Eastern Bank Corporation
2017 Annual Report

Eastern Bank Corporation

Management's Letter

2017 was a record year for Eastern in many respects. Our net income reached an all-time high of $86.7 million, almost 40 percent higher than that generated in 2016, exceeding our previous record in 2011. Total assets vaulted past the $10 billion mark and ended the year just shy of $11 billion.

Loans, deposits and capital levels also all set record highs with loans ending the year at $8.2 billion or 7 percent above 2016; deposits were $8.8 billion, up 8 percent from 2016; and capital exceeded $1.3 billion, or 6 percent above 2016 levels. Our loan credit quality remained stellar with very low loan losses of .02 percent and non-performing assets below $20 million, leading measures among both national and local banks.

Eastern took advantage of rising interest rates and a very strong local economy to generate these record results. The company's net interest income (the difference between interest earned on loans and investments less interest paid on deposits and other funding sources) was $338.5 million, or $44.9 million above 2016, as higher interest rates on loans and investments exceeded higher costs on deposits and other funding. Our net interest margin improved to 3.65 percent from 3.33 percent in 2016 and was in the top 15 percent of our selected peer group.

Although we had strong lending volumes in all our businesses, our Commercial Banking Group had an exceptional year as commercial loans increased from $5.0 billion to $5.4 billion, or 8 percent. Our commitment to Small Business remains as strong as ever, with loan growth of 13 percent, and we were once again ranked the #1 SBA lender in New England.

Many of our other businesses had very successful years as well. Total premiums written by Eastern Insurance Group exceeded $1 billion for the first time, resulting in record revenues of over $80 million, up 12 percent from 2016, supported by two insurance agency acquisitions completed during 2017. Eastern Wealth Management saw investment management fees increase 8 percent to $17.6 million. Our retail businesses, both consumer lending and our branch-based deposit groups, had outstanding years as well.

We leveraged our existing platforms to generate these great results with expenses of $389.4 million, which was up 6 percent from 2016. We are starting to experience benefits from many of our investments in technology and people over the last few years. We had a successful roll out of new online mobile products, new commercial and consumer lending origination systems, and more sophisticated data analytics that will allow us to comply with stress testing and regulatory requirements now that we exceed $10 billion in assets.

These record results were in spite of a higher tax charge of approximately $7.2 million to comply with the Tax Reform Act enacted in December 2017. We expect the Tax Reform Act to lower our future tax rate and add to earnings in 2018 and beyond.

As a mutual institution, our capital base is critical to our health and future success. We added $75.6 million through retained earnings in 2017 and ended the year with over $1.3 billion in capital. Our capital ratios far exceed the bank regulatory minimums and we meet the "well-capitalized" standards set by our regulators. In addition, our balance sheet is extremely strong with excellent loan quality, ample liquidity and robust capital levels.

We were very pleased with these record results in 2017 and would like to thank our over 1,900 Eastern colleagues for making them happen. We believe we are well positioned for continued success and look forward to achieving new highs in 2018.

ROBERT F. RIVERS
Chair and Chief Executive Officer

DEBORAH C. JACKSON
Lead Director

QUINCY L. MILLER
Vice Chair and President

JAMES B. FITZGERALD
Vice Chair, Chief Financial Officer & Chief Administrative Officer

Financial Highlights

(Dollars in thousands)	December 31 2017	2016	2015	2014	2013
Balance Sheet Data					
Total assets	**$ 10,873,073**	$ 9,801,109	$ 9,588,786	$ 9,447,895	$ 8,662,265
Securities and short-term investments	**1,766,213**	1,284,080	1,651,562	1,892,865	2,649,731
Residential loans	**1,290,461**	1,153,735	1,041,072	1,032,066	923,231
Consumer loans	**1,548,287**	1,539,534	1,607,804	1,587,400	1,343,702
Commercial loans and leases	**5,388,293**	5,011,862	4,482,592	4,148,394	3,002,543
Total loans and leases	**8,227,041**	7,705,131	7,131,468	6,767,860	5,269,476
Total deposits	**8,815,452**	8,188,950	8,133,730	7,802,133	7,058,794
Repurchase agreements	**-**	-	-	268,189	243,603
Total retained earnings	**1,330,514**	1,254,927	1,205,014	1,143,256	1,112,413
Average total assets	**10,391,796**	9,913,145	9,667,907	8,927,931	8,540,635
Average earning assets	**9,566,544**	9,077,633	8,871,112	8,205,256	7,854,060
Average total deposits	**8,684,043**	8,416,777	8,031,975	7,282,736	6,938,013
Operating Data					
Net interest income	**$ 338,514**	$ 293,574	$ 274,977	$ 234,588	$ 219,907
Provision for credit losses	**5,800**	7,900	(325)	1,750	(6,500)
Noninterest income	**197,727**	169,128	153,007	147,382	149,436
Noninterest expense	**389,413**	367,643	333,695	298,131	284,594
Income before income taxes	**141,028**	87,159	94,614	82,089	91,249
Net income	**86,697**	62,714	62,564	55,050	61,502
Other Data					
Return on average assets	**0.83%**	0.63%	0.65%	0.62%	0.72%
Return on average equity	**6.62%**	5.06%	5.33%	4.78%	5.76%
Net interest margin (FTE)	**3.65%**	3.33%	3.17%	2.93%	2.86%
Equity to assets ratio	**12.24%**	12.80%	12.57%	12.06%	12.84%

Average Balance Sheets

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

	2017		
(Dollars in thousands)	Average Balance	Interest Income/Expense	Average Yield/Rate
Assets			
Loans and leases:			
Residential mortgage loans	$ 1,221,924	$ 43,968	3.60%
Commercial loans and leases	5,203,327	213,078	4.10
Consumer loans	1,543,107	52,629	3.41
Total loans and leases	7,968,358	309,675	3.89
Investment securities	1,353,286	43,538	3.22
Federal funds sold and other short-term investments	244,900	2,800	1.14
Total earning assets	9,566,544	356,013	3.72
Noninterest-bearing assets	825,252		
Total assets	$ 10,391,796		
Liabilities and Retained Earnings			
Deposits:			
Savings accounts	$ 1,021,419	240	0.02
Interest checking accounts (1)	1,602,995	1,011	0.06
Money market investment (1)	2,261,096	2,023	0.09
Time accounts	377,276	962	0.25
Total interest-bearing deposits	5,262,786	4,236	0.08
Borrowed funds	204,294	2,656	1.30
Total interest-bearing liabilities	5,467,080	6,892	0.13
Demand accounts (1)	3,421,257		
Other noninterest-bearing liabilities	194,039		
Retained earnings	1,309,420		
Total liabilities and retained earnings	$ 10,391,796		
Net interest income		$ 349,121	
Interest spread			3.59%
Net interest income to earning assets			3.65%

(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)	2016 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.

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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, 2017 and 2016, 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, 2017 and 2016, 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.

Ernst + Young LLP

February 23, 2018

Eastern Bank Corporation

Consolidated Balance Sheets

	December 31 2017	December 31 2016
	(In Thousands)	
Assets		
Cash and due from banks	**$ 96,541**	$ 79,929
Other short-term investments	**214,612**	24,821
Cash and cash equivalents	**311,153**	104,750
Trading securities	**46,791**	51,663
Securities available for sale	**1,504,810**	1,207,596
Loans held for sale	**2,354**	2,038
Loans and leases, net of allowance for credit losses of $74,111 in 2017 and $70,188 in 2016	**8,153,986**	7,635,838
Federal Home Loan Bank stock, at cost	**24,270**	15,342
Premises and equipment	**73,725**	75,125
Bank-owned life insurance	**76,161**	73,834
Goodwill and other intangibles, net	**373,042**	362,980
Deferred income taxes, net	**28,205**	69,757
Rabbi trust assets	**70,924**	70,930
Other assets	**207,652**	131,256
Total assets	**$ 10,873,073**	$ 9,801,109
Liabilities and retained earnings		
Liabilities:		
Deposits:		
Demand	**$ 358,817**	$ 376,686
Savings	**1,033,520**	978,947
Interest checking	**270,030**	133,274
Money market investment	**6,777,091**	6,326,432
Time	**294,713**	339,666
Time - $250,000 and over	**81,281**	33,945
Total deposits	**8,815,452**	8,188,950
Borrowed funds	**526,505**	154,331
Other liabilities	**200,602**	202,901
Total liabilities	**9,542,559**	8,546,182
Retained earnings	**1,379,006**	1,292,309
Accumulated other comprehensive income, net of tax:		
Unrealized appreciation on securities available for sale	**9,212**	4,971
Funded status of defined benefit postretirement plans	**(57,704)**	(42,353)
Total retained earnings	**1,330,514**	1,254,927
Total liabilities and retained earnings	**$ 10,873,073**	$ 9,801,109

See accompanying notes.

Eastern Bank Corporation

Consolidated Statements of Income

	Year Ended December 31 2017	2016
	(In Thousands)	
Interest and dividend income:		
Loans, including fees	**$ 304,601**	$ 266,895
Trading securities	**748**	853
Taxable securities available for sale	**28,157**	21,718
Tax-exempt securities available for sale	**9,100**	6,265
Federal funds sold and other short-term investments	**2,800**	3,463
Total interest and dividend income	**345,406**	299,194
Interest expense:		
Deposits	**4,236**	5,086
Borrowed funds	**2,656**	534
Total interest expense	**6,892**	5,620
Net interest income	**338,514**	293,574
Provision for allowance for credit losses	**5,800**	7,900
Net interest income after provision for credit losses	**332,714**	285,674
Noninterest income:		
Insurance commissions	**83,147**	74,369
Service charges on deposit accounts	**26,677**	24,456
Debit card processing fees	**20,173**	19,282
Trust and investment advisory fees	**17,642**	16,262
Interest rate swap income	**4,380**	7,734
Income from investments held in rabbi trusts	**6,587**	2,161
Trading securities gains, net	**2,235**	2,085
Net gain on sales of mortgage loans held for sale	**822**	1,771
Gains on sales of securities available for sale, net	**11,356**	261
Gains on sales of other assets	**6,075**	2,698
Other	**18,633**	18,049
Total noninterest income	**197,727**	169,128
Noninterest expense:		
Salaries and employee benefits	**229,315**	222,323
Office occupancy and equipment	**35,773**	35,893
Data processing	**44,475**	37,730
Professional services	**13,253**	13,956
Charitable contributions	**8,701**	7,012
Marketing	**10,922**	7,983
FDIC insurance	**3,295**	4,121
Amortization of intangible assets	**3,488**	2,908
Other	**40,191**	35,717
Total noninterest expense	**389,413**	367,643
Income before income tax expense	**141,028**	87,159
Income tax expense	**54,331**	24,445
Net income	**$ 86,697**	$ 62,714

See accompanying notes.

Eastern Bank Corporation

Consolidated Statements of Comprehensive Income

	Year Ended December 31	
	2017	2016
	(In Thousands)	
Net income		
Other comprehensive income, net of tax:	**$ 86,697**	$ 62,714
Unrealized gains (losses) on securities available for sale:		
Change in fair value of securities available for sale	**10,978**	(11,177)
Less: reclassification adjustment for (gains) losses included in net income	**(6,737)**	(167)
Net change in fair value of securities available for sale	**4,241**	(11,344)
Defined benefit pension plans:		
Amortization of actuarial net loss	**4,172**	3,280
Change in actuarial net loss	**(19,555)**	(4,763)
Amortization of prior service cost	**32**	26
Net change in actuarial net loss	**(15,351)**	(1,457)
Total other comprehensive income	**(11,110)**	(12,801)
Comprehensive income	**$ 75,587**	$ 49,913

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, 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
Net income	**86,697**	**-**	**86,697**
Other comprehensive income, net of tax	**-**	**(11,110)**	**(11,110)**
Balance at December 31, 2017	**$ 1,379,006**	**$ (48,492)**	**$ 1,330,514**

See accompanying notes.

Eastern Bank Corporation

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2017	2016
	(In Thousands)	
Operating activities		
Net income	$ **86,697**	$ 62,714
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for allowance for credit losses	**5,800**	7,900
Depreciation	**15,381**	12,039
Amortization of intangible assets	**3,488**	2,908
Deferred income tax expense (benefit)	**45,698**	(3,461)
Amortization of premiums, discounts, and fees, net	**2,874**	357
Increase in cash surrender value of bank-owned life insurance, net of benefit proceeds	**(2,327)**	(1,891)
Decrease in trading securities, net	**4,872**	9,387
Gain on sale of securities available for sale, net	**(11,356)**	(261)
Net gain on sale of mortgage loans held for sale	**(822)**	(1,771)
Net decrease in loans held for sale	**506**	19,960
(Increase) decrease in prepaid pension expense	**(69,875)**	12,160
Other, net	**(30,097)**	(19,759)
Net cash provided by operating activities	**50,839**	100,282
Investing activities		
Proceeds from sales of securities available for sale	**83,501**	6,728
Proceeds from maturities and principal paydowns of securities available for sale	**185,919**	171,295
Purchases of securities available for sale	**(552,217)**	(425,895)
Proceeds from sale of Federal Home Loan Bank stock	**5,538**	3,256
Purchases of Federal Home Loan Bank stock	**(14,467)**	(8,050)
Net increase in outstanding loans	**(524,052)**	(570,887)
Acquisitions, net of cash and cash equivalents acquired	**(15,900)**	(2,648)
Purchased bank-owned life insurance	**-**	(12)
Proceeds from sale of other real estate owned, net of acquired	**909**	331
Proceeds from sale of premises held for sale	**66**	-
Purchased banking premises and equipment, net	**(12,409)**	(9,949)
Net cash used in investing activities	**(843,112)**	(835,831)
Financing activities		
Net increase in demand, savings, interest checking, and money market investment deposit accounts	**624,119**	171,491
Net increase (decrease) in time deposits	**2,383**	(116,271)
Net increase in borrowed funds	**372,174**	101,283
Net cash provided by financing activities	**998,676**	156,503
Net increase (decrease) in cash and cash equivalents	**206,403**	(579,046)
Cash and cash equivalents at beginning of year	**104,750**	683,796
Cash and cash equivalents at end of year	$ **311,153**	$ 104,750

See accompanying notes.

Eastern Bank Corporation
Notes to Consolidated Financial Statements

December 31, 2017

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; any variable interest entities (VIEs) where the Corporation or one of the Corporation's wholly-owned subsidiaries was determined to be the primary beneficiary of the VIE; and any voting interest entities (VOEs) where either the Corporation or a wholly-owned subsidiary is determined to have control of the VOE.

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.

1. Summary of Significant Accounting Policies (continued)

The Corporation has evaluated subsequent events through February 23, 2018, which is the date that the consolidated financial statements were available to be issued.

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 for impairment 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 non-impaired non-classified 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)

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 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.

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; 2) as a group, the holders of the equity investment at risk lack any of the characteristics of a controlling financial interest; or 3) the equity investors' voting rights are not proportional to the economics, and substantially all of the activities of the entity either involve or are conducted on behalf of an investor that has disproportionately few voting rights. The Corporation consolidates entities deemed to be VIEs when either the Corporation or a wholly-owned subsidiary is determined to be the primary beneficiary. The primary beneficiary analysis is a qualitative analysis based on power and benefits. An enterprise has a controlling financial interest in a VIE if it has both power and benefits – that is, it has 1) the power to direct the activities of a VIE that most significantly impact the VIEs economic performance (power); and 2) the obligation to absorb losses of the VIE that potentially could be significant to the VIE and/or the right to receive benefits from the VIE that potentially could be significant to the VIE (benefits).

Under GAAP, investments in limited partnerships and similar entities that are not VIEs should be evaluated for potential consolidation under the voting model. The Corporation consolidates VOEs when either the Corporation or a wholly-owned subsidiary is determined to have control of the VOE.

1. Summary of Significant Accounting Policies (continued)

Rabbi Trust VIE

The Corporation established a rabbi trust to meet its obligations under certain executive non-qualified retirement benefits and deferred compensation plans and to mitigate the expense volatility of the aforementioned retirement plans. The rabbi trust is considered a VIE as the equity investment at risk is insufficient to permit the trust to finance its activities without additional subordinated financial support from the Corporation. The Corporation is considered the primary beneficiary of the rabbi trust as it has the power to direct the activities of the rabbi trust that significantly affect the rabbi trust's economic performance and it has the obligation to absorb losses of the rabbi trust that could potentially be significant to the rabbi trust by virtue of its contingent call options on the rabbi trust's assets in the event of the Corporation's bankruptcy. As the primary beneficiary of this VIE, the Corporation consolidates the rabbi trust investments, executive retirement benefits liabilities and deferred compensation plan liabilities. 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.

Tax Credit Investment VIE

A wholly-owned subsidiary of the Corporation is the sole member of a tax credit investment company through which it consolidates a community development entity (CDE) that is considered a VIE. The CDE is considered a VIE because as a group, the holders of the equity investment at risk lack any of the characteristics of a controlling financial interest. The tax credit investment company is considered the primary beneficiary of the CDE as it has the power to direct the activities of a VIE that most significantly impact the VIEs economic performance and the obligation to absorb losses of and the right to receive benefits from the VIE that potentially could be significant to the VIE.

Prior to the adoption of Accounting Standards Update (ASU) 2015-02, *Consolidation*, this company was considered as a voting interest entity (VOE). Due to changes in the VIE and VOE analyses prescribed in ASU 2015-02, this company is now deemed to be a VIE. There were no changes to the Corporation's consolidated financial position as a result in the change in classification as the tax credit investment company consolidated the VOE.

1. Summary of Significant Accounting Policies (continued)

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.

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 evaluates investments in tax credit investment companies for consolidation based on the variable or voting interest entity guidance, as appropriate.

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 commercial 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. The Corporation believes that its exposure to commercial customer derivatives is limited because these contracts are simultaneously matched at inception with an offsetting dealer transaction. The program allows the Corporation to retain variable rate commercial loans while allowing the commercial customer to synthetically fix the loan rate by entering into a variable to fixed rate interest rate swap. Exposure with respect to these derivatives is largely limited to nonperformance by either the customer or the dealer. These interest rate derivative instruments do not qualify for hedge accounting and are recorded on the consolidated balance sheets as either an asset or liability measured at fair value. All changes in fair value of these derivative instruments are included in other noninterest income.

The Corporation also 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.

1. Summary of Significant Accounting Policies (continued)

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.

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:

	2017	2016
	(In Thousands)	
Cash paid for:		
Interest	**$ 6,999**	$ 5,854
Income taxes	**$ 37,978**	$ 25,928
Non-cash investing activities:		
Transfer of loans to other real estate owned	**$ 265**	$ 189

1. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

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.

1. Summary of Significant Accounting Policies (continued)

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. Certain components of noninterest income such as interest rate swap income, income from rabbi trust investments, trading securities gains, gains on sales of mortgage loans and gains on sales of securities available for sale are accounted for under other U.S. GAAP standards, and are therefore out of scope of the ASC 606 revenue standard. Insurance commissions, service charges on deposit accounts, debit card processing fees, and trust and investment advisory fees are within the scope of the ASC 606 revenue standard. As such, the Corporation is currently reviewing contracts related to these revenue streams and at this point does not anticipate any material changes to revenue recognition upon adoption, however, the Corporation’s review is still ongoing. The Corporation plans to adopt the revenue recognition guidance on January 1, 2019 and anticipates using the modified retrospective transition method upon adoption.

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 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 all other entities, the amendments are effective for reporting periods beginning after December 15, 2016. The adoption of this standard on January 1, 2017 did not 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 all other entities, the amendments are effective for reporting periods beginning after December 15, 2016. The adoption of this standard on January 1, 2017 did not 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 all other entities, the amendments are effective for reporting periods beginning after December 15, 2018. Early adoption is permitted for all other 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 on January 1, 2017 did not 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" (for periods beginning after December 15, 2018 for the Corporation). 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 Corporation elected to early adopt this standard in 2017 and the adoption did not have a material impact on the Corporation's consolidated financial position.

1. Summary of Significant Accounting Policies (continued)

FASB ASC ***Topic 610-20 "Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets" Update No. 2017-05.*** Issued in February 2017, the purpose of this update is to clarify that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. The amendments define the term in substance nonfinancial asset, in part, as a financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and derecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. The amendments in this update also clarify that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty. A contract that includes the transfer of ownership interests in one or more consolidated subsidiaries is within the scope of Subtopic 610-20 if substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets. For purposes of that evaluation, the amendments require an entity to evaluate the underlying assets in consolidated subsidiaries to determine whether those assets are within the scope of Subtopic 610-20. For public business entities, certain non-for-profit entities, and certain employee benefit plans, the amendments in this update are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. For all other entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. An entity is required to apply the amendments in this update at the same time that it applies the amendments in Update 2014-09. 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 715 "Compensation – Retirement Benefits" Update No. 2017-07. Issued in March 2017, the purpose of this update is to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amendments in this update require that an employer report the service cost component in the same line item or items are other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. For all other entities, the amendments in this update are effective for annual periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The adoption of this standard is not expected to have a material impact on the Corporation's consolidated financial position.

FASB ASC Subtopic 310-20 "Receivables – Nonrefundable Fees and Other Costs" Update No. 2017-08. Issued in March 2017, the purpose of this update is to shorten the amortization period for certain purchased callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public business entities, the amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. An entity should apply the amendments in this update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Corporation elected to early adopt this standard in 2017 and the adoption did not have a material impact on the Corporation's consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

FASB ASC Topic 815 "Derivatives and Hedging" Update No. 2017-12. Issued in August 2017, the purpose of this update is to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. For public business entities, the amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted in any interim period after issuance of the update. All transition requirements and elections should be applied to hedging relationships existing on the date of adoption. The effect of adoption should be reflected as of the beginning of the fiscal period of adoption. The Corporation is currently assessing the impact of the adoption of this standard on the Corporation's consolidated financial position.

FASB ASC Topic 220 "Income Statement – Reporting Comprehensive Income" Update No. 2018-02. Issued in February 2018, the purpose of this update is to allow reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this update is permitted, including adoption in any interim period, (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this update should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Corporation is currently assessing the impact of the adoption of this standard on the Corporation's consolidated financial position.

2. Mergers and Acquisitions

In 2017, the Corporation acquired certain assets and assumed certain liabilities from the acquisition of certain insurance agencies for total consideration of $15.9 million in cash. These 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 $8.9 million and $4.6 million, respectively. The intangible assets recorded as part of these acquisitions consisted of a $4.1 million customer list intangible asset and a $0.5 million non-compete intangible asset. For tax purposes, the transactions were considered asset acquisitions and as such, the amortization of goodwill and intangible assets is deductible for tax purposes. There was no contingent consideration related to these transactions. Acquisition-related legal and professional fee costs associated with these agency acquisitions of $0.1 million were charged to expense in 2017 and were included in the professional fee line item of the consolidated statement of income.

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 2017 and 2016, $0.1 million and $0.5 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 2017	2016
	(In Thousands)	
Debt securities:		
Municipal bonds and obligations	**$ 46,791**	$ 51,663
	$ 46,791	$ 51,663

For the years ended December 31, 2017 and 2016, the net unrealized losses on trading activities for trading securities still held at the reporting date were $23 thousand and $52 thousand, 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, 2017			
	Amortized Cost	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
	(In Thousands)			
Debt securities				
Government-sponsored residential mortgage-backed securities	**$ 1,160,411**	**$ 7,718**	**$ (685)**	**$ 1,167,444**
State and municipal bonds and obligations	**324,045**	**8,430**	**(1,095)**	**331,380**
Qualified zone academy bond	**5,936**	**-**	**-**	**5,936**
Foreign corporate bond	**50**	**-**	**-**	**50**
	$ 1,490,442	**$ 16,148**	**$ (1,780)**	**$ 1,504,810**

3. Securities (continued)

	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

A schedule of the contractual maturities of securities available for sale as of December 31, 2017, follows:

	Amortized Cost	Fair Value
	(In Thousands)	
Maturing within one year	**$ 50**	**$ 50**
Maturing after one year but within five years	**17,444**	**17,688**
Maturing after five years but within ten years	**306,720**	**311,076**
Maturing after ten years	**1,166,228**	**1,175,996**
	$ 1,490,442	**$ 1,504,810**

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, 2017, were $315.5 million of callable securities at fair value.

3. Securities (continued)

Gross realized gains from sales of securities available for sale were $16.0 million and $0.3 million for the years ended December 31, 2017 and 2016, respectively. Gross realized losses from sales of securities available for sale were $4.6 million and $15 thousand for the years ended December 31, 2017 and 2016, respectively.

As of December 31, 2017, 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.

3. Securities (continued)

Information pertaining to securities available for sale with gross unrealized losses at December 31, 2017 and 2016, 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:

	December 31, 2017				
		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	**5**	**$ 685**	**$ 191,989**	**$ -**	**$ -**
State and municipal bonds and obligations	**123**	**223**	**22,543**	**872**	**42,820**
	128	**$ 908**	**$ 214,532**	**$ 872**	**$ 42,820**

	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

3. Securities (continued)

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.

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, 2017:

- *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.
- *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. All of these bonds are investment grade and are rated either Aa2 or AA- or better by Moody's and Standard and Poor's, respectively.

At December 31, 2016 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 on which the Corporation no longer accrued interest. In 2017 and 2016, the Corporation received payments of $0.5 million and $1.7 million, respectively, all of which was applied to interest income under the cost recovery method. These securities were sold in 2017 resulting in a realized gain on sale of $15.4 million.

In 2017 the Corporation tendered illiquid common shares for one of its cost method investments in exchange for cash and stock in the acquiring entity totaling $5.8 million. The Corporation recorded a gain of $5.8 million for the consideration received in excess of the cost basis of the tendered shares. The newly acquired stock in the acquiring entity had a fair value of $3.1 million and was subsequently donated to the Eastern Bank Charitable Foundation, and the portion of the gain related to the stock donation was a non-taxable securities gain.

4. Loans and Allowance for Loan Losses

A comparative summary of loans at December 31 follows:

	2017	2016
	(In Thousands)	
Commercial and industrial	**$ 1,395,597**	$ 1,268,980
Commercial real estate	**3,229,973**	3,010,149
Business banking	**762,723**	732,733
Residential real estate	**1,290,461**	1,153,735
Consumer home equity	**931,496**	892,241
Automobile	**493,454**	536,424
Other consumer	**123,337**	110,869
	8,227,041	7,705,131
Allowance for credit losses	**(74,111)**	(70,188)
Unamortized premiums, net of unearned discounts and deferred fees	**1,056**	895
	$ 8,153,986	$ 7,635,838

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 and Allowance for Loan Losses (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, 2017								
	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	$ 13,419	$ 33,567	$ 6,401	$ 7,557	$ 4,037	$ 2,950	$ 1,838	$ 419	$ 70,188
Charge-offs	(1,104)	-	(5,414)	(207)	(21)	(850)	(1,384)	-	(8,980)
Recoveries	5,593	168	614	164	37	371	156	-	7,103
Provision	(3,016)	2,542	5,014	(560)	(13)	243	1,427	163	5,800
Ending balance	$ 14,892	$ 36,277	$ 6,615	$ 6,954	$ 4,040	$ 2,714	$ 2,037	$ 582	$ 74,111
Ending balance: individually evaluated for impairment	$ -	$ -	$ 42	$ 2,022	$ 342	$ -	$ -	$ -	$ 2,406
Ending balance: acquired with deteriorated credit quality	$ -	$ 404	$ -	$ 356	$ -	$ -	$ -	$ -	$ 760
Ending balance: collectively evaluated for impairment	$ 14,892	$ 35,873	$ 6,573	$ 4,576	$ 3,698	$ 2,714	$ 2,037	$ 582	$ 70,945
Loans:									
Ending balance: individually evaluated for impairment	$ 11,825	$ 9,985	$ 6,974	$ 29,021	$ 4,639	$ -	$ -	$ -	$ 62,444
Ending balance: acquired with deteriorated credit quality	5,023	11,029	-	4,856	-	-	-	-	20,908
Ending balance: collectively evaluated for impairment	1,378,749	3,208,959	755,749	1,256,584	926,857	493,454	123,337	-	8,143,689
Ending balance: total loans by group	$ 1,395,597	$ 3,229,973	$ 762,723	$ 1,290,461	$ 931,496	$ 493,454	$ 123,337	$ -	$ 8,227,041

4. Loans and Allowance for Loan Losses (continued)

(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
Loans:									
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 and Allowance for Loan Losses (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 Corporation 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 Corporation 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. The Corporation's 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 and Allowance for Loan Losses (continued)

Residential Real Estate

Residential real estate loans originated for the Corporation'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 Corporation 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 Corporation does not originate or purchase sub-prime or other high risk loans.

Consumer Home Equity

The Corporation 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 Corporation originates loans secured by new and used automobiles. Origination sources include automobile dealerships principally located in southern New England and through the Corporation's branch network. The Corporation's 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 and Allowance for Loan Losses (continued)

Credit Quality

For the commercial real estate, commercial and industrial and business banking portfolio, the Corporation utilizes a risk rating system from 0 to 10 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:

Unrated
Certain segments of the portfolios are not rated. These segments include airplane loans, business banking scored loan products, and other commercial loans managed by exception. Loans within this unrated loan segment are monitored by delinquency status and for lines of credit greater than $100,000 in exposure, an annual review is conducted. The Corporation supplements performance data with current credit scores for the business banking portfolio on a quarterly basis. Unrated loans managed outside of airplane loans and business banking loans are generally restricted to commercial exposure less than $1,000,000 with a line of credit component restricted to $350,000. Loans included in this category have qualification requirements that include: risk rating of 6 or better at time of recommendation for unrated status, acceptable management of deposit accounts and no known negative changes in management, operations or financial performance. Restricted from this category are lines of credit managed with borrowing base requirements and construction loans.

For purposes of estimating the allowance for loan losses, unrated loans are considered in the same manner as pass rated loans.

1-6 Risk Rating – Pass
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.

4. Loans and Allowance for Loan Losses (continued)

7 Risk Rating – Special Mention (Potential Weakness)
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. The Corporation 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.

8 Risk Rating – Substandard (Well-Defined Weakness)
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.

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.

4. Loans and Allowance for Loan Losses (continued)

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 Corporation 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.

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					
	Risk	Commercial and Industrial		Commercial Real Estate		Business Banking	
Category	**Rating**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Unrated		**$ 155,371**	$ 119,464	**$ 41,717**	$ 48,385	**$ 461,718**	$ 438,764
Pass	1-6	**1,189,588**	1,105,468	**3,093,622**	2,898,922	**289,982**	285,529
Special mention	7	**26,172**	22,095	**57,859**	42,117	**3,383**	2,472
Substandard	8	**22,462**	13,544	**35,622**	18,519	**7,640**	5,968
Doubtful	9	**2,004**	8,409	**1,153**	2,206	**-**	-
Loss	10	**-**	-	**-**	-	**-**	-
Total		**$ 1,395,597**	$ 1,268,980	**$ 3,229,973**	$ 3,010,149	**$ 762,723**	$ 732,733

4. Loans and Allowance for Loan Losses (continued)

For the Corporation's residential real estate and home equity loan portfolios, the quality of the loan is best indicated by the repayment performance of an individual borrower. 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 Corporation 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 and Allowance for Loan Losses (continued)

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

(Dollars in thousands)	December 31, 2017						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More	Total Past Due	Current	Total Loans	Recorded Investment >90 Days and Accruing
Commercial and industrial	$ 1,502	$ 81	$ 141	$ 1,724	$ 1,393,873	$ 1,395,597	$ -
Commercial real estate	2,146	-	471	2,617	3,227,356	3,229,973	471
Business banking	2,797	1,938	3,921	8,656	754,067	762,723	-
Residential real estate	17,169	4,470	3,888	25,527	1,264,934	1,290,461	-
Consumer home equity	1,049	806	729	2,584	928,912	931,496	9
Automobile	3,241	335	213	3,789	489,665	493,454	-
Other consumer	177	54	127	358	122,979	123,337	-
Total	$ 28,081	$ 7,684	$ 9,490	$ 45,255	$ 8,181,786	$ 8,227,041	$ 480

(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 Loans	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

4. Loans and Allowance for Loan Losses (continued)

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

	December 31, 2017	December 31, 2016
	(In Thousands)	
Commercial and industrial	**$ 2,020**	$ 6,227
Commercial real estate	**1,820**	2,120
Business banking	**6,433**	4,709
Residential real estate	**6,681**	6,513
Consumer home equity	**717**	368
Automobile	**297**	190
Other consumer	**198**	164
Total nonaccrual loans	**$ 18,166**	$ 20,291

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

(Dollars in thousands)	December 31, 2017					
	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	$ 11,825	$ 13,812	$ -	$ 5,926	$ 491	$ -
Commercial real estate	9,985	10,400	-	6,453	265	-
Business banking	1,757	2,720	-	1,356	28	-
Residential real estate	11,669	12,599	-	13,009	421	34
Consumer home equity	1,865	1,876	-	1,787	66	1
Sub-total	37,101	41,407	-	28,531	1,271	35
With an allowance recorded:						
Commercial and industrial	-	-	-	8,963	-	-
Commercial real estate	-	-	-	2,255	-	-
Business banking	5,217	6,983	42	4,988	-	-
Residential real estate	17,352	18,736	2,022	19,344	627	50
Consumer home equity	2,774	2,790	342	2,658	99	1
Sub-total	25,343	28,509	2,406	38,208	726	51
Total	$ 62,444	$ 69,916	$ 2,406	$ 66,739	$ 1,997	$ 86

4. Loans and Allowance for Loan Losses (continued)

(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

In the course of resolving nonperforming loans, the Corporation may choose to restructure the contractual terms of certain loans. The Corporation 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 Corporation 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 Corporation 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 Corporation'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 and Allowance for Loan Losses (continued)

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

(Dollars in thousands)	December 31, 2017					
	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**	**$ 7,895**	**3**	**$ 1,398**	**8**	**$ 9,293**
Commercial real estate	**3**	**8,165**	**5**	**1,176**	**8**	**9,341**
Business banking	**2**	**541**	**1**	**371**	**3**	**912**
Residential real estate	**136**	**25,296**	**26**	**3,019**	**162**	**28,315**
Consumer home equity	**63**	**4,551**	**3**	**89**	**66**	**4,640**
Total	**209**	**$ 46,448**	**38**	**$ 6,053**	**247**	**$ 52,501**

(Dollars in thousands)	December 31, 2016					
	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	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

The amount of specific reserve associated with the TDRs was $2.1 million and $4.6 million at December 31, 2017 and 2016, respectively. In 2017, $0.4 million in TDRs moved from nonaccrual to accrual. The Corporation had no additional commitments to lend to borrowers who have been a party to a TDR at December 31, 2017 and $1.8 million of additional commitments to lend to borrowers who have been a party to a TDR at December 31, 2016.

4. Loans and Allowance for Loan Losses (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, 2017			Year Ended December 31, 2016		
	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	**1**	**$ -**	**$ 50**	6	$ 14,656	$ 17,278
Commercial real estate	**2**	**6,040**	**5,040**	3	3,385	3,385
Business banking	**-**	**-**	**-**	1	472	472
Residential real estate	**19**	**3,596**	**3,626**	18	5,625	5,709
Consumer home equity	**9**	**874**	**1,040**	10	1,065	1,072
Total	**31**	**$ 10,510**	**$ 9,756**	38	$ 25,203	$ 27,916

(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, 2017, the outstanding recorded investment of loans that were new to TDR during the year was $9.7 million.

4. Loans and Allowance for Loan Losses (continued)

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, 2017	2016
	(In Thousands)	
Adjusted interest rate and extended maturity	**$ 1,238**	$ 1,100
Adjusted interest rate and principal deferred	**-**	313
Adjusted interest rate	**993**	1,323
Extended maturity	**443**	11,154
Interest only/principal deferred	**5,496**	-
Extended maturity and interest only/principal deferred	**300**	5,899
Reamortization	**-**	1,500
Debt consolidation	**-**	4,564
Other	**1,286**	2,063
Total	**$ 9,756**	$ 27,916

In 2017 and 2016 there were no loans that had been modified during the prior 12 months which subsequently defaulted. The Corporation considers a loan to have defaulted when it reaches 90 days past due. In 2017 and 2016 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.

4. Loans and Allowance for Loan Losses (continued)

The following table displays certain information pertaining to PCI loans at the dates indicated:

	December 31, 2017	December 31, 2016
	(In Thousands)	
Outstanding balance	**$ 25,870**	$ 31,943
Carrying amount	**20,908**	25,088

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

	2017	2016
	(In Thousands)	
Balance at beginning of year	**$ 9,558**	$ 10,640
Accretion	**(2,303)**	(2,377)
Other change in expected cash flows	**(352)**	(1,974)
Reclassification from nonaccretable difference for loans with improved cash flows	**715**	3,269
Balance at end of year	**$ 7,618**	$ 9,558

4. Loans and Allowance for Loan Losses (continued)

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

	2017	2016
	(In Thousands)	
Balance at beginning of year	**$ 1,418**	$ 711
Provision for loan losses	**134**	904
Reduction of the allowance (1)	**(791)**	(197)
Balance at end of year	**$ 761**	$ 1,418

(1) Reduction to a previously established 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 $0.9 billion and $0.7 billion at December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016, mortgage loans partially or wholly-owned by others and serviced by the Corporation amounted to approximately $20.1 million and $23.3 million, respectively.

5. Premises and Equipment

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

	2017	2016
	(In Thousands)	
Land	**$ 7,960**	$ 7,960
Buildings	**55,328**	54,358
Equipment	**62,297**	56,573
Leasehold improvements	**35,134**	35,660
Premises and equipment, gross	**160,719**	154,551
Less accumulated depreciation and amortization	**(86,994)**	(79,426)
Premises and equipment, net	**$ 73,725**	$ 75,125

The Corporation occupies certain branch offices under operating lease arrangements. The net expense under such arrangements for the years ended December 31, 2017 and 2016 amounted to approximately $14.0 million and $14.0 million, respectively.

As of December 31, 2017, 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:	
2018	$ 10,441
2019	9,489
2020	8,096
2021	6,677
2022	5,511
Thereafter	12,148
	$ 52,362

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.

6. Goodwill and Other Intangibles

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

	2017			2016		
	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	**$ 353,007**	**$ -**	**$ 353,007**	$ 351,326	$ -	$ 351,326
Goodwill acquired during the year	**8,930**		**8,930**	1,681		1,681
Balance at end of year	**$ 361,937**	**$ -**	**$ 361,937**	$ 353,007	$ -	$ 353,007

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

	2017			2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In Thousands)					
Insurance agency	**$ 31,828**	**$ (23,322)**	**$ 8,506**	$ 27,208	$ (20,781)	$ 6,427
Core deposits	**6,579**	**(3,980)**	**2,599**	6,579	(3,033)	3,546
Total	**$ 38,407**	**$ (27,302)**	**$ 11,105**	$ 33,787	$ (23,814)	$ 9,973

6. Goodwill and Other Intangibles (continued)

The Corporation has estimated the useful life of its insurance agency-related intangible assets, comprising primarily of customer lists and non-compete agreements, and its 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:	
2018	$ 3,073
2019	2,638
2020	2,014
2021	1,234
2022	860

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, 2017 and 2016, the Corporation swept $4.6 billion and $4.2 billion, respectively, from demand deposit and interest checking balances into money market investments.

The following table summarizes time deposits by maturity at December 31, 2017:

	(In Thousands)
2018	$ 311,678
2019	38,390
2020	12,987
2021	6,623
2022	6,229
Thereafter	87
	$ 375,994

Deposits from related parties held by the Corporation at December 31, 2017 amounted to $27.1 million.

At December 31, 2017 and 2016, securities with a carrying value of $25.6 million and $27.1 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:

	2017	2016
	(In Thousands)	
Federal funds purchased	**$ 174,268**	$ 389
Federal Home Loan Bank advances	**334,015**	141,387
Escrow deposits of borrowers	**13,432**	12,555
Interest rate swap collateral funds	**4,790**	-
	$ 526,505	$ 154,331

At December 31, 2017, the Bank had available and unused borrowing capacity of approximately $619.2 million at the Federal Reserve Discount Window.

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

	2017		2016	
	Amount	Weighted-Average Rate	Amount	Weighted-Average Rate
		(In Thousands)		
Within one year	**$ 325,627**	**1.54%**	$ 130,000	0.80%
Over one year to three years	**657**	**2.76%**	2,563	3.84%
Over three years to five years	**368**	**0.17%**	-	- %
Over five years	**7,363**	**1.90%**	8,824	1.94%
	$ 334,015	**1.55%**	$ 141,387	0.93%

Advances from the FHLB are secured by stock in FHLB, residential real estate loans, and government-sponsored residential mortgage-backed securities. The collateral value of residential real estate loans securing these advances was $0.9 billion at December 31, 2017. The collateral value of government-sponsored residential mortgage-backed securities securing these advances was $0.9 billion at December 31, 2017. At December 31, 2017, the Bank had available and unused borrowing capacity of approximately $1.4 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, 2017 and 2016, the Corporation had investments in the FHLB of Boston of $24.3 million and $15.3 million, respectively. At its discretion the FHLB of Boston may declare dividends on the stock. Included in other noninterest income are dividends received of $0.5 million and $0.4 million for the years ended December 31, 2017 and 2016, respectively.

9. Income Taxes

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

	2017	2016
	(In Thousands)	
Current tax expense:		
Federal	**$ 8,334**	$ 21,940
State	**299**	5,966
Total current tax expense	**8,633**	27,906
Deferred tax expense (benefit):		
Federal	**34,283**	(2,617)
State	**9,228**	(850)
Effect of change in federal tax rate	**7,181**	-
Change in valuation allowance	**(4,994)**	6
Total deferred tax expense (benefit)	**45,698**	(3,461)
Total income tax expense	**$ 54,331**	$ 24,445

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35% to 21% for years beginning on or after January 1, 2018. The Corporation recorded a provisional amount to deferred tax expense of $7.2 million which was primarily due to a re-measurement of deferred tax assets and liabilities at the newly enacted rate of 21%. Management remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. However, management is still analyzing certain aspects of the Act and refining its calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts.

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:

	2017	2016
	(In Thousands)	
Income tax expense at statutory rate	**$ 49,360**	$ 30,506
Increase (decrease) resulting from:		
Effect of change in federal tax rate	**7,181**	-
State income tax, net of federal tax benefit	**6,206**	3,365
Amortization of qualified low-income housing investments	**2,576**	1,833
Expiration of charitable contribution carryforward	**1,302**	-
Tax-exempt income	**(6,747)**	(5,233)
Tax credits	**(2,994)**	(5,779)
Nontaxable gain on donated stock	**(1,066)**	-
Cash surrender value of officers' life insurance	**(853)**	(839)
Dividends received deduction	**(153)**	(178)
Change in valuation allowance	**(165)**	6
Other, net	**(316)**	764
Actual income tax expense	**$ 54,331**	$ 24,445

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:

	2017	2016
	(In Thousands)	
Deferred tax assets:		
Allowance for credit losses	**$ 22,864**	$ 31,256
Pension and deferred compensation plans	**14,566**	40,601
Alternative minimum tax credit carryforward	**4,988**	-
Accrued expenses	**1,223**	6,846
Depreciation	**2,824**	5,893
Loan basis difference fair value adjustments	**3,113**	5,599
Other-than-temporary impairment on securities available for sale	**-**	5,571
Net operating loss carryover	**-**	4,829
Charitable contribution limitation carryover	**2,060**	1,680
Other	**1,322**	2,769
Total deferred tax assets	**52,960**	105,044
Less: Valuation allowance	**-**	(4,994)
Deferred tax assets, net of valuation allowance	**52,960**	100,050
Deferred tax liabilities:		
Amortization of intangibles	**12,926**	18,039
Unrealized appreciation on securities available for sale	**3,203**	3,300
Partnerships	**3,484**	3,885
Trading securities	**2,762**	1,999
Other	**2,380**	3,070
Total deferred tax liabilities	**24,755**	30,293
Net deferred income tax assets	**$ 28,205**	$ 69,757

9. Income Taxes (continued)

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

		2017
		(In Thousands)
Valuation allowance at the beginning of the year	$	**4,994**
Change in tax attribute benefits		**(165)**
Valuation allowance applied to NOL deferred tax asset		**(4,829)**
Valuation allowance at the end of the year	$	**-**

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 at December 31, 2016. Management has mathematically determined that these NOLs will expire unutilized without any possibility of realization. As such, the entire NOL deferred tax asset and its associated valuation allowance have been reduced to $0 at December 31, 2017.

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 2017 and 2016 the Corporation realized certain of these net unrealized built in (gains)/losses totaling $5 thousand and $41 thousand, 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. As the five-year period in which built in losses are converted to NOLs expired in November 2017, and, as described above, since management does not expect to ever be able to benefit from these NOLs, the entire deferred tax asset and valuation allowance associated with built in losses converted to NOLs as well as the valuation allowance related to the remaining net unrealized built in losses was reduced to $0 as of December 31, 2017.

9. Income Taxes (continued)

The Corporation files tax returns in the U.S. federal jurisdiction and various states. At December 31, 2017, the Corporation's open tax years for examination by the IRS were 2014, 2015 and 2016. The Corporation's open tax years for examination by state tax authorities varies by state, but no years prior to 2011 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, 2017 and 2016 was not needed.

In 2017 and 2016, the Corporation recognized approximately $3 thousand and $7 thousand, respectively, in interest 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. The effects of the Tax Cuts and Jobs Act on this proportional amortization method and carrying value of these LIHTC projects was considered and was deemed to be immaterial.

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:

	2017	2016
	(In Thousands)	
Current recorded investment included in other assets	**$ 22,197**	$ 18,749
Commitments to fund qualified affordable housing projects included in recorded investment noted above	**4,661**	10,967
Tax credits and benefits (1)	**3,110**	1,537
Amortization of investments included in current tax expense (2)	**2,576**	1,833

(1) Amount reflects anticipated tax credits and tax benefits for the years ended December 31, 2017 and 2016
(2) Amount reflects amortization of qualified affordable housing projects for the years ended December 31, 2017 and 2016

The Corporation is the sole member of a tax credit investment company through which it consolidates a VIE. In 2015 the VIE 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 $4.6 million and $5.3 million at December 31, 2017 and 2016, respectively. The minority interest associated with this investment was immaterial at December 31, 2017 and 2016. 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 2017 and 2016, as a result of this investment, 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 $0.6 million and $0.8 million at December 31, 2017 and 2016, 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.

The Corporation is subject to the requirements set forth in U.S. Basel III. 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). Management believes, as of December 31, 2017 and 2016, that the Corporation met all capital adequacy requirements to which it is subject.

As of December 31, 2017, 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, 2017:						
Total regulatory capital (to risk-weighted assets)	**$ 1,103,537**	**12.04%**	**$ 733,143**	**≥8%**	**$ 916,429**	**≥10%**
Tier 1 capital (to risk-weighted assets)	**1,022,024**	**11.15**	**549,857**	**6**	**733,143**	**8**
Common Equity Tier I capital (to risk-weighted assets)	**1,022,024**	**11.15**	**412,393**	**4.5**	**595,679**	**6.5**
Tier I capital (to average assets)	**1,022,024**	**9.85**	**415,202**	**4**	**519,003**	**5**
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

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, 2017 and 2016, 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 common and collective trust portfolio assets. The remainder of the common and collective trust's 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:

	2017	2016
	(In Thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of the year	**$ 268,125**	$ 240,086
Service cost	**19,156**	17,282
Interest cost	**10,413**	9,597
Actuarial loss	**42,042**	11,385
Benefits paid	**(11,327)**	(10,225)
Benefit obligation at end of the year	**$ 328,409**	$ 268,125
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 228,509**	$ 216,883
Actual return on plan assets	**31,999**	19,633
Employer contribution	**86,188**	2,218
Benefits paid	**(11,327)**	(10,225)
Fair value of plan assets at end of year	**335,369**	228,509
Funded status	**$ 6,960**	$ (39,616)
Reconciliation of funding status:		
Past service cost	**$ (113)**	$ (157)
Unrecognized net loss	**(92,842)**	(71,447)
Prepaid benefit cost	**99,915**	31,988
Funded status	**$ 6,960**	$ (39,616)
Accumulated benefit obligation	**$ 235,513**	$ **195,345**
Amounts recognized in accumulated other comprehensive income, net of tax:		
Unrecognized past service cost	**$ (61)**	$ (93)
Unrecognized net loss	**(57,643)**	(42,260)
Net amount	**$ (57,704)**	$ (42,353)
Amounts in accumulated other comprehensive income expected to be recognized in net periodic benefit cost over the next fiscal year:		
Unrecognized past service cost	**$ 32**	$ 26
Unrecognized net loss	**5,479**	3,432
Net amount	**$ 5,511**	$ 3,458

12. Employee Benefits (continued)

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

	2017	2016
Discount rate - benefit obligation	**3.50%**	4.00%
Discount rate - benefit cost	**4.00%**	4.125%
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 $335.4 million and $228.5 million at December 31, 2017 and 2016, 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, 2017:

	(In Thousands)
Balance at January 1, 2017	$ 228,509
Net realized and unrealized gains and losses	31,999
Contributions	83,637
Benefits Paid	(8,776)
Balance at December 31, 2017	$ 335,369

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

	2017	2016
	(In Thousands)	
Components of net periodic benefit cost:		
Service cost	**$ 19,156**	$ 17,282
Interest cost	**10,413**	9,597
Expected return on plan assets	**(17,156)**	(16,301)
Past service cost	**44**	44
Recognized net actuarial loss	**5,803**	5,545
Net periodic benefit cost	**$ 18,260**	$ 16,167

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, 2017.

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)
2018	$ 20,006
2019	17,622
2020	17,761
2021	16,743
2022	17,536
In aggregate for 2023 - 2027	88,756

The Corporation consolidates a rabbi trust VIE which consists of 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, 2017	**2016**
	(In Thousands)	
Deferred Compensation	**$ 25,846**	$ 27,262
DB SERP	**21,328**	20,278
DC SERP	**19,454**	21,493
Directors' Retainer Continuance Plan	**3,482**	1,897
Benefit Equalization Plan	**814**	-
	$ 70,924	$ 70,930

For the years ended December 31, 2017 and 2016, the net unrealized gain on rabbi trust investments still held at the reporting date were $10.6 million and $5.1 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, 2017 and 2016, were $3.8 million and $3.7 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 $1.1 million and $1.5 million in 2017 and 2016, 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 $25.8 million and $27.0 million at December 31, 2017 and 2016, 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:

	2017	2016
	(In Thousands)	
Unused lines of credit	**$ 2,323,167**	$ 2,165,097
Commitments to originate commercial loans	**172,141**	354,987
Commitments to originate residential loans	**79,859**	95,767
Unadvanced portions of construction loans	**294,154**	332,790
Standby letters of credit	**45,102**	37,716
Forward commitments to sell loans	**16,624**	24,481
Interest rate swap contracts (notional amount)	**3,011,066**	2,743,758
Foreign currency exchange contracts:		
Commitments to sell forward contracts (notional amount)	**15,678**	29,415
Commitments to buy forward contracts (notional amount)	**15,626**	29,335

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 $12.5 million on December 31, 2017.

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, 2017 and 2016, respectively.

Tabular Disclosure of Fair Values of Derivative Instruments

	Asset Derivatives				Liability Derivatives			
	As of December 31, 2017		As of December 31, 2016		As of December 31, 2017		As of December 31, 2016	
	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	**$ 23,533**	Other assets	$ 28,598	Other liabilities	**$ 22,148**	Other liabilities	$ 28,802
Foreign currency exchange contracts	Other assets	**5,668**	Other assets	1,718	Other liabilities	**5,616**	Other liabilities	1,634
Total derivatives not designated as hedging instruments		**$ 29,201**		$ 30,316		**$ 27,764**		$ 30,436

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 dealer swaps are recognized directly in earnings. As of December 31, 2017, the Corporation had 526 interest rate swaps with an aggregate notional amount of $3.0 billion related to this program. As of December 31, 2017, the Corporation had 74 foreign currency exchange contracts with an aggregate notional amount of $31.3 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, 2017 and 2016.

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 2017	2016
		(In Thousands)	
Interest rate swaps	Interest rate swap income	**$ (172)**	$ 1,278
Foreign currency exchange contracts	Other income	**(32)**	32
Total		**$ (204)**	$ 1,310

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, 2017, the fair value of interest rate swap derivatives that contain credit-risk related contingent features that are in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $2.9 million. The Corporation has minimum collateral posting thresholds with certain of its interest rate swap derivative counterparties and has posted collateral of $9.8 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, 2016 was $8.3 million. If the Corporation had breached any of these provisions at December 31, 2017, 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.

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, 2017, 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:

				Gross Amounts Not Offset in the Statement of Financial Position		
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**	**Financial Instruments**	**Cash Collateral Received**	**Net Amount**
			(In Thousands)			
			December 31, 2017			
Interest rate swaps	**$ 23,533**	**$ -**	**$ 23,533**	**$ 7,080**	**$ 4,790**	**$ 11,663**
Foreign currency exchange contracts	**5,668**	**-**	**5,668**	**32**	**1,441**	**4,195**
	$ 29,201	**$ -**	**$ 29,201**	**$ 7,112**	**$ 6,231**	**$ 15,858**
			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

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, 2017					
Interest rate swaps	**$ 22,148**	**$ -**	**$ 22,148**	**$ 7,080**	**$ 9,784**	**$ 5,284**
Foreign currency exchange contracts	**5,616**	**-**	**5,616**	**32**	**-**	**5,584**
	$ 27,764	**$ -**	**$ 27,764**	**$ 7,112**	**$ 9,784**	**$ 10,868**
	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

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 of fixed income municipal securities 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. This bond was called in 2017. 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. These bonds were sold and called in 2017. 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. These bonds were sold in 2017. 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.

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 at both December 31, 2017 and 2016. There were no redemption restrictions on these mutual funds at either year end.

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, 2017, 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.

16. Fair Value of Assets and Liabilities (continued)

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.

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

Description	Balance as of December 31, 2017	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	$ 46,791	$ -	$ 46,791	$ -
Securities available for sale				
Government-sponsored residential mortgage-backed securities	1,167,444	-	1,167,444	-
State and municipal bonds and obligations	331,380	-	331,380	-
Other bonds	5,986	-	50	5,936
Rabbi trust investments	70,924	57,760	13,164	-
Interest rate swaps	23,533	-	23,533	-
Foreign currency forward contracts	5,668	-	5,668	-
Total	$ 1,651,726	$ 57,760	$ 1,588,030	$ 5,936
Liabilities				
Interest rate swaps	$ 22,148	$ -	$ 22,148	$ -
Foreign currency forward contracts	5,616	-	5,616	-
Total	$ 27,764	$ -	$ 27,764	$ -

16. Fair Value of Assets and Liabilities (continued)

		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)**
		(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	$ -

There were no transfers between Level 1 and Level 2 during 2017 or 2016.

16. Fair Value of Assets and Liabilities (continued)

For the fair value measurements which were classified as Level 3 within the fair value hierarchy, the Corporation's Treasury and Finance groups determined the valuation policies and procedures. For the valuation of the pooled trust preferred securities, the Corporation used third-party valuation information. Management determined that no changes to the quantitative unobservable inputs were necessary. Depending on the type of the security, management employed various techniques to analyze the valuation it received from third-parties, such as analyzing changes in market yields and in certain instances reviewing the underlying collateral of the security. Management reviewed 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. For the qualified zone academy bond, the Corporation conducted a credit analysis on the issuer and utilized a discounted cash flow methodology to value the bond.

The table below presents a reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2017 and 2016:

	Securities Available for Sale
	(In Thousands)
Balance at January 1, 2016	$ 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
Gains and losses (realized/unrealized):	
Included in earnings	**13,888**
Included in other comprehensive income	**3,812**
Purchases	-
Issuances	-
Sales	**(40,295)**
Settlements	**(10,868)**
Transfers into (out of) Level 3	-
Balance at December 31, 2017	**$ 5,936**

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, 2017 and 2016. 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 2017 and 2016 on the assets held at December 31, 2017 and 2016.

		Fair Value Measurements at Reporting Date Using			
Description	**Balance as of December 31, 2017**	**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	**$ 35**	**$ -**	**$ 35**	**$ -**	**$ (11)**
Collateral-dependent impaired loans whose fair value determined is based upon appraisals	**11,023**	**-**	**6,928**	**4,095**	**(51)**
Total	**$ 11,058**	**$ -**	**$ 6,963**	**$ 4,095**	**$ (62)**

16. Fair Value of Assets and Liabilities (continued)

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)	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)

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, 2017 and 2016:

	Year Ended December 31, 2017		
	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	**$ 17,453**	**$ (6,475)**	**$ 10,978**
Less: reclassification adjustment for (gains) included in net income	**(11,356)**	**4,619**	**(6,737)**
Net change in fair value of securities available for sale	**6,097**	**(1,856)**	**4,241**
Defined benefit pension plans:			
Amortization of actuarial net loss	**5,803**	**(1,631)**	**4,172**
Change in actuarial net loss	**(27,200)**	**7,645**	**(19,555)**
Amortization of prior service cost	**44**	**(12)**	**32**
Net change in actuarial net loss	**(21,353)**	**6,002**	**(15,351)**
Total other comprehensive income	**$ (15,256)**	**$ 4,146**	**$ (11,110)**

	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 losses 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)

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, 2017	$ 4,971	$ (42,353)	$ (37,382)
Other comprehensive income (loss) before reclassifications	10,978	(19,555)	(8,577)
Amounts reclassified from accumulated other comprehensive income	(6,737)	4,204	(2,533)
Net current-period other comprehensive income	4,241	(15,351)	(11,110)
Ending balance: December 31, 2017	$ 9,212	$ (57,704)	$ (48,492)

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, 2017:

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	$ (11,356)	(Gain)/loss on sale of securities
	(11,356)	Total before tax
	4,619	Tax expense or (benefit)
	$ (6,737)	Net of tax
Amortization of defined benefit pension items		
Actuarial gains/(losses)	$ 5,803	Net periodic pension cost - see
Prior service cost	44	Employee Benefits footnote
	5,847	Total before tax
	(1,643)	Tax expense or (benefit)
	$ 4,204	Net of tax
Total reclassifications for the period	$ (2,533)	

Eastern Bank Corporation

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Vice Chairman
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President
Jan A. Miller

Chief Financial Officer and Treasurer
James B. Fitzgerald

Secretary
Kathleen C. Henry

Assistant Secretaries and Assistant Clerks
Mary E. Conway
Norah A. Sullivan
Susan L. Martin

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Chief Financial Officer
Vistaprint

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Redstar Ventures

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Federal Reserve Bank of Boston

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General Electric Company

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Consultant and Adjunct Professor,
The Wharton School, University of Pennsylvania

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Eastern Bank

Paul D. Spiess
Former Chairman of the Board
Centrix Bank and Trust,
Chairman, Share Outreach, Inc.

Eastern Bank Corporation as of February 1, 2018

Eastern Bank Corporation

Eastern Bank Corporation as of February 1, 2018

Eastern Bank Corporation

Corporators

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

Eastern Bank Corporation as of February 1, 2018

EASTERN BANK MANAGEMENT

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President
Quincy L. Miller

Vice Chairman
Chief Commercial Banking Officer
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Laurie A. Hannigan
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Rana H. Murphy
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Maureen M. Trefry

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Managing Director
Rose M. Brooks

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John M. Berksza
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Mikaela DeYoung-Asebrook
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Michelle A. Lord
Deane Morreale
Paul-Michael Quintin
Donald J. Rielly, Jr.
George R. Samoluk
Susan Seifert
Christopher S. Sheppard
James S. Smith
William J. Surette
Donald P. Uvanitte

EIG–Personal Lines

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Francis R. Doran
Gregory L. Grintchenko
Bruce M. Shapiro

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Charles R. Diamond
Colleen Doherty
Timothy J. Harrington, Jr.
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Joan A. Marasco
Anthony J. Murphy
Michael B. Uretsky

Operations

Senior Vice President &
Operations Director
Marguerite L. Hartley

Accounting

Chief Financial Officer
Senior Vice President
John F. Ray

*Denotes Business Leader

CORPORATE SERVICES

CORPORATE CREDIT
Executive Vice President &
Chief Credit Officer
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Senior Vice Presidents
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Wendy L. de Villiers
Philip S. Dunn
John P. Farmer
Pete J. Kaznoski
Thomas G. Kinchla
Katerina Papp
Amy M. Tsokanis
Katherine C. Wheeler

ENTERPRISE RISK MANAGEMENT
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Steven L. Antonakes

Senior Vice Presidents
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Stacey A. Jackson
Caroline F. Malone
Joshua Neffinger
John M. Pool
Karl C. Renney

HUMAN RESOURCES & CHARITABLE GIVING
Executive Vice President
Nancy Huntington Stager

Senior Vice Presidents
Tyrone F. Graham
Paula Murphy-Roux
Edward J. Saras

Eastern Bank Charitable Foundation
Executive Director
Laura B. Kurzrok

Foundation for Business Equity
Executive Director
Glynn T. Lloyd

LEGAL
General Counsel
Kathleen C. Henry

MARKETING & COMMUNICATIONS
Executive Vice President &
Chief Marketing &
Communications Officer
Paul G. Alexander

Senior Vice President
Tracy J. Stokes

TECHNOLOGY
Executive Vice President &
Chief Information Officer
Donald M. Westermann

Senior Vice Presidents
Julie A. Colarusso
Virginia Daniels
Ashley A. N. Eknaian
Craig P. Gardner
Mark T. Leonard
Brian G. Plourde

Finance
Treasurer
Jillian A. Belliveau

Senior Vice President &
Controller
David A. Ahlquist

Senior Vice President
Mark P. Coryea

Operations
Senior Vice Presidents
Kelly S. Bressette
Lorraine M. Benoit
Lynette L. Lopez

Audit
Senior Vice President &
Chief Internal Auditor
Cheryle J. Leonard

General Services
Senior Vice President
Thomas E. Dunn

Eastern Bank Management as of February 2018

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 Wareham
3003 Cranberry Highway

Everett
738 Broadway

Falmouth
815 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
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

Revere
339 Squire Road

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, 2018

Eastern Insurance Group Offices

Acton
133 Great Road

Amesbury
34 Market Street

Andover
60 Main Street

Brockton
500 Forest Avenue

Danvers
21 Maple Street

Duxbury
33 Enterprise Street

Gloucester
4 Railroad Avenue

Hyannis
375 Iyannough Road

Hyannis
641 Main Street

Keene, NH
372 West 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

North Dartmouth
439 State Road

Norwell
77 Accord Park Drive

Providence, RI
42 Weybosset Street

Quincy
382 Quincy Avenue

Sturbridge
139 Main Street

Wakefield
100 Quannapowitt Pkwy

West Plymouth
71 Carver Road

Westwood
291 Washington Street

Wrentham
78 South Street

Corporate Office
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233 West Central St., Natick
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