**-**
Other consumer	**307**	**53**	**65**	**425**	**110,444**	**110,869**	**-**
Total	**$ 21,189**	**$ 4,537**	**$ 9,829**	**$ 35,555**	**$7,669,576**	**$ 7,705,131**	**$ 2,497**

(Dollars in thousands)

	December 31, 2015						
	30-59 Days Past Due	**60-89 Days Past Due**	**90 Days or More**	**Total Past Due**	**Current**	**Total Financing Receivables**	**Recorded Investment >90 Days and Accruing**
Commercial and industrial	$ 1,455	$ 116	$ 1,065	$ 2,636	$ 1,122,611	$ 1,125,247	$ 1,058
Commercial real estate	2,257	639	2,618	5,514	2,740,518	2,746,032	1,200
Business banking	296	25	2,450	2,771	608,542	611,313	-
Residential real estate	11,798	3,495	1,955	17,248	1,023,824	1,041,072	194
Consumer home equity	1,108	97	396	1,601	849,076	850,677	43
Automobile	2,525	229	105	2,859	652,417	655,276	-
Other consumer	333	74	43	450	101,401	101,851	-
Total	$ 19,772	$ 4,675	$ 8,632	$ 33,079	$7,098,389	$ 7,131,468	$ 2,495

4. Loans (continued)

The following is a summary of information pertaining to non-accrual loans:

	December 31, 2016	December 31, 2015
	(In Thousands)	
Commercial and industrial	**$ 6,227**	$ 2,733
Commercial real estate	**2,120**	1,757
Business banking	**4,709**	3,526
Residential real estate	**6,513**	5,666
Consumer home equity	**368**	260
Automobile	**190**	181
Other consumer	**164**	348
Total nonaccrual loans	**$ 20,291**	$ 14,471

The following is a summary of information pertaining to impaired loans as of the dates indicated:

(Dollars in thousands)	December 31, 2016					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Total Interest Income Recognized	Interest Income Recognized Using Cash Basis
With no related allowance recorded:						
Commercial and industrial	$ 5,318	$ 5,652	$ -	$ 7,225	$ 197	$ 69
Commercial real estate	4,497	4,622	-	1,804	34	-
Business banking	1,034	1,893	-	2,706	5	-
Residential real estate	9,627	10,278	-	9,942	333	19
Consumer home equity	1,486	1,496	-	1,560	49	-
Sub-total	21,962	23,941	-	23,237	618	88
With an allowance recorded:						
Commercial and industrial	11,241	11,989	1,057	7,861	159	-
Commercial real estate	1,415	1,472	248	6,396	-	-
Business banking	4,266	5,104	54	1,104	26	-
Residential real estate	21,551	23,010	3,064	22,258	745	43
Consumer home equity	3,328	3,350	499	3,493	111	1
Sub-total	41,801	44,925	4,922	41,112	1,041	44
Total	$ 63,763	$ 68,866	$ 4,922	$ 64,349	$ 1,659	$ 132

4. Loans (continued)

(Dollars in thousands)	December 31, 2015					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Total Interest Income Recognized	Interest Income Recognized Using Cash Basis
With no related allowance recorded:						
Commercial and industrial	$ 2,214	$ 12,553	$ -	$ 2,453	$ -	$ -
Commercial real estate	1,486	1,550	-	2,299	29	-
Business banking	88	88	-	123	8	-
Residential real estate	4,972	5,335	-	5,219	179	25
Consumer home equity	836	859	-	791	25	2
Sub-total	9,596	20,385	-	10,885	241	27
With an allowance recorded:						
Commercial and industrial	648	671	249	436	6	-
Commercial real estate	7,060	7,073	344	9,801	259	-
Business banking	4,084	5,410	354	4,122	28	-
Residential real estate	26,889	28,853	2,719	28,226	970	136
Consumer home equity	4,520	4,645	484	4,277	135	11
Sub-total	43,201	46,652	4,150	46,862	1,398	147
Total	$ 52,797	$ 67,037	$ 4,150	$ 57,747	$ 1,639	$ 174

In the course of resolving nonperforming loans, the Bank may choose to restructure the contractual terms of certain loans. The Bank attempts to work-out an alternative payment schedule with the borrower in order to avoid foreclosure actions. Any loans that are modified are reviewed by the Bank to identify whether a TDR has occurred. TDRs involve situations in which, for economic or legal reasons related to the borrower's financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay consistent with their current financial condition and the restructuring of the loans may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two.

The Bank's policy is to have any restructured loans which are on nonaccrual status prior to being modified remain on nonaccrual status for approximately six months, subsequent to being modified, before management considers its return to accrual status. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status.

4. Loans (continued)

The following table shows the TDR loans on accrual and nonaccrual status as of the dates indicated:

(Dollars in thousands)	December 31, 2016					
	TDRs on Accrual Status		TDRS on Nonaccrual Status		Total TDRs	
	Number of Loans Loans	Balance of Loans	Number of Loans	Balance of Loans	Number of Loans	Balance of Loans
Commercial and industrial	**5**	**$ 8,299**	**5**	**$ 4,549**	**10**	**$ 12,848**
Commercial real estate	**2**	**3,792**	**5**	**1,761**	**7**	**5,553**
Business banking	**2**	**590**	**1**	**455**	**3**	**1,045**
Residential real estate	**134**	**26,252**	**22**	**4,243**	**156**	**30,495**
Consumer home equity	**58**	**4,754**	**4**	**60**	**62**	**4,814**
Total	**201**	**$ 43,687**	**37**	**$ 11,068**	**238**	**$ 54,755**

(Dollars in thousands)	December 31, 2015					
	TDRs on Accrual Status		TDRs on Nonaccrual Status		Total TDRs	
	Number of Loans	Balance of Loans	Number of Loans	Balance of Loans	Number of Loans	Balance of Loans
Commercial and industrial	1	$ 58	4	$ 966	5	$ 1,024
Commercial real estate	3	6,789	2	1,369	5	8,158
Business banking	2	646	-	-	2	646
Residential real estate	143	27,788	20	2,973	163	30,761
Consumer home equity	61	5,210	2	146	63	5,356
Total	210	$ 40,491	28	$ 5,454	238	$ 45,945

The amount of specific reserve associated with the TDRs was $4.6 million and $3.7 million at December 31, 2016 and 2015, respectively. In 2016, no TDRs moved from nonaccrual to accrual. The Corporation had $1.8 million and $0 million additional commitments to lend to borrowers who have been a party to a TDR at December 31, 2016 and 2015, respectively.

4. Loans (continued)

The following table shows the modifications which occurred during the periods and the change in the recorded investment subsequent to the modifications occurring:

(Dollars in thousands)	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)
Troubled debt restructurings:						
Commercial and industrial	**6**	**$ 14,656**	**$ 17,278**	2	$ 177	$ 177
Commercial real estate	**3**	**3,385**	**3,385**	1	1,113	1,113
Business banking	**1**	**472**	**472**	-	-	-
Residential real estate	**18**	**5,625**	**5,709**	21	3,577	3,616
Consumer home equity	**10**	**1,065**	**1,072**	29	2,606	2,620
Total	**38**	**$ 25,203**	**$ 27,916**	53	$ 7,473	$ 7,526

(1) The post-modification balances represent the balance of the loan on the date of modification. These amounts may show an increase when modification includes capitalization of interest.

At December 31, 2016, the outstanding recorded investment of loans that were new to TDR during the year was $22.8 million.

The following table shows the Corporation's post-modification balance of TDRs listed by type of modification during the years indicated:

	Year Ended December 31, 2016	Year Ended December 31, 2015
	(In Thousands)	
Adjusted interest rate and extended maturity	**$ 1,100**	$ 477
Adjusted interest rate and principal deferred	**313**	-
Adjusted interest rate	**1,323**	1,802
Extended maturity	**11,154**	2,064
Interest only/principal deferred	**-**	2,641
Extended maturity and interest only/principal deferred	**5,899**	-
Reamortization	**1,500**	-
Debt consolidation	**4,564**	-
Other	**2,063**	542
Total	**$ 27,916**	$ 7,526

4. Loans (continued)

The following table shows the loans that have been modified during the prior 12 months which have subsequently defaulted during the years indicated. The Bank considers a loan to have defaulted when it reaches 90 days past due.

(Dollars in thousands)	Year Ended December 31,			
	2016		2015	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Troubled debt restructurings that subsequently defaulted (1):				
Consumer home equity	**-**	**$ -**	1	**$ 116**
Commercial real estate	**-**	**-**	1	**1,104**
Total	**-**	**$ -**	2	**$ 1,220**

(1) This table does not reflect any TDRs which were charged off during the years indicated. In 2016 there were no TDRs charged off that had been modified within the prior 12 months. In 2015 there were no TDRs charged off that had been modified within the prior 12 months.

Certain loans acquired by the Corporation may have shown evidence of deterioration of credit quality since origination and it was therefore deemed unlikely that the Corporation would be able to collect all contractually required payments. As such, these loans were deemed to be PCI loans and the carrying value and prospective income recognition are predicated upon future cash flows expected to be collected. The Corporation considered factors such as payment history, collateral values, and accrual status when determining whether there was evidence of deterioration in credit quality at the acquisition date. The following table displays certain information pertaining to PCI loans at the dates indicated:

	December 31,	
	2016	2015
	(In Thousands)	
Outstanding balance	**$ 31,943**	$ 42,491
Carrying amount	**25,088**	32,444

4. Loans (continued)

The following summarizes activity in the accretable yield for the PCI loan portfolio:

	2016	2015
	(In Thousands)	
Balance at beginning of year	**$ 10,640**	$ 13,748
Accretion	**(2,377)**	(2,719)
Other change in expected cash flows	**(1,974)**	(3,316)
Reclassification from nonaccretable difference for loans with improved cash flows	**3,269**	2,927
Balance at end of year	**$ 9,558**	$ 10,640

The following summarizes the impairment recorded through the allowance for loan losses for PCI loans subsequent to acquisition:

	2016	2015
	(In Thousands)	
Balance at beginning of year	**$ 711**	$ -
Provision for loan losses	**904**	819
Reduction of the allowance (1)	**(197)**	(108)
Balance at end of year	**$ 1,418**	$ 711

(1) Reduction to allowance because it is probable that there is a significant increase in cash flows previously expected to be collected or actual cash flows are significantly greater than cash flows previously expected

Loans pledged to secure advances from the Federal Home Loan Bank were $0.7 billion and $0.6 billion at December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, mortgage loans partially or wholly owned by others and serviced by the Corporation amounted to approximately $23.3 million and $26.9 million, respectively.

5. Premises and Equipment

A comparative summary of premises and equipment at December 31 follows:

	2016	2015
	(In Thousands)	
Land	**$ 7,960**	$ 9,001
Buildings	**54,358**	58,353
Equipment	**56,573**	45,719
Leasehold improvements	**35,660**	35,158
Premises and equipment, gross	**154,551**	148,231
Less accumulated depreciation and amortization	**(79,426)**	(75,389)
Premises and equipment, net	**$ 75,125**	$ 72,842

The Corporation occupies certain branch offices under operating lease arrangements. The net expense under such arrangements for the years ended December 31, 2016 and 2015 amounted to approximately $14.0 million and $13.7 million, respectively.

As of December 31, 2016, the Corporation and its subsidiaries were obligated under non-cancelable leases for minimum rentals in future periods as follows:

	(In Thousands)
Years Ending December 31:	
2017	$ 10,413
2018	9,388
2019	8,085
2020	6,690
2021	5,361
Thereafter	15,431
	$ 55,368

5. Premises and Equipment (continued)

In 2016, the Corporation sold two buildings in which it leased back a portion of the buildings to retain the branch locations. These buildings were sold for $4.7 million resulting in a gain of $3.0 million. Of this $3.0 million gain, $2.3 million was deferred and $0.7 million was recognized in other income in 2016. The deferred gain will be recognized as a reduction of rent expense over the leaseback terms of 20 years for both of those two buildings.

Included in office occupancy and equipment expenses were lease termination charges of $0.2 million in 2015.

Included in the premises and equipment at December 31, 2016 was a $0.2 million branch building classified as held for sale. Management has marketed this building for sale and expects to sell it in 2017. This building had been carried at a cost of $0.7 million prior to being classified as held for sale. An impairment charge of $0.5 million was recorded in office occupancy and equipment expenses in 2016.

6. Goodwill and Other Intangibles

The changes in the carrying amount of goodwill for the years ended December 31 follows:

	2016			2015		
	Gross Carrying Amount	**Accumulated Impairment Losses**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Impairment Losses**	**Net Carrying Amount**
	(In Thousands)					
Balance at beginning of year	**$ 351,326**	**$ -**	**$ 351,326**	$ 345,461	$ -	$ 345,461
Goodwill acquired during the year	**1,681**		**1,681**	6,470		6,470
Adjustments	**-**	**-**	**-**	(605)	-	(605)
Balance at end of year	**$ 353,007**	**$ -**	**$ 353,007**	$ 351,326	$ -	$ 351,326

6. Goodwill and Other Intangibles (continued)

Certain adjustments were made in 2015 to reduce the carrying amount of goodwill acquired in the Centrix Bank & Trust Company (Centrix) acquisition completed in 2014. These adjustments were related to a true-up of the final tax provision for Centrix to the final tax return. Upon finalization of the provisional assumed tax liability, the measurement period for the Centrix acquisition was closed.

A summary of other intangible assets for the years ended December 31 follows:

	2016			2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In Thousands)					
Insurance agency	**$ 28,308**	**$ (21,881)**	**$ 6,427**	**$ 26,863**	**$ (19,920)**	**$ 6,943**
Core deposits	**6,579**	**(3,033)**	**3,546**	**6,579**	**(2,086)**	**4,493**
Total	**$ 34,887**	**$ (24,914)**	**$ 9,973**	**$ 33,442**	**$ (22,006)**	**$ 11,436**

The Corporation has estimated the remaining useful life of its insurance agency-related intangible assets, comprising primarily customer lists and non-compete agreements, and core deposit identifiable intangible assets to be a weighted-average of eleven years and eight years, respectively, and these useful lives are reassessed annually.

The estimated amortization expense for each of the five succeeding years follows:

	(In Thousands)
Years Ending December 31:	
2017	$ 2,646
2018	2,254
2019	1,929
2020	1,414
2021	743

7. Deposits

Deposit balances reflect the impact of overnight programs which decrease reported demand and interest checking balances and increase reported money market investment balances. These programs have been established to manage reserve requirements at the Federal Reserve Bank of Boston. At December 31, 2016 and 2015, the Corporation swept $4.2 billion and $61.2 million, respectively, from demand deposit and interest checking balances into money market investments.

The following table summarizes time deposits by maturity at December 31, 2016:

	(In Thousands)
2017	$ 291,646
2018	47,735
2019	20,316
2020	8,488
2021	5,291
Thereafter	135
	$ 373,611

Deposits from related parties held by the Corporation at December 31, 2016 amounted to $19.0 million.

During 2016 the Corporation redeemed brokered deposits totaling $22.8 million. Incremental interest expense associated with the early redemption totaled $1.0 million. At December 31, 2016 and 2015, the Corporation held $0 million and $30.7 million of brokered time deposits. Brokered deposits were received on terms other than those available in the normal course of business.

At December 31, 2016 and 2015, securities with a carrying value of $27.1 million and $40.0 million, respectively, were pledged to secure public deposits and for other purposes required by law.

8. Borrowed Funds

A comparative summary of borrowed funds at December 31 follows:

		2016		2015
		(In Thousands)		
Federal funds purchased	**$**	**389**	$	29,915
Federal Home Loan Bank advances		**141,387**		11,849
Escrow deposits of borrowers		**12,555**		11,284
	$	**154,331**	$	53,048

At December 31, 2016, the Bank had available and unused borrowing capacity of approximately $598.8 million at the Federal Reserve Discount Window.

A summary of FHLB advances by maturities at December 31 follows:

	2016			2015		
		Amount	**Weighted-Average Rate**		**Amount**	**Weighted-Average Rate**
		(In Thousands)				
Within one year	**$**	**130,000**	**0.80%**	$	-	- %
Over one year to three years		**2,563**	**3.84%**		-	- %
Over three years to five years		**-**	**- %**		2,706	3.79%
Over five years		**8,824**	**1.94%**		9,143	1.93%
	$	**141,387**	**0.93%**	$	11,849	2.35%

Advances from the FHLB are secured by stock in FHLB and residential real estate loans. The collateral value of residential real estate loans securing these advances was $0.7 billion at December 31, 2016. At December 31, 2016, the Bank had available and unused borrowing capacity of approximately $0.5 billion with the FHLB.

8. Borrowed Funds (continued)

As a member of the FHLB of Boston, the Corporation is required to hold FHLB stock. At December 31, 2016 and 2015, the Corporation had investments in the FHLB of Boston of $15.3 million and $10.5 million, respectively. At its discretion the FHLB of Boston may declare dividends on the stock. The Corporation received dividends of $0.4 million and $0.4 million for the years ended December 31, 2016 and 2015, respectively.

9. Income Taxes

Income tax expense (benefit) for the years ended December 31 follows:

	2016	2015
	(In Thousands)	
Current tax expense:		
Federal	**$ 21,940**	$ 27,764
State	**5,966**	7,726
Total current tax expense	**27,906**	35,490
Deferred tax (benefit) expense:		
Federal	**(2,617)**	(2,764)
State	**(850)**	(670)
Change in valuation allowance	**6**	(6)
Total deferred tax (benefit) expense	**(3,461)**	(3,440)
Total income tax expense	**$ 24,445**	$ 32,050

9. Income Taxes (continued)

The difference between the total expected income tax expense computed by applying the federal income tax rate of 35% to income before income tax expense for the years ended December 31 follows:

	2016	2015
	(In Thousands)	
Income tax expense at statutory rate	**$ 30,506**	$ 33,115
Increase (decrease) resulting from:		
State income tax, net of federal tax benefit	**3,365**	4,645
Amortization of qualified low-income housing investments	**1,833**	885
Tax credits	**(5,779)**	(1,921)
Tax-exempt income	**(5,233)**	(4,129)
Cash surrender value of officers' life insurance	**(839)**	(877)
Dividends received deduction	**(178)**	(178)
Change in valuation allowance	**6**	(6)
Other, net	**764**	516
Actual income tax expense	**$ 24,445**	$ 32,050

9. Income Taxes (continued)

Significant components of the Corporation's deferred tax assets and deferred tax liabilities at December 31 are presented in the table below:

	2016	2015
	(In Thousands)	
Deferred tax assets:		
Pension and deferred compensation plans	**$ 40,601**	$ 33,632
Allowance for credit losses	**31,256**	29,077
Accrued expenses	**6,846**	4,438
Depreciation	**5,893**	7,408
Loan basis difference fair value adjustments	**5,599**	6,828
Other-than-temporary impairment on securities available for sale	**5,571**	6,097
Net operating loss carryover	**4,829**	4,870
Charitable contribution limitation carryover	**1,680**	2,736
Other	**2,769**	3,012
Total deferred tax assets	**105,044**	98,098
Less: Valuation allowance	**(4,994)**	(4,988)
Deferred tax assets, net of valuation allowance	**100,050**	93,110
Deferred tax liabilities:		
Amortization of intangibles	**18,039**	17,247
Unrealized appreciation on securities available for sale	**3,300**	9,579
Partnerships	**3,885**	2,792
Trading securities	**1,999**	1,722
Other	**3,070**	2,761
Total deferred tax liabilities	**30,293**	34,101
Net deferred income tax assets	**$ 69,757**	$ 59,009

The change in the valuation allowance applicable to certain deferred tax assets is as follows:

	2016
	(In Thousands)
Valuation allowance at the beginning of the year	**$ 4,988**
Change in tax attribute benefits	**6**
Valuation allowance at the end of the year	**$ 4,994**

9. Income Taxes (continued)

In connection with a bank acquisition in 2012, the Corporation acquired a $2.2 million net operating loss (NOL) carryforward. These net operating losses begin to expire in 2029. As the bank acquisition resulted in a change in ownership of greater than 50%, Internal Revenue Code (IRC) §382 limitations on utilization of acquired tax attributes were applicable. IRC §382 limits the annual NOL utilization to an amount that is calculated based on the fair market value of the acquired corporation and the federal long-term tax exempt rate. Management determined that it was more likely than not that the deferred tax asset recorded for this NOL would not be realized and, as such, recorded a valuation allowance against the deferred tax asset. The Corporation maintained a valuation allowance of $2.2 million and $2.2 million, at December 31, 2016 and December 31, 2015, respectively.

Additionally, the bank acquisition carried with it net unrealized built in losses that were also subject to tax deduction limitations under IRC §382. Under IRC §382(h), during the five years following the change in ownership, built in losses recognized are converted to NOLs and subject to the same IRC §382 limitations described above. Management determined that it was more likely than not that these net unrealized built in losses would not be utilized, and, as such a valuation allowance was recorded against the deferred tax asset. This valuation allowance totaled $2.8 million at December 31, 2016. In 2016 and 2015 the Corporation realized certain of these net unrealized built in (gains)/losses totaling $41,000 and $12,000, respectively. These realized built in losses have a carryforward period of 20 years from their realization, but are subject to the IRC §382 limitations on NOLs described above.

The Corporation files tax returns in the U.S. federal jurisdiction and various states. During 2015, the IRS completed its examination of the Corporation's tax returns for the years ended December 31, 2011, 2012 and 2013. The results of the IRS examination had an immaterial effect on income tax expense. At December 31, 2016, the Corporation's open tax years for examination by the IRS were 2014 and 2015. The Corporation's open tax years for examination by state tax authorities varies by state, but no years prior to 2010 are open.

Management has performed an evaluation of the Corporation's uncertain tax positions and determined that a liability for unrecognized tax benefits at December 31, 2016 and 2015 was not needed.

9. Income Taxes (continued)

In 2016 and 2015, the Corporation recognized approximately $7,000 and $(21,000), respectively, in interest (income)/expense and penalties that were included in income tax expense.

As a result of the Tax Reform Act of 1986, the special tax bad debt provisions were amended to eliminate the reserve method. However, the base year reserve of approximately $20.8 million remains subject to recapture in the event that the Bank pays dividends in excess of its earnings and profits or redeems its stock.

10. Low Income Housing Tax Credits and Other Tax Credit Investments

The Corporation has invested in several separate Low Income Housing Tax Credits (LIHTC) projects which provide the Corporation with tax credits and operating loss tax benefits over a period of approximately 15 years. Typically, none of the original investment is expected to be repaid. The return on these investments is generally generated through tax credits and tax losses. The Corporation accounts for its investments in LIHTC projects using the proportional amortization method, under which it amortizes the initial cost of the investment in proportion to the amount of the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The Corporation's maximum exposure to loss in its investments in qualified affordable housing projects is limited to its carrying value included in other assets.

10. Low Income Housing Tax Credits and Other Tax Credit Investments (continued)

The following table presents the Corporation's investments in low income housing projects accounted for using the proportional amortization method as of the date indicated:

	2016	2015
	(In Thousands)	
Current recorded investment included in other assets	**$ 18,749**	$ 19,089
Commitments to fund qualified affordable housing projects included in recorded investment noted above	**10,967**	15,569
Tax credits and benefits (1)	**1,537**	1,458
Amortization of investments included in current tax expense (2)	**1,833**	885

(1) Amount reflects anticipated tax credits and tax benefits for the years ended December 31, 2016 and 2015
(2) Amount reflects amortization of qualified affordable housing projects for the years ended December 31, 2016 and 2015

The Corporation is the sole member of a tax credit investment company through which it consolidates a VOE under partnership accounting using the VOE model. In 2015 the VOE made an equity investment to fund the construction of solar energy facilities in a manner to qualify for renewable energy investment tax credits. This equity investment is included in other assets on the consolidated balance sheet and totaled $5.3 million and $5.7 million at December 31, 2016 and 2015, respectively. The minority interest associated with this investment was immaterial at December 31, 2016 and 2015. The Corporation will treat the investment tax credits received as a reduction of federal income taxes for the year in which the credit arises using the flow-through method. Investment tax credits of $2.8 million were received related to this investment during 2016. In addition, the Corporation recorded $0.3 million and $0.3 million of new markets tax credits in 2016 and 2015, respectively.

The Corporation accounts for its investments in other tax credit investment projects using either the cost method or equity method. These investments are included in other assets on the consolidated balance sheets and totaled $0.8 million and $0.1 million at December 31, 2016 and 2015, respectively. There were no commitments outstanding for these projects at either year end.

11. Minimum Regulatory Capital Requirements

The Corporation is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation must meet specific capital guidelines that involve quantitative measures of the Corporation's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

In 2015, the Corporation became subject to the requirements set forth in U.S. Basel III, a regulation which revised previously existing regulatory capital rules and standards. U.S. Basel III created new risk-weighting categories and assigned higher risk-weights to certain assets and exposures than required under previous rules. In addition, U.S. Basel III defined a new level of the capital hierarchy, deemed common equity Tier I capital, and established minimum amounts and ratios for this type of capital. Under this regulation, the Corporation is required to maintain minimum amounts and ratios (set forth in the table on the next page) of total, Tier I, and common equity Tier 1 capital to risk-weighted assets, and of Tier I capital to average assets (all as defined in the regulations). Under previous regulatory requirements, the Corporation was required to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets (all as defined in the regulations). Under Basel III, the minimum required amounts and ratios for Tier 1 capital to risk-weighted assets and Tier 1 capital to average assets are higher than they were under the earlier standards Management believes, as of December 31, 2016 and 2015, that the Corporation met all capital adequacy requirements to which it is subject.

As of December 31, 2016, the Bank was categorized as "well-capitalized" based on the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Corporation must maintain minimum total risk-based, Tier I risk-based, common equity Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There have been no conditions or events that management believes would cause a change in the Corporation's categorization.

11. Minimum Regulatory Capital Requirements (continued)

The Corporation’s actual capital amounts and ratios are presented in the following table:

	Actual		For Capital Adequacy		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(In Thousands)			
As of December 31, 2016:						
Total regulatory capital (to risk-weighted assets)	**$ 1,029,354**	**11.63%**	**$ 708,219**	**≥8%**	**$ 885,274**	**≥10%**
Tier 1 capital (to risk-weighted assets)	**952,666**	**10.76**	**531,165**	**6**	**708,219**	**8**
Common Equity Tier I capital (to risk-weighted assets)	**952,666**	**10.76**	**398,373**	**4.5**	**575,428**	**6.5**
Tier I capital (to average assets)	**952,666**	**9.87**	**386,282**	**4**	**482,852**	**5**
As of December 31, 2015:						
Total regulatory capital (to risk-weighted assets)	$ 963,633	11.69%	$ 659,200	≥8%	$ 824,000	≥10%
Tier 1 capital (to risk-weighted assets)	892,278	10.83	494,400	6	659,200	8
Common Equity Tier I capital (to risk-weighted assets)	892,278	10.83	370,800	4.5	535,600	6.5
Tier I capital (to average assets)	892,278	9.56	373,516	4	466,895	5

The Corporation is subject to various capital requirements in connection with seller/servicer agreements that the Corporation has entered into with secondary market investors. Failure to maintain minimum capital requirements could result in the Corporation’s inability to originate and service loans for the respective investor and, therefore, could have a direct material effect on the Corporation’s financial statements. Management believes, as of December 31, 2016 and 2015, that the Corporation met all capital requirements in connection with seller/servicer agreements.

12. Employee Benefits

Pension Plans

The Corporation provides pension benefits for its employees through membership in the Savings Banks Employees' Retirement Association (SBERA). The plan is a noncontributory, defined benefit plan. Corporation employees become eligible after attaining age 21 and one year of service. Additionally, benefits become fully vested after three years of eligible service for individuals employed by the Corporation on or before October 31, 1989. Individuals employed subsequent to October 31, 1989, become fully vested after five years of eligible service. The Corporation's annual contribution to the defined benefit plan is based upon standards established by the Pension Protection Act. The contribution is based on an actuarial method intended to provide not only for benefits attributable to service to date, but also for those expected to be earned in the future.

SBERA offers a common and collective trust as the underlying investment structure for pension plans participating in the association. The target allocation mix for the common and collective trust portfolio calls for an equity-based investment deployment range of 40% to 64% of total portfolio assets. The remainder of the portfolio is allocated to fixed income with a target range of 15% to 25% and other investments, including global asset allocation and hedge funds, from 25% to 41%. The investment managers for the common and collective trust portfolio are selected by the trustees of SBERA through the association's investment committee. A professional investment advisory firm is retained by the investment committee to provide allocation analysis, performance measurement, and to assist with manager searches. The overall investment objective is to diversify equity investments across a spectrum of investment types to limit risks from large market swings. The defined benefit plan has a plan year end of October 31.

The Corporation has an unfunded defined benefit Supplemental Executive Retirement Plan (DB SERP) that provides certain retired and currently employed officers with defined pension benefits in excess of qualified plan limits imposed by U.S. federal tax law. The DB SERP has a plan year end of December 31. In addition, the Corporation has an unfunded Benefit Equalization Plan (BEP) to provide retirement benefits to certain employees whose retirement benefits under the qualified pension plan are limited per the Internal Revenue Code. The BEP has a plan year end of October 31. The Corporation also has an unfunded Outside Directors' Retainer Continuance Plan that provides pension benefits to outside directors who retire from service. The Outside Directors' Retainer Continuance Plan has a plan year end of December 31.

12. Employee Benefits (continued)

The funded status and amounts recognized in the Corporation's consolidated financial statements for the defined benefit plan, the DB SERP, the BEP and the Outside Directors' Retainer Continuance Plan are set forth in the following table:

	2016	2015
	(In Thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of the year	**$ 240,086**	$ 251,154
Service cost	**17,282**	19,221
Interest cost	**9,597**	9,412
Actuarial (gain) loss	**11,385**	(30,959)
Benefits paid	**(10,225)**	(8,742)
Benefit obligation at end of the year	**$ 268,125**	$ 240,086
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 216,883**	$ 229,579
Actual return on plan assets	**19,633**	(7,691)
Employer contribution	**2,218**	3,737
Benefits paid	**(10,225)**	(8,742)
Fair value of plan assets at end of year	**228,509**	216,883
Funded status	**$ (39,616)**	$ (23,203)
Reconciliation of funding status:		
Past service cost	**$ (157)**	$ (201)
Unrecognized net loss	**(71,447)**	(68,939)
Prepaid benefit cost	**31,988**	45,937
Funded status	**$ (39,616)**	$ (23,203)
Accumulated benefit obligation	**$ 195,345**	$ 175,473
Amounts recognized in accumulated other comprehensive income, net of tax:		
Unrecognized past service cost	**$ (93)**	$ (119)
Unrecognized net loss	**(42,260)**	(40,777)
Net amount	**$ (42,353)**	$ (40,896)
Amounts in accumulated other comprehensive income expected to be recognized in net periodic benefit cost over the next fiscal year:		
Unrecognized past service cost	**$ 26**	$ 26
Unrecognized net loss	**3,432**	3,946
Net amount	**$ 3,458**	$ 3,972

12. Employee Benefits (continued)

Assumptions used in determining the benefit obligation and pension cost were as follows:

	2016	2015
Discount rate - benefit obligation	**4.00%**	4.125%
Discount rate - benefit cost	**4.125%**	3.75%
Rate of increase in compensation levels for defined benefit plan and BEP - benefit obligation	**5.25%**	5.25%
Rate of increase in compensation level for directors' retainer continuance plan - benefit obligation	**3.00%**	3.00%
Rate of increase in compensation levels for defined benefit plan and BEP - benefit cost	**5.25%**	5.25%
Rate of increase in compensation level for directors' retainer continuance plan - benefit cost	**3.00%**	3.00%
Expected return on plan assets - defined benefit plan	**7.75%**	7.75%

In general, the Corporation has selected its assumption with respect to the expected long-term rate of return based on prevailing yields on high quality fixed income investments increased by a premium for equity return expectations.

The Corporation owns a percentage of the SBERA defined benefit common collective trust. Based upon this ownership percentage, plan assets managed by SBERA on behalf of the Corporation amounted to $228.5 million and $216.9 million at December 31, 2016 and 2015, respectively. Investments held by the common collective trust include Level 1, 2 and 3 assets such as: collective funds, equity securities, mutual funds, hedge funds and short-term investments. The Fair Value Measurements and Disclosures Topic of the FASB ASC stipulates that an asset’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. As such, the Corporation classifies its interest in the common collective trust as a Level 3 asset.

12. Employee Benefits (continued)

The table below presents a reconciliation of the Corporation's interest in the SBERA common collective trust during the year ended December 31, 2016:

	(In Thousands)
Balance at January 1, 2016	$ 216,883
Net gains and losses (realized/unrealized)	19,633
Contributions	-
Benefits Paid	(8,007)
Balance at December 31, 2016	$ 228,509

The components of net pension expense for the plans for the years ended December 31 follows:

	2016	**2015**
	(In Thousands)	
Components of net periodic benefit cost:		
Service cost	$ 17,282	$ 19,221
Interest cost	9,597	9,412
Expected return on plan assets	(16,301)	(17,792)
Past service cost	44	44
Recognized net actuarial loss	5,545	6,672
Net periodic benefit cost	$ 16,167	$ 17,557

In accordance with the Pension Protection Act, the Corporation is not required to make any contributions for the defined benefit plan for the plan year beginning November 1, 2016.

12. Employee Benefits (continued)

The following table summarizes estimated benefits to be paid from the defined benefit plan, DB SERP, BEP, and Directors' Retainer Continuance Plan for the plan years beginning November 1 and January 1, respectively.

	(In Thousands)
2017	$ 17,512
2018	15,264
2019	15,059
2020	14,738
2021	14,467
In aggregate for 2022 - 2026	75,519

The Corporation holds securities in rabbi trust investments that are used to fund certain executive non-qualified retirement benefits and deferred compensation. These rabbi trust investments consisted primarily of cash and cash equivalents, U.S. government agency obligations, equity securities, mutual funds and other exchange-traded funds, and were recorded at fair value.

Assets held in rabbi trust accounts by plan type, at fair value, were as follows:

	At December 31,	
	2016	**2015**
	(In Thousands)	
Deferred Compensation	**$ 27,262**	$ 28,243
DB SERP	**20,278**	21,178
DC SERP	**21,493**	18,122
Directors' Retainer Continuance Plan	**1,897**	-
	$ 70,930	$ 67,543

For the years ended December 31, 2016 and 2015, the net unrealized gain on rabbi trust investments still held at the reporting date were $5.1 million and $4.3 million, respectively.

12. Employee Benefits (continued)

Employee Tax Deferred Incentive Plan

The Corporation has an employee tax deferred incentive plan (401(k)) under which the Corporation makes voluntary contributions within certain limitations. All employees who meet specified age and length of service requirements are eligible to participate in the 401(k) plan. The amount contributed by the Corporation is included in salaries and employee benefits expense. The amounts contributed for the years ended December 31, 2016 and 2015, were $3.7 million and $3.4 million, respectively.

Defined Contribution Supplemental Executive Retirement Plan

The Corporation has a defined contribution supplemental executive retirement plan (DC SERP), which allows certain senior officers to earn benefits calculated as a percentage of their compensation. In addition, the participant benefits are adjusted based upon a deemed investment performance of measurement funds selected by the participant. These measurement funds are for tracking purposes, and are used only to track the performance of a mutual fund, market index, savings instrument, or other designated investment or portfolio of investments. The Corporation recorded expense related to this DC SERP of $1.5 million and $1.1 million in 2016 and 2015, respectively.

Deferred Compensation

The Corporation sponsors two plans which allow for elective compensation deferrals by directors, trustees, and certain senior-level employees. Each plan allows its participants to designate deemed investments for deferred amounts from certain options which include diversified choices, such as exchange traded funds, mutual funds, and a deemed fund yielding the highest rate paid by the Corporation on deposit accounts each month. Portfolios with various risk profiles are available to participants with the approval of the Compensation Committee. The Corporation purchases and sells investments which track the deemed investment choices, so that it has available funds to meet its payment liabilities. Deferred amounts, adjusted for deemed investment performance, are paid at the time of a participant-designated date or event, such as separation from service, death, or disability. The total amounts due to participants under the two plans were included in other liabilities on the Corporation’s balance sheet and amounted to $27.0 million and $28.0 million at December 31, 2016 and 2015, respectively.

13. Commitments and Contingencies

The Corporation has been named a defendant in various legal proceedings arising in the normal course of business. In the opinion of management, based on the advice of legal counsel, the ultimate resolution of these proceedings will not have a material effect on the Corporation’s consolidated financial statements.

The Corporation is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to originate or purchase loans, standby letters of credit, interest rate swap contracts, foreign currency exchange contracts, and forward commitments. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. For interest rate swap contracts, foreign currency exchange contracts, and forward commitments, the contract or notional amount does not represent exposure to credit loss. The Corporation controls the credit risk of its interest rate swap contracts and forward commitments through credit approvals, limits, and monitoring procedures.

13. Commitments and Contingencies (continued)

Financial instruments with off-balance sheet risk at December 31 follows:

	2016	2015
	(In Thousands)	
Unused lines of credit	**$ 2,165,097**	$ 1,948,711
Commitments to originate commercial loans	**354,987**	269,669
Commitments to originate residential loans	**95,767**	62,518
Unadvanced portions of construction loans	**332,790**	215,824
Standby letters of credit	**37,716**	42,469
Forward commitments to sell loans	**24,481**	40,604
Interest rate swap contracts (notional amount)	**2,743,758**	2,314,077
Foreign currency exchange contracts:		
Commitments to sell forward contracts (notional amount)	**29,415**	18,797
Commitments to buy forward contracts (notional amount)	**29,335**	18,745

Unused lines of credit, commitments to originate loans, and unadvanced portions of construction loans are agreements to lend to a customer, provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. For all lines of credit and loans, the Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the borrower. The Corporation does not sell loans with recourse.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

As a member of the Federal Reserve System, the Bank is required to maintain certain reserves of vault cash and/or deposits with the Federal Reserve Bank of Boston. The amount of this reserve requirement included in cash and cash equivalents was approximately $2.4 million on December 31, 2016.

14. Derivative Financial Instruments

The Corporation is exposed to certain risks arising from both its business operations and economic conditions. The Corporation principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Corporation manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities. The Corporation's existing interest rate derivatives and foreign currency exchange contract derivatives result from a service provided to certain qualifying customers and, therefore, are not used to manage interest rate risk or foreign exchange rate risk in the Corporation's assets or liabilities. The Corporation manages a matched book with respect to its interest rate derivative instruments and its foreign currency exchange contract derivative instruments in order to minimize its net risk exposure resulting from such transactions.

The tables below present the fair value of the Corporation's derivative financial instruments, as well as their classification on the consolidated balance sheets as of December 31, 2016 and 2015, respectively.

Tabular Disclosure of Fair Values of Derivative Instruments

	Asset Derivatives				Liability Derivatives			
	As of December 31, 2016		As of December 31, 2015		As of December 31, 2016		As of December 31, 2015	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair value
	(In Thousands)							
Derivatives not designated as hedging instruments								
Interest rate swaps	Other assets	**$ 28,598**	Other assets	$ 30,317	Other liabilities	**$ 28,802**	Other liabilities	$ 31,799
Foreign currency exchange contracts	Other assets	**1,718**	Other assets	601	Other liabilities	**1,634**	Other liabilities	549
Total derivatives not designated as hedging instruments		**$ 30,316**		$ 30,918		**$ 30,436**		$ 32,348

14. Derivative Financial Instruments (continued)

None of the Corporation's derivatives are designated in qualifying hedging relationships. Derivatives not designated as hedges are not speculative and result from a service the Corporation provides to certain customers. The Corporation executes interest rate swaps and foreign currency exchange contracts with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps and foreign currency exchange contracts are simultaneously economically hedged by offsetting interest rate swaps and foreign currency exchange contracts that the Corporation executes with a third party, such that the Corporation minimizes its net risk exposure resulting from such transactions.

As the interest rate swaps and the foreign currency exchange contracts do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of December 31, 2016, the Corporation had 500 interest rate swaps with an aggregate notional amount of $2.7 billion related to this program. As of December 31, 2016, the Corporation had 174 foreign currency exchange contracts with an aggregate notional amount of $58.8 million related to this program. The level of interest rate swaps and foreign currency exchange contracts at each year-end period noted above was commensurate with the activity throughout those years.

The tables below present the net effect of the Corporation's derivative financial instruments on the consolidated income statements for the years ended December 31, 2016 and 2015.

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative Instruments	Amount of Gain or (Loss) Recognized in Income on Derivatives 2016	2015
		(In Thousands)	
Interest rate swaps	Interest rate swap income	**$ 1,278**	$ (429)
Foreign currency exchange contracts	Other income	**32**	(28)
Total		**$ 1,310**	$ (457)

The Corporation has agreements with its interest rate swap derivative counterparties that contain a provision whereby if the Corporation defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Corporation could also be declared in default on its derivative obligations.

14. Derivative Financial Instruments (continued)

The Corporation also has agreements with certain of its interest rate swap derivative counterparties that contain a provision whereby if the Corporation fails to maintain its status as a well-capitalized institution, then the counterparty could terminate the derivative positions and the Corporation would be required to settle its obligations under the agreements.

As of December 31, 2016, the fair value of interest rate swap derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $12.2 million. The Corporation has minimum collateral posting thresholds with certain of its interest rate swap derivative counterparties and has posted collateral of $8.3 million which is included in other short-term investments and is considered to be a restricted asset. The minimum posting collateral considered to be restricted at December 31, 2015 was $36.1 million. If the Corporation had breached any of these provisions at December 31, 2016, it would have been required to settle its obligations under the agreements at the termination value. In addition, the Corporation had cross-default provisions with its commercial customer loan agreements which provide cross-collateralization with the customer loan collateral.

As of December 31, 2016, the fair value of foreign currency exchange contract derivatives in a net liability position, which excludes any adjustment for nonperformance risk, related to these agreements was $1.5 million. The Corporation does not have any minimum collateral posting thresholds with its foreign currency exchange contracts derivative counterparties. If the Corporation had breached any of these provisions at December 31, 2016, it would have been required to settle its obligations under the agreements at the termination value. At December 31, 2016 the Corporation collected cash collateral of $2.5 million from its foreign exchange customers in the event of customer default.

15. Balance Sheet Offsetting

Certain financial instruments, including derivatives, may be eligible for offset in the consolidated balance sheet and/or subject to master netting arrangements or similar agreements. The Corporation's derivative transactions with upstream financial institution counterparties are generally executed under International Swaps and Derivative Association master agreements which include "right of set-off" provisions. In such cases there is generally a legally enforceable right to offset recognized amounts. However, the Corporation does not offset fair value amounts recognized for derivative instruments. The Corporation does net the amount recognized for the right to reclaim cash collateral against the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement. Collateral legally required to be maintained at dealer banks by the Corporation is monitored and adjusted as necessary. Per a review completed by management of these instruments at December 31, 2016, it was determined that no additional collateral would have to be posted to immediately settle these instruments.

The following table presents the Corporation's asset positions that were eligible for offset and the potential effect of netting arrangements on its financial position, as of the periods indicated:

Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Position: Cash Collateral Received	Net Amount
			(In Thousands)			
			December 31, 2016			
Interest rate swaps	**$ 28,598**	**$ -**	**$ 28,598**	**$ 7,978**	**$ -**	**$ 20,620**
Foreign currency exchange contracts	**1,718**	**-**	**1,718**	**133**	**1,585**	**-**
	$ 30,316	**$ -**	**$ 30,316**	**$ 8,111**	**$ 1,585**	**$ 20,620**
			December 31, 2015			
Interest rate swaps	$ 30,317	$ -	$ 30,317	$ 52	$ -	$ 30,265
Foreign currency exchange contracts	601	-	601	274	327	-
	$ 30,918	$ -	$ 30,918	$ 326	$ 327	$ 30,265

15. Balance Sheet Offsetting (continued)

The following table presents the Corporation's liability positions that were eligible for offset and the potential effect of netting arrangements on its financial position, as of the periods indicated:

Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Position: Cash Collateral Pledged	Net Amount
	(In Thousands)					
	December 31, 2016					
Interest rate swaps	**$ 28,802**	**$ -**	**$ 28,802**	**$ 7,978**	**$ 8,310**	**$ 12,514**
Foreign currency exchange contracts	**1,634**	**-**	**1,634**	**133**	**-**	**1,501**
	$ 30,436	**$ -**	**$ 30,436**	**$ 8,111**	**$ 8,310**	**$ 14,015**
	December 31, 2015					
Interest rate swaps	$ 31,799	$ -	$ 31,799	$ 52	$ 31,747	$ -
Foreign currency exchange contracts	549	-	549	274	-	275
	$ 32,348	$ -	$ 32,348	$ 326	$ 31,747	$ 275

16. Fair Value of Assets and Liabilities

The Corporation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Corporation's own assumptions are set to reflect those that the Corporation believes market participants would use in pricing the asset or liability at the measurement date. The Corporation uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Corporation's entire holdings of a particular financial instrument. Because no active market exists for a portion of the Corporation's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

16. Fair Value of Assets and Liabilities (continued)

The following methods and assumptions were used by the Corporation in estimating the fair value of assets and liabilities measured at fair value on a recurring basis:

Trading Securities

Trading securities consisted primarily of fixed income municipal securities and U.S. Treasury bills, and were recorded at fair value. All of the fixed income securities were categorized in Level 2 as the valuations were estimated using a valuation matrix with inputs including bond interest rate tables, recent transactions, and yield relationships.

Securities Available for Sale

Securities available for sale consisted primarily of U.S. government-sponsored residential mortgage-backed securities, and other bonds and obligations, and were recorded at fair value.

The fair value of other U.S. government-sponsored residential mortgage-backed securities was estimated using either a matrix or benchmarks. The inputs used include benchmark yields, reported trades, broker/dealer quotes, and issuer spreads. These securities were categorized as Level 2.

Other bonds and obligations consisted primarily of municipal bonds and trust preferred collateralized debt obligations, including pooled and single issuer preferred securities. Most municipal bonds were classified as Level 2 for the same reasons described for the trading municipal securities. A municipal bond acquired as a result of the Centrix Bank & Trust acquisition was classified as Level 3 due to a lack of trading activity and a lack of trading activity on bonds with similar characteristics. The fair value of this bond was estimated using a valuation matrix with inputs including bond interest rate tables. The fair values of single issue trust preferred collateralized debt obligations were based upon recent trades of the same or similar securities and were classified as Level 2. The valuation technique used for pooled trust preferred securities was a discounted cash flow methodology based upon estimated collateral performance using market discount rates. The assumptions used included at least one significant model assumption or input that was not observable, and therefore, these securities were categorized as Level 3 within the fair value hierarchy. The valuation technique for the qualified zone academy bond was a discounted cash flow methodology and was categorized as Level 3.

16. Fair Value of Assets and Liabilities (continued)

Fair value was based on the value of one unit without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications, or estimated transaction costs. The estimated fair value of the Corporation's securities available for sale, by type, is disclosed in Note 3.

Loans Held for Sale

Loans held for sale, whose carrying amounts approximate fair value, the fair value was estimated by the anticipated market price based upon pricing indications provided by investor banks.

Loans that are deemed to be impaired were recorded at the fair value of the underlying collateral, if the loan is collateral-dependent, or at a carrying value based upon expected cash flows discounted using the loan's effective interest rate.

Rabbi Trust Investments

Rabbi trust investments consisted primarily of cash and cash equivalents, U.S. government agency obligations, equity securities, mutual funds and other exchange-traded funds, and were recorded at fair value and included in other assets. The purpose of these rabbi trust investments is to fund certain executive non-qualified retirement benefits and deferred compensation.

For cash and cash equivalents, which have maturities of 90 days or less, their carrying amounts reported in the consolidated balance sheets approximate fair value and were categorized as Level 1. The fair value of other U.S. government agency obligations was estimated using either a matrix or benchmarks. The inputs used include benchmark yields, reported trades, broker/dealer quotes, and issuer spreads. These securities were categorized as Level 2. The equity securities and other exchange-traded funds were valued based on quoted prices from the market. The equities, mutual funds and exchange-traded funds traded in an active market were categorized as Level 1. Mutual funds at net asset value amounted to $19.2 million and $15.0 million, respectively, at December 31, 2016 and 2015. There were no redemption restrictions on these mutual funds at either year end.

16. Fair Value of Assets and Liabilities (continued)

Interest Rate Swaps

The fair value of interest rate swaps was determined using discounted cash flow analysis on the expected cash flows of the interest rate swaps. This analysis reflects the contractual terms of the interest rate swaps, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. In addition, the analysis reflects a credit valuation adjustment to reflect the Corporation's own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. The majority of inputs used to value its interest rate swaps fall within Level 2 of the fair value hierarchy, but the credit valuation adjustments associated with the interest rate swaps utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Corporation and its counterparties. However, as of December 31, 2016, the impact of the Level 3 inputs on the overall valuation of the interest rate swaps was deemed not significant to the overall valuation. As a result, the interest rate swaps were categorized as Level 2 within the fair value hierarchy.

Foreign Currency Forward Contracts

The fair values of foreign currency forward contracts were based upon the remaining expiration period of the contracts and bid quotations received from foreign exchange contract dealers, and were categorized as Level 2 within the fair value hierarchy.

16. Fair Value of Assets and Liabilities (continued)

Assets and liabilities measured at fair value on a recurring basis were as follows:

Description	Balance as of December 31, 2016	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Assets				
Trading securities				
Municipal bonds	$ 51,663	$ -	$ 51,663	$ -
Securities available for sale				
Government-sponsored residential mortgage-backed securities	859,593	-	859,593	-
Single issuer trust preferred securities issued by banks	35,559	-	35,559	-
Pooled trust preferred securities issued by banks and insurers	29,817	-	-	29,817
State and municipal bonds and obligations	276,750	-	272,995	3,755
Other bonds	5,877	-	50	5,827
Rabbi trust investments	70,930	55,831	15,099	-
Interest rate swaps	28,598	-	28,598	-
Foreign currency forward contracts	1,718	-	1,718	-
Total	$ 1,360,505	$ 55,831	$ 1,265,275	$ 39,399
Liabilities				
Interest rate swaps	$ 28,802	$ -	$ 28,802	$ -
Foreign currency forward contracts	1,634	-	1,634	-
Total	$ 30,436	$ -	$ 30,436	$ -

16. Fair Value of Assets and Liabilities (continued)

Description	Balance as of December 31, 2015	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In Thousands)		
Assets				
Trading securities				
Municipal bonds	$ 60,475	$ -	$ 60,475	$ -
U.S. Treasury notes	575	-	575	-
Securities available for sale				
Government-sponsored residential mortgage-backed securities	712,232	-	712,232	-
Single issuer trust preferred securities issued by banks	44,613	-	44,613	-
Pooled trust preferred securities issued by banks and insurers	34,031	-	-	34,031
State and municipal bonds and obligations	183,028	-	179,038	3,990
Other bonds	5,743	-	25	5,718
Rabbi trust investments	67,543	52,214	15,329	-
Interest rate swaps	30,317	-	30,317	-
Foreign currency forward contracts	601	-	601	-
Total	$ 1,139,158	$ 52,214	$ 1,043,205	$ 43,739
Liabilities				
Interest rate swaps	$ 31,799	$ -	$ 31,799	$ -
Foreign currency forward contracts	549	-	549	-
Total	$ 32,348	$ -	$ 32,348	$ -

16. Fair Value of Assets and Liabilities (continued)

There were no transfers between Level 1 and Level 2 during 2016 or 2015.

For the fair value measurements which are classified as Level 3 within the fair value hierarchy, the Corporation's Treasury and Finance groups determine the valuation policies and procedures. For the valuation of the securities, the Corporation uses third-party valuation information. Management determined that no changes to the quantitative unobservable inputs were necessary. Depending on the type of the security, management employs various techniques to analyze the valuation it receives from third-parties, such as analyzing changes in market yields and in certain instances reviewing the underlying collateral of the security. Management reviews changes in fair value from period to period to ensure that values received from the third parties are consistent with their expectation of the market.

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2016 and 2015:

	Securities Available for Sale
	(In Thousands)
Balance at January 1, 2015	$ 53,071
Gains and losses (realized/unrealized):	
Included in earnings	109
Included in other comprehensive income	(298)
Purchases	-
Issuances	-
Settlements	(9,143)
Transfers into (out of) Level 3	-
Balance at December 31, 2015	43,739
Gains and losses (realized/unrealized):	
Included in earnings	**109**
Included in other comprehensive income	**2,472**
Purchases	**-**
Issuances	**-**
Settlements	**(6,921)**
Transfers into (out of) Level 3	**-**
Balance at December 31, 2016	$ **39,399**

16. Fair Value of Assets and Liabilities (continued)

The Corporation may also be required, from time to time, to measure certain other assets on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from write-downs of individually impaired assets. The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets as of December 31, 2016 and 2015. Individual assets were measured during the reporting periods and measurement dates may not coincide with the reporting dates. The gain/(loss) represents the amount of write-down recorded during 2016 and 2015 on the assets held at December 31, 2016 and 2015.

		Fair Value Measurements at Reporting Date Using			
Description	**Balance as of December 31, 2016**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses)**
		(In Thousands)			
Assets					
Other real estate owned	**$ 189**	**$ -**	**$ 189**	**$ -**	**$ (15)**
Collateral-dependent impaired loans whose fair value determined is based upon appraisals	**12,581**	**-**	**5,239**	**7,342**	**(2,094)**
Total	**$ 12,770**	**$ -**	**$ 5,428**	**$ 7,342**	**$ (2,109)**

		Fair Value Measurements at Reporting Date Using			
Description	**Balance as of December 31, 2015**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses)**
		(In Thousands)			
Assets					
Other real estate owned	$ 772	$ -	$ 772	$ -	$ -
Collateral-dependent impaired loans whose fair value determined is based upon appraisals	5,870	-	2,376	3,494	(1,727)
Total	$ 6,642	$ -	$ 3,148	$ 3,494	$ (1,727)

16. Fair Value of Assets and Liabilities (continued)

Other real estate owned consists of real estate acquired for debts previously contracted. Fair value is based upon recent appraisals of the underlying collateral and brokers' opinions based upon recent sales of comparable properties. Other real estate owned was categorized as Level 2.

For collateral-dependent impaired loans whose fair value was based solely upon recent appraisals, the inputs used in the appraisals of the collateral were observable, and therefore, these loans were categorized in Level 2 of the fair value hierarchy.

For collateral-dependent impaired loans which are classified as Level 3 within the fair value hierarchy, the Corporation's Managed Assets group determines the valuation policies and procedures. For the valuation of the collateral-dependent impaired loans categorized as Level 3, the Corporation relies primarily on third-party valuation information from certified appraisers and values are generally based upon estimated equipment auction or liquidation values, income capitalization, or a combination of income capitalization and comparable sales. Depending on the type of underlying collateral, valuations may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments may vary.

Impaired loans in which the reserve was established based upon expected cash flows discounted at the loan's effective interest rate are not deemed to be measured at fair value.

17. Other Comprehensive Income

The Corporation's comprehensive income, presented net of taxes, is set forth below for the years ended December 31, 2016 and 2015:

	Year Ended December 31, 2016		
	Pre Tax Amount	**Tax Expense (Benefit)**	**After Tax Amount**
	(In Thousands)		
Unrealized gains (losses) on securities available for sale:			
Change in fair value of securities available for sale	**$ (17,362)**	**$ 6,185**	**(11,177)**
Less: reclassification adjustment for (gains) included in net income	**(261)**	**94**	**(167)**
Net change in fair value of securities available for sale	**(17,623)**	**6,279**	**(11,344)**
Defined benefit pension plans:			
Amortization of actuarial net loss	**5,545**	**(2,265)**	**3,280**
Change in actuarial net loss	**(8,052)**	**3,289**	**(4,763)**
Amortization of prior service cost	**44**	**(18)**	**26**
Net change in actuarial net loss	**(2,463)**	**1,006**	**(1,457)**
Total other comprehensive income	**$ (20,086)**	**$ 7,285**	**(12,801)**

	Year Ended December 31, 2015		
	Pre Tax Amount	**Tax Expense (Benefit)**	**After Tax Amount**
	(In Thousands)		
Unrealized gains (losses) on securities available for sale:			
Change in fair value of securities available for sale	$ (13,999)	$ 5,945	(8,054)
Less: reclassification adjustment for losses included in net income	62	(25)	37
Net change in fair value of securities available for sale	(13,937)	5,920	(8,017)
Defined benefit pension plans:			
Amortization of actuarial net loss	6,671	(2,725)	3,946
Change in actuarial net loss	5,476	(2,237)	3,239
Amortization of prior service cost	44	(18)	26
Net change in actuarial net loss	12,191	(4,980)	7,211
Total other comprehensive income	$ (1,746)	$ 940	(806)

17. Other Comprehensive Income (continued)

The following table illustrates the changes in the balances of each component of accumulated other comprehensive income, net of tax:

	Unrealized Gains and (Losses) on Available-for-Sale Securities	Defined Benefit Pension Items	Total
		(In Thousands)	
Beginning balance: January 1, 2016	$ 16,315	$ (40,896)	(24,581)
Other comprehensive income (loss) before reclassifications	(11,177)	(4,763)	(15,940)
Amounts reclassified from accumulated other comprehensive income	(167)	3,306	3,139
Net current-period other comprehensive income	(11,344)	(1,457)	(12,801)
Ending balance: December 31, 2016	$ 4,971	$ (42,353)	(37,382)

17. Other Comprehensive Income (continued)

The following table illustrates the significant amounts reclassified out of each component of accumulated other comprehensive income, net of tax, during the year ended December 31, 2016:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income is Presented
	(In Thousands)		
Unrealized gains and losses on available-for-sale securities	$	(261)	(Gain)/loss on sale of securities
		(261)	Total before tax
		94	Tax expense or (benefit)
	$	(167)	Net of tax
Amortization of defined benefit pension items			
Actuarial gains/(losses)	$	5,545	Net periodic pension cost - see
Prior service cost		44	Employee Benefits footnote
		5,589	Total before tax
		(2,283)	Tax expense or (benefit)
	$	3,306	Net of tax
Total reclassifications for the period	$	3,139	

Eastern Bank Corporation

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Jan A. Miller

Chief Financial Officer and Treasurer
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Secretary
Kathleen C. Henry

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Norah A. Sullivan
Susan L. Martin

Executive Committee – Eastern Bank Corporation

Board of Directors – Eastern Bank

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President
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Chief Financial Officer
DAVIDsTea

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Redstar Ventures

Paul M. Connolly
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Federal Reserve Bank of Boston

William “Mo” Cowan
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President and Chief Executive Officer
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The Wharton School, University of Pennsylvania

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Eastern Bank Corporation as of February 1, 2017

Eastern Bank Corporation

Trustees

Honorary Trustees

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Eastern Bank Corporation as of February 1, 2017

Eastern Bank Corporation

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The Corporation consists of the Directors, Trustees and the following Corporators:

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Eastern Bank Corporation as of February 1, 2017

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Laurence P. Stock

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Martha A. Dean
Caroline F. Malone
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Paula Murphy-Roux
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Executive Director
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Minority Business Enterprise Initiative

Executive Director
Glynn T. Lloyd

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Senior Vice President
Tracy J. Stokes

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Chief Information Officer
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Virginia Daniels
Craig P. Gardner
Mark T. Leonard
Lynette L. Lopez
Brian G. Plourde

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Treasurer
John F. McKinlay

Senior Vice President &
Controller
David A. Ahlquist

Senior Vice Presidents
Jillian A. Belliveau
Mark P. Coryea

Operations

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Lorraine M. Benoit
Debra R. Hallett
Richard L. Sicard

Legal

General Counsel
Kathleen C. Henry

Audit

Chief Internal Auditor
Cheryle J. Leonard

General Services

Senior Vice President
Thomas E. Dunn

Eastern Bank Offices

Andover
60 Main Street

Bedford, NH
1 Atwood Lane

Beverly
33 Enon Street
81 Bridge Street

Boston
246 Border Street
155 Dartmouth Street
63 Franklin Street
265 Franklin Street
470 West Broadway

Braintree
51 Commercial Street

Bridgewater
110 Main Street

Brockton
1265 Belmont Street
276 Quincy Street

Brookline
301 Harvard Street

Burlington
43 Middlesex Turnpike

Cambridge
176 Alewife Brook Parkway
One Brattle Square
287 Third Street
647 Massachusetts Avenue

Chelmsford
291 Chelmsford Street

Chelsea
90 Everett Avenue

Concord, NH
11 South Main Street

Cotuit
1560 Old Post Road

Danvers
4 Federal Street

Dedham
240 Providence Highway

Dorchester
1906 Dorchester Avenue

Dover, NH
538 Central Avenue

Dracut
45 Broadway Road

Duxbury
19 Depot Street

East Falmouth
4 Sandwich Road

East Wareham
3003 Cranberry Highway

Everett
738 Broadway

Falmouth
117 Main Street

Hingham
274 Main Street

Hyannis
375 Iyannough Road

Jamaica Plain
687 Centre Street

Kingston
108 Main Street

Lakeville
45 Main Street

Lawrence
486 Essex Street
Northern Essex Community
College – 420 Common Street

Lexington
1833 Massachusetts Avenue

Lowell
50 Central Street

Lynn
112 Market Street
156 Boston Street

Lynnfield
45 Salem Street

Malden
94 Pleasant Street

Manchester, NH
41 Hooksett Road

Marblehead
118 Washington Street

Marion
340 Front Street

Marshfield
1932 Ocean Street

Mashpee
6 Shellback Way

Mattapoisett
29 County Road

Medford
53 Locust Street

Melrose
441 Main Street

Middleborough
151 Campanelli Drive

Nashua, NH
11 Trafalgar Square, Suite 105

Natick
2 South Avenue

Newburyport
17 Storey Avenue

Newton
1255 Centre Street
188 Needham Street
2060 Commonwealth Avenue

Norwell
80 Washington Street

Peabody
Essex Center Drive (Shaw's)
100 Brooksby Village Drive
300 Brooksby Village Drive
102 Lynn Street
37 Foster Street

Plymouth
36 Main Street

Portsmouth, NH
163 Deer Street

Quincy
63 Franklin Street
731 Hancock Street

Randolph
35 Memorial Parkway

Reading
123 Haven Street

Salem
139 Washington Street
72 Loring Avenue
19 Congress Street
6 Traders Way

Sandwich
65C Route 6A

Saugus
605 Broadway
466 Lincoln Avenue

Sharon
7 South Main Street

Somerville
250 Elm Street

Stoneham
163 Main Street

Stoughton
397 Washington Street

Swampscott
405 Paradise Road

Taunton
742 County Street

Tewksbury
1800 Main Street

Wakefield
445 Main Street

Wareham
226 Main Street

Watertown
One Church Street

West Plymouth
71 Carver Road

Westford
203 Littleton Road

Weymouth
1150 Washington Street

Wilmington
370 Main Street

Corporate Office

Corporate Headquarters
265 Franklin Street, Boston
617.897.1008

Eastern Bank Offices as of February 1, 2017

Eastern Insurance Group Offices

Acton
133 Great Road

Andover
60 Main Street

Boston *(Eastern Benefits Group)*
One Beacon Street

Brockton
500 Forest Avenue

Cohasset
380 Chief Justice Cushing Hgwy

Danvers
21 Maple Street

Duxbury
33 Enterprise Street

Gloucester
4 Railroad Avenue

Hyannis
375 Iyannough Road

Keene, NH
372 West Street

Lakeville
45 Main Street

Leominster
285 Central Street

Marshfield
933 Webster Street

Natick
233 West Central Street

Newburyport
65 Parker Street

Newton
130 Rumford Avenue

Northborough
155 Otis Street

Norwell
77 Accord Park Drive

Providence, RI
10 Dorrance Street

Quincy
382 Quincy Avenue

Sturbridge
54 Main Street

Wakefield
100 Quannapowitt Pkwy

West Plymouth
71 Carver Road

Westwood
190 Washington Street

Wrentham
78 South Street

Corporate Office
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