Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Samuel Laverack
Name of the Holding Company Director and Official

CEO and Trustee
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official

3/26/18
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- ☐ is included with the FR Y-6 report
- ☐ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID ______
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2017
Month / Day / Year

549300YV7HFY5MTM2Z65
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

New Hampshire Mutual Bancorp
Legal Title of Holding Company

89 N Main St
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Concord	NH	03301

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Jason Hicks	CFO & SVP

603-279-9195
Area Code / Phone Number / Extension

603-279-5296
Area Code / FAX Number

jhicks@nhmutual.com
E-mail Address

www.nhmutual.com
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes: 0

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report .... ☐
2. a letter justifying this request has been provided separately ... ☐

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

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Physical Location (if different from mailing address)

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(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

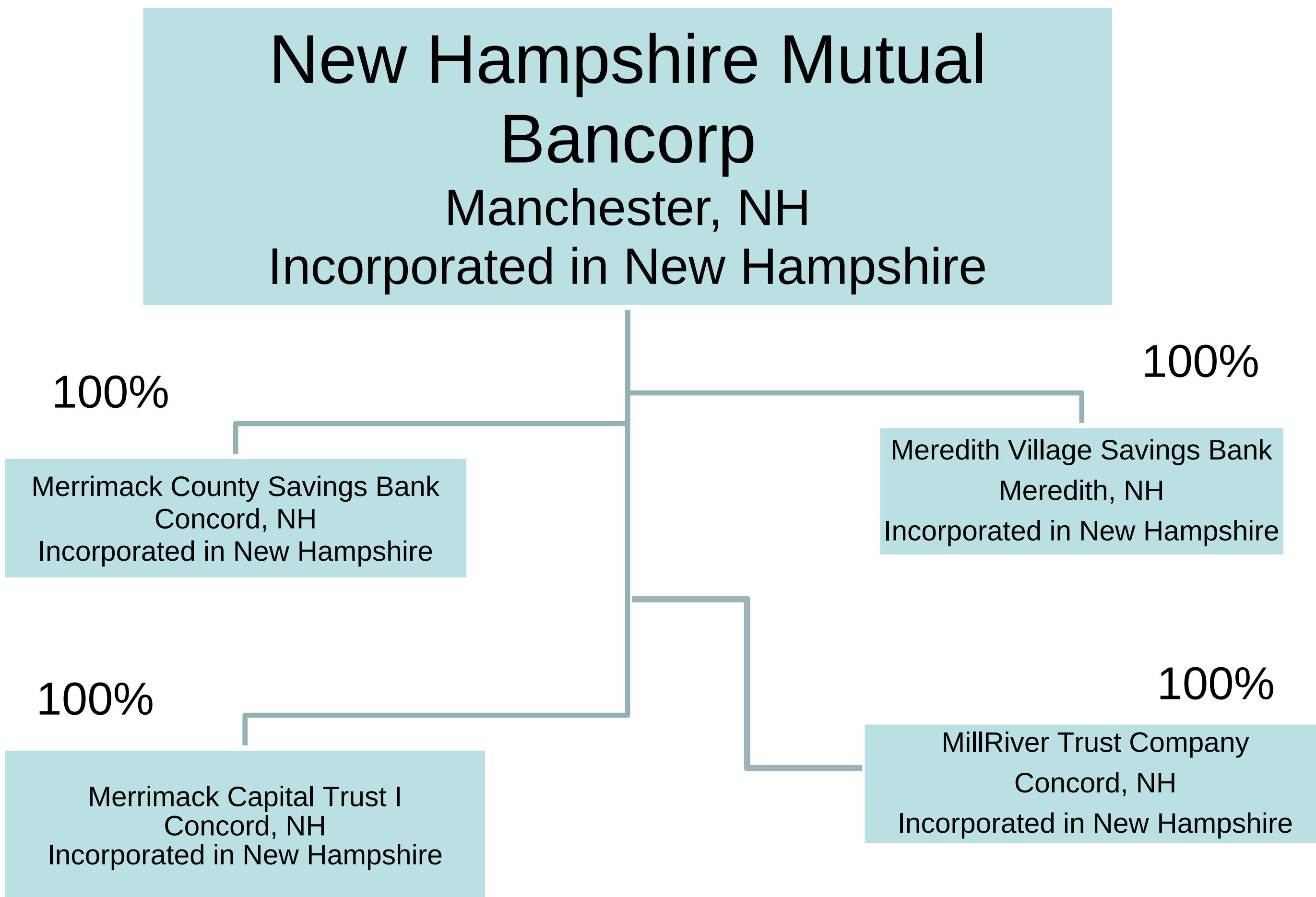
Physical Location (if different from mailing address)

Report Item 1

Form FR Y-6
New Hampshire Mutual Bancorp
Manchester, New Hampshire
Fiscal Year Ending December 31, 2017

Annual Report to Shareholders: N/A

FR Y-6 Report Item 2a: Organizational Chart



LEI not applicable unless otherwise noted.

Results: A list of branches for your depository institution: MEREDITH VILLAGE SAVINGS BANK (ID_RSSD: 576608).
This depository institution is held by NEW HAMPSHIRE MUTUAL BANCORP (4436559) of CONCORD, NH.
The data are as of 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

Reconciliation and Verification Steps
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	576608	MEREDITH VILLAGE SAVINGS BANK	24 STATE ROUTE 25, P.O. BOX 177	MEREDITH	NH	03253	BELKNAP	UNITED STATES	Not Required	Not Required	MEREDITH VILLAGE SAVINGS BANK	576608	
OK		Full Service	4480673	ALTON BRANCH	82 NH HIGHWAY 28A	ALTON	NH	03809	BELKNAP	UNITED STATES	Not Required	Not Required	MEREDITH VILLAGE SAVINGS BANK	576608	
OK		Full Service	300401	ASHLAND BRANCH	5 RIVERSIDE DRIVE	ASHLAND	NH	03217	GRAFTON	UNITED STATES	Not Required	Not Required	MEREDITH VILLAGE SAVINGS BANK	576608	
OK		Full Service	4193964	GILFORD BRANCH	1383 LAKESHORE ROAD	GILFORD	NH	03246	BELKNAP	UNITED STATES	Not Required	Not Required	MEREDITH VILLAGE SAVINGS BANK	576608	
OK		Full Service	3377002	LACONIA BRANCH	379 SOUTH MAIN STREET (RT 106)	LACONIA	NH	03246	BELKNAP	UNITED STATES	Not Required	Not Required	MEREDITH VILLAGE SAVINGS BANK	576608	
OK		Full Service	5075629	MELVIN VILLAGE BRANCH	448 GOVERNOR WENTWORTH HWY	MELVIN VILLAGE	NH	03254	CARROLL	UNITED STATES	Not Required	Not Required	MEREDITH VILLAGE SAVINGS BANK	576608	
OK		Full Service	1459388	OLD PROVIDENCE COMMON BRANCH	71 STATE ROUTE 104	MEREDITH	NH	03253	BELKNAP	UNITED STATES	Not Required	Not Required	MEREDITH VILLAGE SAVINGS BANK	576608	
OK		Full Service	393702	CENTER HARBOR BRANCH	28 STATE ROUTE 25	MOULTONBOROUGH	NH	03254	CARROLL	UNITED STATES	Not Required	Not Required	MEREDITH VILLAGE SAVINGS BANK	576608	
OK		Full Service	4194019	MOULTONBOROUGH BRANCH	991 STATE ROUTE 25	MOULTONBOROUGH	NH	03254	CARROLL	UNITED STATES	Not Required	Not Required	MEREDITH VILLAGE SAVINGS BANK	576608	
OK		Full Service	4194028	MAIN STREET BRANCH	131 MAIN STREET	PLYMOUTH	NH	03264	GRAFTON	UNITED STATES	Not Required	Not Required	MEREDITH VILLAGE SAVINGS BANK	576608	
OK		Full Service	4194037	PLYMOUTH HANNAFORD-STORE BRANCH	389 TENNEY MOUNTAIN HIGHWAY	PLYMOUTH	NH	03264	GRAFTON	UNITED STATES	Not Required	Not Required	MEREDITH VILLAGE SAVINGS BANK	576608	
OK		Full Service	5163900	PORTSMOUTH OFFICE	2839 LAFAYETTE ROAD	PORTSMOUTH	NH	03801	ROCKINGHAM	UNITED STATES	Not Required	Not Required	MEREDITH VILLAGE SAVINGS BANK	576608	
OK		Full Service	3788327	WOLFEBORO BRANCH	66 NORTH MAIN STREET	WOLFEBORO	NH	03894	CARROLL	UNITED STATES	Not Required	Not Required	MEREDITH VILLAGE SAVINGS BANK	576608	

Results: A list of branches for your depository institution: MERRIMACK COUNTY SAVINGS BANK (ID_RSSD: 74403).
This depository institution is held by NEW HAMPSHIRE MUTUAL BANCORP (4436559) of CONCORD, NH.
The data are as of 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

Reconciliation and Verification Steps
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
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Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
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The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	74403	MERRIMACK COUNTY SAVINGS BANK	89 NORTH MAIN STREET, BOX 2826	CONCORD	NH	03301	MERRIMACK	UNITED STATES	Not Required	Not Required	MERRIMACK COUNTY SAVINGS BANK	74403	
OK		Full Service	1358696	BOW BRANCH	503 SOUTH STREET	BOW	NH	03304	MERRIMACK	UNITED STATES	Not Required	Not Required	MERRIMACK COUNTY SAVINGS BANK	74403	
OK		Full Service	2850272	CONCORD BUSINESS CENTER	190 NORTH MAIN STREET	CONCORD	NH	03301	MERRIMACK	UNITED STATES	Not Required	Not Required	MERRIMACK COUNTY SAVINGS BANK	74403	
OK		Full Service	3773640	INTEGRA DRIVE BRANCH	1 INTEGRA DRIVE	CONCORD	NH	03301	MERRIMACK	UNITED STATES	Not Required	Not Required	MERRIMACK COUNTY SAVINGS BANK	74403	
OK		Full Service	3030286	NORTH STATE STREET BRANCH	167 NORTH STATE STREET	CONCORD	NH	03301	MERRIMACK	UNITED STATES	Not Required	Not Required	MERRIMACK COUNTY SAVINGS BANK	74403	
OK		Full Service	3228177	CONTOOCOOK BRANCH	35 KEARSARGE AVENUE	CONTOOCOOK	NH	03229	MERRIMACK	UNITED STATES	Not Required	Not Required	MERRIMACK COUNTY SAVINGS BANK	74403	
OK		Full Service	5136892	HOOKSETT	360 LONDONDERRY TURNPIKE	HOOKSETT	NH	03106	MERRIMACK	UNITED STATES	Not Required	Not Required	MERRIMACK COUNTY SAVINGS BANK	74403	
OK		Full Service	4807944	HOOKSETT BRANCH	530 W RIVER RD STE 5	HOOKSETT	NH	03106	MERRIMACK	UNITED STATES	Not Required	Not Required	MERRIMACK COUNTY SAVINGS BANK	74403	
OK		Full Service	3228168	NASHUA BRANCH	101 BROAD STREET	NASHUA	NH	03064	HILLSBOROUGH	UNITED STATES	Not Required	Not Required	MERRIMACK COUNTY SAVINGS BANK	74403	

Report Item 3

Form FR Y-6
New Hampshire Mutual Bancorp
Manchester, New Hampshire
Fiscal Year Ending December 31, 2017

Securities Holders: N/A

Form FR Y-6
New Hampshire Mutual Bancorp
Concord, New Hampshire
Fiscal Year Ending December 31, 2017

(1) Name, City, State Country	(2) Principal Occupation if other than with Bank Holding Company	(3a) Title & Position with Bank Holding Company	(3b) Title & Position with Subsidiaries (include names of subsidiaries)	(3c) Title & Position with Other Businesses (include names of other businesses)	(4a) Percentage of Voting Shares in Bank Holding Company	(4b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4c) List names of other companies (including partnerships) if 25% or more of voting securities are held (List names of companies and % of voting securities held)
Charles G Hanson Center Harbor, NH USA	Owner Hilltop Farm	Trustee	Director - Meredith Village Savings Bank Director - MillRiver Trust Company	Secretary/Owner - Resource Management Inc. Owner - Hilltop Farm	NA	NA	Resource Management - 33 1/3% Hilltop Farm - 100%
Christine J Scheiner Pembroke, NH USA	VP Executive Admin	Corporate Secretary	Corporate Secretary - Merrimack County Savings Bank Corporate Secretary - MillRiver Trust Company	NA	NA	NA	NA
James Dirubbo Gilford, NH USA	CPA, Partner Malone, Dirubbo & Company PC	Trustee	Director - Meredith Village Savings Bank	Partner - Malone, Dirubbo & Company Managing Member - Sawyer Realty, LLC	NA	NA	Sawyer Realty, LLC - 100%
Jane Difley Webster, NH USA	President/Forester Society for the Protection of NH Forests	Trustee	Director - Merrimack County Savings Bank	President/Forester - Society for the Protection of NH Forests	NA	NA	NA
Jason Hicks Meredith, NH USA	SVP, Banker Meredith Village Savings Bank Merrimack County Savings Bank	SVP, CFO	SVP, CFO Meredith Village Savings Bank Merrimack County Savings Bank MillRiver Trust Company	General Manager - JCH Properties, LLC General Manager - Premier Land Investments, LLC	NA	NA	JCH Properties, LLC - 50% Ownership Premier Land Investments, LLC - 50% Ownership
Jeffrey S. Kipperman Bow, NH USA	CPA Mason and Rich Professional Association	Trustee	Director - Merrimack County Savings Bank	Managing Director, Mason and Rich Professional Association President - Mason and Rich Realty	NA	NA	Mason and Rich PA - 98% Mason and Rich Realty, Inc. - 65%
John Moulton Meredith, NH USA	Farmer Meredith Farm Growers, LLC DBA Moulton Farm	Trustee	Director - Meredith Village Savings Bank	Managing Member, Meredith Farm Growers LLC, DBA Moulton Farm	NA	NA	NA
John S. Kitchen Laconia, NH USA	Attorney John Kitchen Law Offices	Trustee	Director - Meredith Village Savings Bank	Owner, John Kitchen Law Offices	NA	NA	John Kitchen Law Offices - 100%
Maurice Lafreniere Holderness, NH USA	Executive/CFO Great American Dining	Trustee	Director - Meredith Village Savings Bank	CFO - Great American Dining	NA	NA	NA
Michael D. Coughlin Canterbury, NH USA	Owner (Semi-Retired) Michael D. Coughlin Associates	Trustee	Director - Merrimack County Savings Bank Director - MillRiver Trust Company	Owner, Michael D. Coughlin Associates	NA	NA	Michael D. Coughlin Associates - 100%
Michael B. Green Hopkinton, NH USA	Retired	Trustee	Director - Merrimack County Savings Bank	NA	NA	NA	NA
Michael O'Leary Holderness, NH USA	Asset Manager Bridgewater Power Co.	Trustee	Director - Meredith Village Savings Bank Director - MillRiver Trust Company	Asset Manager - Bridgewater Power Co	NA	NA	NA
Michelle McEwen Bristol, NH USA	Hospital Administration-President CEO Speare Memorial Hospital	Trustee	Director - Meredith Village Savings Bank	Speare Memorial Hospital - President /CEO	NA	NA	NA
Peter Bloomfield Bow, NH USA	Engineer/President Bloomfield Associates	Trustee	Director - Merrimack County Savings Bank Director - MillRiver Trust Company	President/Owner - Bloomfield Associated Manager - P&M Realty of Concord Manager - BS & Chips	NA	NA	Bloomfield Associates - 100% P&M Realty of Concord - 50% BS & Chips - 50%
Philip B. Emma Henniker, NH USA	Banking Administration Merrimack County Savings Bank	Executive Officer	President and Director - Merrimack County Savings Bank	NA	NA	NA	NA
Richard Wyman Laconia, NH USA	Banking Administration Meredith Village Savings Bank	Executive Officer	President and Director - Meredith Village Savings Bank	NA	NA	NA	NA
Samuel L. Laverack Holderness, NH USA	NA	Executive Officer & Trust	Director - Merrimack County Savings Bank Director - Meredith Village Savings Bank Director - MillRiver Trust Company	NA	NA	NA	NA
William H. Dunlap Amherst, NH USA	Executive Director, President/CEO NH Historical Society	Trustee	Director - Merrimack County Savings Bank	President & Treasurer, NH Real Estate Investment LLC	NA	NA	President & Treasurer - 25%

Form FR Y-6
New Hampshire Mutual Bancorp
Concord, New Hampshire
Fiscal Year Ending December 31, 2017

(1) Name, City, State Country	(2) Principal Occupation if other than with Bank Holding Company	(3a) Title & Position with Bank Holding Company	(3b) Title & Position with Subsidiaries (include names of subsidiaries)	(3c) Title & Position with Other Businesses (include names of other businesses)	(4a) Percentage of Voting Shares in Bank Holding Company	(4b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4c) List names of other companies (including partnerships) if 25% or more of voting securities are held (List names of companies and % of voting securities held)
Claudia C. Damon Concord, NH USA	Retired	Trustee	Director - Merrimack County Savings Bank (Retired from Board 3/29/17)	NA	NA	NA	NA
Paul C. Rizzi, Jr. Concord, NH USA	Retired	Trustee	Director - Merrimack County Savings Bank (Resigned from Board 1/11/18)	President/Director/Member, Independent Living Concord Development, LLC	NA	NA	NA

NEW HAMPSHIRE
MUTUAL BANCORP

89 North Main Street, PO Box 2826
Concord, NH 03302
603.225.2793 | 800.541.0006

March 22, 2018

Report of Management

New Hampshire Mutual Bancorp is responsible for the preparation, integrity and fair representation of its consolidated financial statements as of December 31, 2017, and the year then ended. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and, as such, include some amounts which are based on judgments and estimates of management.

Management of New Hampshire Mutual Bancorp is responsible for establishing and maintaining effective internal control over financial reporting presented in conformity with both GAAP and the Federal Financial Institutions Examination Council instructions for Consolidated Reports of Condition and Income Financial Reports (Call Report Instructions) for the schedules equivalent to the New Hampshire Mutual Bancorp financial statements. New Hampshire Mutual Bancorp internal controls contain monitoring mechanisms, and actions are taken to correct deficiencies noted.

There are inherent limitations in the effectiveness of internal controls, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls and procedures may vary over time.

Management assessed New Hampshire Mutual Bancorp's internal controls over financial reporting presented in conformity with both GAAP and Call Report Instructions as of December 31, 2017. This assessment was based on criteria for effective internal controls over financial reporting as described in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2017, New Hampshire Mutual Bancorp maintained effective internal controls over financial reporting presented in conformity with both GAAP and Call Report Instructions for the schedules equivalent to the basic financial statements.

Management is also responsible for compliance with federal and state laws and regulations concerning dividend restrictions and federal laws concerning loans to insiders designated by the FDIC as safety and soundness laws and regulations.

Management assessed its compliance with the designated laws and regulations relating to safety and soundness. Based on this assessment, management concludes that New Hampshire Mutual Bancorp complied with in all significant respect with designated laws and regulations relating to safety and soundness for the year ended, December 31, 2017.

Very ~~truly~~ yours

Samuel L. Laverack
CEO

Jason Hicks
CFO

3/22/2018
Date

Audit Committee
New Hampshire Mutual Bancorp and Subsidiaries

We have audited the consolidated financial statements of New Hampshire Mutual Bancorp and Subsidiaries (the Company) for the year ended December 31, 2017, and have issued our report thereon dated March 21, 2018. Professional standards require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 1, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the consolidated financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the consolidated financial statements does not relieve you or management of your responsibilities.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the Company's consolidated financial statements does not extend beyond the information identified in our report on the consolidated financial statements, and we have no professional responsibility to perform audit procedures on such other information. In accordance with professional standards, we have read the other information and considered whether that information, or the manner of its presentation, was materially inconsistent with the consolidated financial statements. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the consolidated financial statements.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Company are described in Note 1 to the consolidated financial statements. In 2017, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This ASU was issued to allow a reclassification from accumulated other comprehensive income to undivided profits for stranded tax effects resulting from the Tax Cuts and Jobs Act and improves the usefulness of information reported to financial statement users. There were no other new accounting or changes to existing policies during the year. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the consolidated financial statements in the proper period.

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the consolidated financial statements were:

Allowance for Loan Losses

Management's estimate of the allowance for loan losses is based on management's evaluation of the collectibility of the loan portfolio, including the nature of the loan portfolio, credit concentrations, trends in historical loss experience, specific impaired loans and economic conditions. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the consolidated financial statements taken as a whole.

Other-Than-Temporary Impairment

Management reviews investment securities in an unrealized loss position to assess if the investment security is other than temporarily impaired. Management considers the length of time the security has been in an unrealized loss position, the credit quality of the issuer, the impact of current interest rates and other related factors. As part of our audit procedures, we evaluated securities with unrealized losses and management's assessment that there was no other-than-temporary impairment at December 31, 2017.

Goodwill

Goodwill is reviewed for impairment annually, or more frequently upon the occurrence of certain events. Management values the Company based on earnings multiples of transactions involving similar institutions, as provided by an external advisor. Management has concluded that there was no impairment of goodwill for 2017. We evaluated management's methodology and key assumptions to determine its process and conclusions are reasonable in relation to the consolidated financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the consolidated financial statements are the disclosure of the allowance for loan losses in Note 4 to the consolidated financial statements, the disclosure of FASB ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments,* in Note 1 to the consolidated financial statements and the disclosure of the subsequent event related to the Affiliation Agreement with Walpole Mutual Bancorp in Note 15 to the consolidated financial statements

The disclosures in the consolidated financial statements are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected misstatements affecting the Company's consolidated financial statements. The attached schedule summarizes an uncorrected misstatement of the consolidated financial statements. Management has determined that its effect is immaterial to the consolidated financial statements as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 21, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Company's consolidated financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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This communication is intended solely for the information and use of the Audit Committee, Board of Directors and management of New Hampshire Mutual Bancorp and Subsidiaries and is not intended to be, and should not be, used by anyone other than these specified parties.

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
March 21, 2018

NEW HAMPSHIRE MUTUAL BANCORP AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

With Independent Auditor's Report

BerryDunn

INDEPENDENT AUDITOR'S REPORT

Audit Committee
New Hampshire Mutual Bancorp and Subsidiaries

We have audited the accompanying consolidated financial statements of New Hampshire Mutual Bancorp and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in surplus and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of New Hampshire Mutual Bancorp and Subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
March 21, 2018

NEW HAMPSHIRE MUTUAL BANCORP AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

ASSETS

	2017	2016
	(In thousands)	
Cash and due from banks	**$ 24,191**	$ 16,814
Deposits with Federal Reserve Bank and Federal Home Loan Bank	**21,131**	15,702
Total cash and cash equivalents	**45,322**	32,516
Interest-bearing time deposits with other banks	**995**	2,239
Available-for-sale securities, at fair value	**156,111**	151,011
Federal Home Loan Bank of Boston stock, at cost	**9,067**	7,768
Loans held for sale	**1,039**	1,801
Loans, net of allowance for loan losses of $10,061 and $8,764, respectively	**1,456,487**	1,345,951
Premises and equipment, net	**33,918**	31,409
Other real estate owned	**457**	882
Goodwill	**2,546**	2,546
Core deposit intangible	**5,821**	6,985
Accrued interest receivable	**4,199**	3,731
Cash surrender value of life insurance policies	**29,287**	28,477
Interest rate swap asset	**815**	212
Other assets	**13,138**	13,964
Total assets	**$ 1,759,202**	$ 1,629,492

LIABILITIES AND SURPLUS

	2017	2016
Deposits		
Noninterest-bearing	**$ 261,382**	$ 232,375
Interest-bearing	**1,054,468**	1,007,670
Total deposits	**1,315,850**	1,240,045
Advances from Federal Home Loan Bank of Boston	**158,454**	123,606
Securities sold under agreements to repurchase	**87,308**	82,935
Subordinated debentures	**5,297**	5,368
Other liabilities	**13,634**	9,859
Total liabilities	**1,580,543**	1,461,813
Surplus		
Undivided profits	**180,245**	169,640
Accumulated other comprehensive loss	**(1,586)**	(1,961)
Total surplus	**178,659**	167,679
Total liabilities and surplus	**$ 1,759,202**	$ 1,629,492

The accompanying notes are an integral part of these consolidated financial statements.

NEW HAMPSHIRE MUTUAL BANCORP AND SUBSIDIARIES

Consolidated Statements of Income

Years Ended December 31, 2017 and 2016

	2017	2016
	(In thousands)	
Interest and dividend income		
Interest and fees on loans	$ **60,335**	$ 55,537
Interest and dividends on securities		
Taxable	**3,319**	2,762
Tax-exempt	**15**	15
Other interest	**181**	113
Total interest and dividend income	**63,850**	58,427
Interest expense		
Interest on deposits	**4,272**	4,087
Interest on advances from Federal Home Loan Bank of Boston	**1,495**	832
Interest on securities sold under agreements to repurchase	**226**	126
Interest on subordinated debentures	**189**	189
Total interest expense	**6,182**	5,234
Net interest and dividend income	**57,668**	53,193
Provision for loan losses	**1,576**	1,080
Net interest and dividend income after provision for loan losses	**56,092**	52,113
Noninterest income		
Fees and service charges on deposit accounts	**5,373**	5,250
Gain on sales of available-for-sale securities, net	**171**	656
Gain on sale of loans, net	**695**	719
Income from wealth management	**2,956**	2,663
Increase in cash surrender value of life insurance policies	**810**	833
Other income	**2,637**	1,864
Total noninterest income	**12,642**	11,985
Noninterest expenses		
Salaries and employee benefits	**30,507**	28,147
Occupancy expense	**3,969**	3,865
Equipment expense	**2,828**	2,636
Professional fees	**1,720**	1,421
Account services/data processing expense	**2,802**	2,737
Marketing expense	**1,292**	1,398
FDIC assessments	**604**	702
Amortization of core deposit intangible	**1,164**	1,165
Charitable contributions	**692**	788
Other expenses	**6,485**	6,537
Total noninterest expenses	**52,063**	49,396
Income before income taxes	**16,671**	14,702
Income tax expense	**6,377**	4,592
Net income	$ **10,294**	$ 10,110

The accompanying notes are an integral part of these consolidated financial statements.

NEW HAMPSHIRE MUTUAL BANCORP AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2017 and 2016

	2017	2016
	(In thousands)	
Net income	**$ 10,294**	$ 10,110
Other comprehensive income (loss), net of tax		
Available-for-sale securities		
Net unrealized holding gains (losses) on available-for-sale securities arising during the year	**328**	(1,911)
Reclassification adjustment for realized gains in net income[(1)]	**(171)**	(656)
Tax effect	**(62)**	1,017
Net of tax amount	**95**	(1,550)
SERP plans		
Net actuarial gain (loss) arising during period	**141**	(229)
Reclassification to net periodic income cost[(2)]	**224**	103
Tax effect	**(145)**	51
Net of tax amount	**220**	(75)
Interest rate swaps		
Change in value of interest rate swap asset	**614**	730
Tax effect	**(243)**	(289)
Net of tax amount	**371**	441
Total other comprehensive income (loss), net of tax	**686**	(1,184)
Total comprehensive income	**$ 10,980**	$ 8,926

(1) Reclassified into the consolidated statements of income in gain on sales of available-for-sale securities.

(2) Reclassified into the consolidated statements of income in salaries and employee benefits.

The accompanying notes are an integral part of these consolidated financial statements.

NEW HAMPSHIRE MUTUAL BANCORP AND SUBSIDIARIES

Consolidated Statements of Changes in Surplus

Years Ended December 31, 2017 and 2016

	Undivided Profits	Accumulated Other Comprehensive Loss	Total
		(In thousands)	
Balance, December 31, 2015	$ 159,530	$ (777)	$ 158,753
Comprehensive income			
Net income	10,110	-	10,110
Other comprehensive loss, net of tax effect	-	(1,184)	(1,184)
Total comprehensive income	10,110	(1,184)	8,926
Balance, December 31, 2016	$ 169,640	$ (1,961)	$ 167,679
Comprehensive income			
Net income	**10,294**	**-**	**10,294**
Other comprehensive income, net of tax effect	**-**	**686**	**686**
Total comprehensive income	**10,294**	**686**	**10,980**
Reclassification for change in statutory income tax rate for items included in accumulated other comprehensive loss	**311**	**(311)**	**-**
Balance, December 31, 2017	**$ 180,245**	**$ (1,586)**	**$ 178,659**

Accumulated other comprehensive loss consisted of the following at December 31:

	2017	2016
	(In thousands)	
Net unrealized holding losses on available-for-sale securities, net of tax	**$ (2,022)**	$ (1,779)
Unrecognized SERP plan expenses, net of tax	**(284)**	(395)
Unrecognized interest rate swap asset, net of tax	**720**	213
Accumulated other comprehensive loss	**$ (1,586)**	$ (1,961)

The accompanying notes are an integral part of these consolidated financial statements.

NEW HAMPSHIRE MUTUAL BANCORP AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
	(In thousands)	
Cash flows from operating activities		
Net income	**$ 10,294**	$ 10,110
Adjustments to reconcile net income to net cash provided by operating activities		
Net amortization of premiums on securities	**461**	492
Net gain on sales of available-for-sale securities	**(171)**	(656)
Net gain on sales of loans	**(695)**	(719)
Provision for loan losses	**1,576**	1,080
Amortization of fair value adjustment on loans	**-**	468
Change in deferred costs, net	**(666)**	(1,194)
Depreciation and amortization of premises and equipment	**1,896**	1,925
Gain on sale of premises and equipment	**(1,181)**	(11)
(Gain) loss on sale of other real estate owned	**(50)**	2
Write-down of other real estate owned	**126**	35
Amortization of core deposit intangible	**1,164**	1,165
Amortization of premium on advances from Federal Home Loan Bank of Boston	**(449)**	(449)
Amortization of premium on subordinated debentures	**(71)**	(72)
Increase in interest receivable	**(468)**	(329)
Decrease in other assets	**1,015**	1,973
Increase in cash surrender value of life insurance	**(810)**	(833)
Proceeds from loans held for sale	**20,202**	25,486
Originations of loans held for sale	**(19,440)**	(25,698)
Increase (decrease) in other liabilities	**4,314**	(4,962)
Deferred income tax (benefit) expense	**(803)**	115
Net cash provided by operating activities	**16,244**	7,928
Cash flows from investing activities		
Proceeds from maturities of interest-bearing time deposits with other banks	**1,244**	747
Proceeds from sales of available-for-sale securities	**42,954**	49,432
Proceeds from maturities of available-for-sale securities	**22,184**	28,337
Purchase of available-for-sale securities	**(70,374)**	(83,841)
Net purchase of Federal Home Loan Bank of Boston stock	**(1,299)**	(1,972)
Loan originations and principal collections, net	**(110,998)**	(133,550)
Recoveries of loans previously charged-off	**181**	213
Purchase of premises and equipment	**(5,221)**	(5,994)
Proceeds from sale of premises and equipment	**1,694**	-
Proceeds from sale of other real estate owned	**722**	33
Net cash used in investing activities	**$ (118,913)**	$ (146,595)

(continued)

The accompanying notes are an integral part of these consolidated financial statements.

NEW HAMPSHIRE MUTUAL BANCORP AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Concluded)

Years Ended December 31, 2017 and 2016

	2017	2016
	(In thousands)	
Cash flows from financing activities		
Net increase in demand deposits	**$ 51,729**	$ 87,383
Net increase (decrease) in time deposits	**24,076**	(32,199)
Net change in short-term advances from Federal Home Loan Bank of Boston	**33,500**	79,000
Payments made on long-term advances from Federal Home Loan Bank of Boston	**(3,520)**	(10,504)
Proceeds from long-term advances from Federal Home Loan Bank of Boston	**5,317**	245
Net increase in securities sold under agreements to repurchase	**4,373**	594
Net cash provided by financing activities	**115,475**	124,519
Net increase (decrease) in cash and cash equivalents	**12,806**	(14,148)
Cash and cash equivalents, beginning of year	**32,516**	46,664
Cash and cash equivalents, end of year	**$ 45,322**	$ 32,516
Supplementary cash flow information		
Interest paid	**$ 6,084**	$ 5,225
Income taxes paid	**$ 3,235**	$ 5,879
Transfer of loans to other real estate owned	**$ 66**	$ 844

The accompanying notes are an integral part of these consolidated financial statements.

Nature of Business

New Hampshire Mutual Bancorp (the Company) is a New Hampshire mutual holding company. The Company's principal activity is to act as the holding company for its wholly-owned subsidiaries, Merrimack County Savings Bank (MCSB) and Meredith Village Savings Bank (MVSB) (collectively, the Banks), and MillRiver Trust Company (MRTC).

MCSB is a state chartered guarantee stock savings bank incorporated in 1867 and headquartered in Concord, New Hampshire. MVSB is a state chartered guarantee stock savings bank incorporated in 1869 and headquartered in Meredith, New Hampshire. MRTC is a state chartered trust company incorporated in 2015 and headquartered in Concord, New Hampshire. The Banks are engaged principally in the business of attracting deposits from the general public and investing those deposits in residential real estate loans, consumer loans, commercial loans and investment securities. MRTC is engaged to act as investment advisor, trustee and named custodian for customers of MCSB and MVSB and to provide insurance and broker-dealer products and services through an agreement with a third party broker-dealer.

1. Summary of Significant Accounting Policies

Basis of Presentation

The accounting and reporting policies of the Company are in conformity with U.S. generally accepted accounting principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB).

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Banks and MRTC. All significant intercompany transactions and balances have been eliminated in consolidation.

Merrimack Capital Trust I (the Trust), an affiliated trust of the Company, was formed in April 2007 to sell capital securities to the public through a third-party trust pool. In accordance with FASB Accounting Standards Codification Topic (ASC) 810, *Consolidation*, this affiliated trust has not been included in the consolidated financial statements. ASC 810 establishes the criteria used to identify variable interest entities (VIEs) and to determine whether or not to consolidate a VIE. VIEs are those entities in which the total equity investment at risk does not provide the holders of that investment with the characteristics of a controlling financial interest. The Company's investment in the Trust totaled $155,000 for both December 31, 2017 and 2016, and these funds were used by the Trust to invest in subordinated debentures issued by the Company. Accordingly, the Trust is considered a VIE, and is not included in the Company's consolidated financial statements as the Company is not the primary beneficiary of the VIE. The equity investment in the Trust is included in other assets in the consolidated balance sheets.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Estimates that are particularly susceptible to significant change in the near term relate to the allowance for loan losses, the valuation of other real estate owned, investment securities valuation and postretirement plan liabilities.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks, Federal Reserve Bank (FRB) and Federal Home Loan Bank of Boston (FHLBB) interest-bearing accounts and federal funds sold.

The Company's due from bank accounts may, at times, exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risk on cash and cash equivalents.

Investment Securities

Investments in debt securities are adjusted for amortization of premiums and accretion of discounts so as to approximate the interest method. Gains or losses on sales of investment securities are recorded on the trade date and are computed on a specific identification basis.

The Company classifies debt and equity securities into one of three categories: held-to-maturity, available-for-sale, or trading. These security classifications may be modified after acquisition only under certain specified conditions. In general, securities may be classified as held-to-maturity only if the Company has the positive intent and ability to hold them to maturity. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available-for-sale.

Held-to-maturity securities are measured at amortized cost in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings or in a separate component of surplus; they are merely disclosed in the notes to the consolidated financial statements. At December 31, 2017 and 2016, the Company had no held-to-maturity securities.

Available-for-sale securities are carried at fair value in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings, but are reported as a net amount (less expected tax) in a separate component of surplus until realized.

For any debt security with a fair value less than its amortized cost basis, the Company will determine whether it has the intent to sell the debt security or whether it is more-likely-than-not that it will be required to sell the debt security before the recovery of its amortized cost basis. If either condition is met, the Company will recognize a full impairment charge to earnings. For all other debt securities that are considered other-than-temporarily impaired and do not meet either condition, the credit loss portion of impairment will be recognized in earnings as realized losses. The other-than-temporary impairment related to all other factors will be recorded in other comprehensive income or loss.

Declines in marketable equity securities below their cost that are deemed other than temporary are reflected in earnings as realized losses. Nonmarketable investment securities, consisting of stock in the FHLBB, are carried at cost and are evaluated for impairment. The Company does not engage in the trading of investment securities.

In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans

Loans receivable that management has the intent and ability to hold until maturity or payoff are reported at their outstanding principal balances adjusted for amounts due to borrowers on unadvanced loans, any charge-offs, the allowance for loan losses, deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans.

Interest on loans is recognized on a simple interest basis.

Loan origination and commitment fees, certain direct origination costs and purchased loan premiums and discounts are deferred, and recognized as an adjustment of the related loan's yield using the effective interest method.

Loans past due 30 days or more are considered delinquent. Residential real estate loans are generally placed on nonaccrual when reaching 90 days past due or in the process of foreclosure. All closed-end consumer loans 90 days or more past due and any equity line in the process of foreclosure are placed on nonaccrual status. Secured consumer loans are written down to realizable value and unsecured consumer loans are charged-off upon reaching 120 or 180 days past due depending on the type of loan. Commercial real estate loans and commercial business loans which are 90 days or more past due are generally placed on nonaccrual status, unless secured by sufficient cash or other assets immediately convertible to cash. For all loan classes, when a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. A commercial loan can be returned to accrual status when collectability of principal is reasonably assured and the loan has performed for a period of time, generally six months. Any other loan can be returned to accrual status when it becomes current, provided that loan is adequately collateralized.

Cash receipts of interest income on impaired loans are credited to principal to the extent necessary to eliminate doubt as to the collectability of the net carrying amount of the loan. Some or all of the cash receipts of interest income on impaired loans is recognized as interest income if the remaining net carrying amount of the loan is deemed to be fully collectible. When recognition of interest income on an impaired loan on a cash basis is appropriate, the amount of income that is recognized is limited to that which would have been accrued on the net carrying amount of the loan at the contractual interest rate. Any cash interest payments received in excess of the limit and not applied to reduce the net carrying amount of the loan are recorded as recoveries of charge-offs until the charge-offs are fully recovered.

Concentration of Credit Risk

The Company's lending activities are primarily conducted in New Hampshire. The Company makes residential loans, commercial real estate loans, commercial loans and a variety of consumer loans. In addition, the Company makes loans for construction of residential homes and commercial real estate properties. The ability and willingness of borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the geographic area and the general economy.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Purchased credit-impaired loans are initially carried at fair value with no allowance for loan losses. The estimated fair value contains both accretable and nonaccretable components. The accretable component is amortized as an adjustment to the related loan yield over the average life of the loan. The nonaccretable component represents a probable loss due to credit risk and is reviewed by management periodically and adjusted as deemed necessary to reflect changes in the present value of expected cash flows. If the present value of expected cash flows is less than the carrying amount, a loss is recorded as a provision for loan losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated components, as further described below.

General Component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: commercial, residential real estate and consumer. The Company further disaggregates its commercial loan segments into the following loan classes: commercial, commercial real estate, and construction and land development. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors for each loan class: levels/trends in delinquencies; levels/trends in charge-offs; trend and volume of loan types; effects of changes in risk selection and underwriting standards and other changes in lending policies; concentration risks; experience/ability/depth of lending management and staff; and national and local economic trends and conditions. There were no material changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during 2017 and 2016.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate – The Company generally does not originate loans with a loan-to-value ratio greater than 80% and does not generally grant loans that would be classified as subprime upon origination. The Company generally has first or second liens on property securing equity lines-of-credit. All loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial, commercial real estate and construction and land development – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Consumer – Loans in this segment may be secured or unsecured and repayment is dependent on the credit quality of the individual borrower as well as the liquidation value of the collateral.

Allocated Component

The allocated component relates to loans that are classified as impaired. For loans exceeding certain dollar amounts and those with smaller loan balances for which management has identified exposure, impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan are lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Company 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 TDRs are classified as impaired.

Unallocated component

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Cost and related allowances for depreciation and amortization of premises and equipment disposed of are removed from the respective accounts with any gain or loss included in noninterest income or noninterest expense. Depreciation and amortization are calculated principally on the straight-line method over the estimated useful lives of the assets.

Credit-Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under commercial letters-of-credit and standby letters-of-credit. Such financial instruments are recorded when they are funded.

Bank-Owned Life Insurance

The Company invests in life insurance to help finance the cost of certain employee benefit plan expenses. These policies represent life insurance on the lives of certain employees through insurance companies. The Company is the beneficiary of the insurance policies. Increases in the cash value of the policies, as well as insurance proceeds received, are recorded in noninterest income and are not subject to income taxes as long as those policies are not surrendered for the cash value prior to the death of the individual employee.

Other Real Estate Owned

Other real estate owned includes properties acquired through foreclosure and properties classified as in-substance foreclosures. These properties are carried at estimated fair value less estimated costs to sell. Any write-down from cost to estimated fair value required at the time of foreclosure or classification as in-substance foreclosure is charged to the allowance for loan losses. Expenses incurred in connection with maintaining these assets, subsequent write-downs and gains or losses recognized upon sale are included in noninterest income or noninterest expense.

The Company classifies loans as in-substance repossessed or foreclosed if the Company receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place.

Transfers of Financial Assets

Transfers of financial assets, typically residential mortgages for the Company, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Derivative Financial Instruments

The Company recognizes all derivatives in the consolidated balance sheets at fair value. On the date the Company enters into the derivative contract, the Company designates the derivative as a hedge of either the forecasted variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge) or a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge). The Company entered into thirteen interest rate swap agreements that are classified as cash flow hedges. The Company does not have any fair value hedges. The Company formally documents relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking a hedge transaction. The Company also assesses, both at the hedge’s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in cash flows or fair values of hedged items. Changes in fair value of a derivative that is effective and that qualifies as a cash flow hedge are recorded in other comprehensive income or loss and are reclassified into earnings when forecasted transactions or related cash flows affect earnings. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in cash flows of the hedged item, that it is unlikely that the forecasted transaction will occur, or that the designation of the derivative as a hedging instrument is no longer appropriate.

Advertising

The Company directly expenses costs associated with advertising as they are incurred.

Income Taxes

The Company recognizes 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 bases and the tax bases of the Company'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. Adjustments to the Company's deferred tax assets are recognized as deferred income tax expense or benefit based on management's judgment relating to the realizability of such assets.

FASB ASC 740, *Income Taxes*, defines the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. ASC 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. The Company, or its subsidiaries, are currently open to audit under the statute of limitations by the Internal Revenue Service and State tax authorities for the years ended December 31, 2014 through 2017.

On December 22, 2017, the U.S. federal government enacted the Tax Cuts and Jobs Act of 2017. The Tax Cuts and Jobs Act of 2017 established a 21 percent U.S. federal corporate income tax rate. The Company remeasured its net deferred tax asset through a charge to provision for income taxes. As a result of the remeasurement of deferred taxes for items in accumulated other comprehensive loss (AOCL), the Company made a reclassification from AOCL to undivided profits in the amount of $311,000. The amount of that reclassification is the difference between the amount initially charged or credited directly to other comprehensive loss at the previously enacted U.S. federal corporate income tax rate and the amount that would have been charged or credited directly to other comprehensive income using the newly enacted 21 percent U.S. federal corporate income tax rate.

Legal Matters

The Company, in the ordinary course of business, is involved in routine litigation incidental to its business. Based on its review, with the assistance of legal counsel, management does not expect the resolution of any matters currently subject to litigation to have a material adverse effect on the Company's consolidated financial position or results of operations.

Recently Issued Accounting Pronouncements

In January 2016, FASB issued Accounting Standards Update (ASU) No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities.* The amendments in this ASU make targeted improvements to U.S. GAAP including requiring certain equity investments to be measured at fair value with changes in fair value recognized in net income. The ASU is effective for annual periods ending after December 15, 2018. The Company early-adopted a provision of the ASU that provided for the elimination of certain fair value disclosures for the year ended December 31, 2015 and it did not have a significant effect on the Company's consolidated financial statements. Management has reviewed the remaining guidance in the ASU and does not believe that it will have a material effect on the Company's consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases* (Topic 842). The ASU was issued to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU is effective for annual periods beginning after December 31, 2019, and interim periods within fiscal years beginning after December 15, 2020. Management is reviewing the guidance in the ASU to determine whether it will have a material effect on the Company's consolidated financial statements.

In June 2016, FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. The ASU requires entities to measure credit losses on loans receivable using a current expected credit loss model, instead of the incurred loss model used in current accounting principles. The ASU is effective for fiscal years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021. Management is currently reviewing the ASU to assess its effect on the Company's financial condition and results of operations, which could be material.

In August 2017, FASB released ASU No. 2017-12, *Derivatives and Hedging (Topic 815)*, with the objective of improving the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition to that main objective, the amendments in the ASU make certain targeted improvements to simplify the application of the hedge accounting guidance in current U.S. GAAP. The ASU will apply to cash flow and net investment hedges existing at the date of adoption. The ASU will be effective for fiscal years beginning after December 15, 2019 and early application is permitted. Management is reviewing the guidance in the ASU to determine whether it will have a material effect on the Company's consolidated financial statements.

In February 2018, FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This ASU was issued to allow a reclassification from accumulated other comprehensive income to undivided profits for stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. The ASU is effective for fiscal years beginning after December 15, 2018, with early adoption permitted for financial statements which have not yet been issued. The Company adopted the ASU for the December 31, 2017 financial statements.

2. <u>Acquisition</u>

On September 24, 2012, the Corporators of MVSB approved a reorganization which became effective January 2, 2013.

Under the reorganization, MVSB organized a New Hampshire state chartered subsidiary guaranty stock bank to be known as Meredith Village Savings Bank (in stock form) (Stock Bank). MVSB transferred all of its assets and liabilities, including all insured liabilities, in exchange for all of the issued and outstanding shares of common stock of the Stock Bank. The Stock Bank was the surviving entity and retained the name of Meredith Village Savings Bank. Concurrent with the merger of MVSB and the Stock Bank, a New Hampshire state chartered mutual holding company known as New Hampshire Mutual Bancorp (NHMB) was formed. NHMB concurrently purchased all of the Stock Bank's common stock issued and outstanding.

As part of and concurrent with the reorganization, Merrimack Bancorp, MHC, a mutual holding company, which owned 100% of the stock of MCSB and the Trust, merged with NHMB, resulting in NHMB as the surviving holding company. After the reorganization, Stock Bank, MCSB and the Trust continue to operate independently and each entity continues as a stock organization, owned by NHMB.

The Company recognized a core deposit intangible of $11,642,000 and goodwill of $2,546,000 as a result of the acquisition. The Company evaluated its goodwill as of December 31, 2017 and 2016 and determined there was no impairment. The core deposit intangible, which is amortizable and deductible for tax purposes, is evaluated for impairment whenever circumstances warrant. Amortization expense was $1,164,000 in 2017 and $1,165,000 in 2016, and is being calculated on a straight-line basis over 10 years.

As of December 31, 2017, estimated amortization expense for each of the five years succeeding 2017 is as follows (in thousands):

2018	$ 1,164
2019	1,164
2020	1,164
2021	1,164
2022	1,165
	$ 5,821

3. Securities

Investments in available-for-sale securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost of available-for-sale securities and their approximate fair values were as follows:

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	**$ 2,008**	**$ -**	**$ 19**	**$ 1,989**
U.S. Government sponsored enterprises	**41,840**	**-**	**676**	**41,164**
Mortgage-backed securities	**115,051**	**69**	**2,162**	**112,958**
	$ 158,899	**$ 69**	**$ 2,857**	**$ 156,111**

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	$ 5,011	$ -	$ 8	$ 5,003
U.S. Government sponsored enterprises	23,766	11	667	23,110
Mortgage-backed securities	125,180	297	2,579	122,898
	$ 153,957	$ 308	$ 3,254	$ 151,011

The scheduled maturities for available-for-sale debt securities were as follows, as of December 31, 2017:

	Amortized Cost	Fair Value
	(In thousands)	
Due within one year	$ -	$ -
Due after one year through five years	6,673	6,593
Due after five years through ten years	37,175	36,560
Mortgage-backed securities	115,051	112,958
	$ 158,899	$ 156,111

Proceeds from sales of available-for-sale securities during the years ended December 31, 2017 and 2016 were $42,954,000 and $49,432,000, respectively. Gross realized gains on sales of available-for-sale securities were $281,000 and $776,000 for the years ended December 31, 2017 and 2016, respectively. Gross realized losses on sales of available-for-sale securities were $110,000 and $120,000 for the years ended December 31, 2017 and 2016, respectively.

Total carrying amounts of $155,946,000 and $145,719,000 of debt securities were pledged to secure securities sold under agreements to repurchase, municipal deposits and borrowings from the FRB's Discount Window as of December 31, 2017 and 2016, respectively.

The aggregate fair value and unrealized losses of available-for-sale securities that have been in a continuous unrealized-loss position for less than 12 months and for 12 months or more, and are not other-than-temporarily impaired, as of December 31, 2017 and 2016, were as follows:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
December 31, 2017						
U.S. Treasury Securities	**$ 1,989**	**$ 19**	**$ -**	**$ -**	**$ 1,989**	**$ 19**
U.S. Government sponsored enterprises	**24,033**	**288**	**15,086**	**388**	**39,119**	**676**
Mortgage-backed securities	**47,466**	**499**	**50,662**	**1,663**	**98,128**	**2,162**
	$ 73,488	**$ 806**	**$ 65,748**	**$ 2,051**	**$ 139,236**	**$ 2,857**

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
December 31, 2016						
U.S. Treasury Securities	$ 2,004	$ 8	$ -	$ -	$ 2,004	$ 8
U.S. Government sponsored enterprises	18,974	667	-	-	18,974	667
Mortgage-backed securities	103,837	2,571	2,098	8	105,935	2,579
	$ 124,815	$ 3,246	$ 2,098	$ 8	$ 126,913	$ 3,254

Management evaluates securities for other-than-temporary impairment on an annual basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2017 and 2016, debt securities have unrealized losses with aggregate depreciation of approximately 1.8%, or $2,857,000, and 2.1%, or $3,254,000, respectively, from the Company's amortized cost basis comprised of U.S. Treasury securities, U.S. Government sponsored enterprise obligations and mortgage-backed securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether significant downgrades by bond rating agencies have occurred, and industry analysts' reports. The primary cause for unrealized losses of debt securities in 2017 and 2016 is the impact movements in interest rates have had in comparison with the underlying yields on these securities. As management has the ability and intent to hold debt securities for the foreseeable future, no declines are deemed to be other-than-temporary.

4. Loans

The following table summarizes the Company’s loans by loan portfolio segment and class at December 31:

	2017	2016
	(In thousands)	
Commercial		
Commercial	**$ 125,909**	$ 120,505
Commercial real estate	**386,682**	377,644
Construction and land development	**107,574**	81,286
Residential real estate	**757,162**	711,314
Consumer	**84,969**	60,380
	1,462,296	1,351,129
Allowance for loan losses	**(10,061)**	(8,764)
Deferred costs, net	**4,252**	3,586
Net loans	**$ 1,456,487**	$ 1,345,951

At the acquisition date, the fair value of the loans acquired resulted in an accretable loan premium of $1,872,000, less a nonaccretable credit risk component of $4,541,000. The net carrying amounts of the acquired loans were $198,091,000 and $226,007,000 as of December 31, 2017 and 2016, respectively, and are included in loan balances above. The balance of the accretable loan premium was fully amortized at December 31, 2017 and December 31, 2016 after amortization of $468,000 for the year ended December 31, 2016.

Changes in the allowance for loan losses were as follows for the year ended December 31, 2017:

	Commercial	Residential Real Estate	Commercial Real Estate	Construction and Land Development	Consumer	Total
			(In thousands)			
Balance, beginning of year	**$ 996**	**$ 3,488**	**$ 2,516**	**$ 1,083**	**$ 681**	**$ 8,764**
Provision for (reduction in) loan losses	**75**	**166**	**274**	**469**	**592**	**1,576**
Loans charged off	**(4)**	**(12)**	**(224)**	**-**	**(221)**	**(461)**
Recoveries	**30**	**64**	**55**	**-**	**33**	**182**
Balance, end of year	**$ 1,097**	**$ 3,706**	**$ 2,621**	**$ 1,552**	**$ 1,085**	**$ 10,061**

Changes in the allowance for loan losses were as follows for the year ended December 31, 2016:

	Commercial	Residential Real Estate	Commercial Real Estate	Construction and Land Development	Consumer	Total
			(In thousands)			
Balance, beginning of year	$ 964	$ 3,283	$ 2,698	$ 1,412	$ 424	$ 8,781
Provision for (reduction in) loan losses	155	718	(137)	(120)	464	1,080
Loans charged off	(189)	(528)	(45)	(287)	(261)	(1,310)
Recoveries	66	15	-	78	54	213
Balance, end of year	$ 996	$ 3,488	$ 2,516	$ 1,083	$ 681	$ 8,764

The following table presents the allowance for loan losses and select loan information as of December 31, 2017:

	Originated Loans Individually Evaluated For Impairment		Originated Loans Collectively Evaluated For Impairment		Acquired Loans		Total	
(In thousands)	Balance	Allowance	Balance	Allowance	Balance	Allowance	Balance	Allowance
Commercial	**$ 621**	**$ 40**	**$ 102,966**	**$ 1,015**	**$ 22,322**	**$ 42**	**$ 125,909**	**$ 1,097**
Residential real estate	**2,380**	**42**	**676,211**	**3,497**	**78,571**	**167**	**757,162**	**3,706**
Commercial real estate	**3,755**	**6**	**291,074**	**2,615**	**91,853**	**-**	**386,682**	**2,621**
Construction and land development	**401**	**117**	**103,587**	**1,435**	**3,586**	**-**	**107,574**	**1,552**
Consumer	**661**	**61**	**82,340**	**1,024**	**1,968**	**-**	**84,969**	**1,085**
	$ 7,818	**$ 266**	**$ 1,256,178**	**$ 9,586**	**$ 198,300**	**$ 209**	**$ 1,462,296**	**$ 10,061**

The following table presents the allowance for loan losses and select loan information as of December 31, 2016:

	Originated Loans Individually Evaluated For Impairment		Originated Loans Collectively Evaluated For Impairment		Acquired Loans		Total	
(In thousands)	Balance	Allowance	Balance	Allowance	Balance	Allowance	Balance	Allowance
Commercial	$ 390	$ 91	$ 98,785	$ 863	$ 21,330	$ 42	$ 120,505	$ 996
Residential real estate	2,248	94	616,903	3,227	92,163	167	711,314	3,488
Commercial real estate	5,747	27	267,016	2,489	104,881	-	377,644	2,516
Construction and land development	409	84	76,306	999	4,571	-	81,286	1,083
Consumer	241	3	56,868	678	3,271	-	60,380	681
	$ 9,035	$ 299	$ 1,115,878	$ 8,256	$ 226,216	$ 209	$ 1,351,129	$ 8,764

The following table presents an aging analysis of past due loans as of December 31, 2017:

(In thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Loans on Nonaccrual
Commercial	**$ 146**	**$ 68**	**$ 219**	**$ 433**	**$ 125,476**	**$ 125,909**	**$ 349**
Residential real estate	**4,482**	**1,277**	**823**	**6,582**	**750,580**	**757,162**	**1,832**
Commercial real estate	**256**	**-**	**-**	**256**	**386,426**	**386,682**	**1,099**
Construction and land development	**105**	**122**	**63**	**290**	**107,284**	**107,574**	**396**
Consumer	**326**	**227**	**403**	**956**	**84,013**	**84,969**	**552**
	$ 5,315	**$ 1,694**	**$ 1,508**	**$ 8,517**	**$ 1,453,779**	**$ 1,462,296**	**$ 4,228**

The following table presents an aging analysis of past due loans as of December 31, 2016:

(In thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Loans on Nonaccrual
Commercial	$ 199	$ 46	$ 73	$ 318	$ 120,187	$ 120,505	$ 407
Residential real estate	5,774	1,091	1,474	8,339	702,975	711,314	3,148
Commercial real estate	312	174	293	779	376,865	377,644	1,711
Construction and land development	370	42	29	441	80,845	81,286	405
Consumer	345	97	84	526	59,854	60,380	254
	$ 7,000	$ 1,450	$ 1,953	$ 10,403	$ 1,340,726	$ 1,351,129	$ 5,925

There were no loans 90 days or greater past due still accruing interest at December 31, 2017 and 2016.

Credit Quality Information

The Company utilizes an eight-grade internal loan grading system for commercial real estate and commercial loans as follows:

Loans rated 1 – 4: Loans in these categories are considered "pass" rated loans with low to average risk.

Loans rated 5: Loans in this category are considered "special mention." These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 6: Loans in this category are considered "substandard." Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.

Loans rated 7: Loans in this category are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 8: Loans in this category are considered “loss”, or uncollectible and of such little value that their continuance as loans, without establishment of specific allowance or charge-off, is not warranted.

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial real estate and commercial loans. Annually, the Company engages an independent third-party to review a significant portion of loans within these classes. Management uses the results of these reviews as part of its annual review process.

For residential real estate and consumer loans, the Company initially assesses credit quality based upon the borrower’s ability to pay and subsequently evaluates credit quality based on the aging status of the loan and by payment activity.

The following table presents the Company’s loans by risk rating at December 31, 2017:

	Commercial	Residential Real Estate	Commercial Real Estate	Construction and Land Development	Consumer	Total
			(In thousands)			
Grade						
Pass/watch	**$ 123,849**	**$ 755,053**	**$ 376,301**	**$ 106,135**	**$ 84,405**	**$ 1,445,743**
Special mention	**25**	**-**	**3,743**	**535**	**-**	**4,303**
Substandard	**2,035**	**2,109**	**6,638**	**904**	**564**	**12,250**
Doubtful	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ 125,909**	**$ 757,162**	**$ 386,682**	**$ 107,574**	**$ 84,969**	**$ 1,462,296**

The following table presents the Company’s loans by risk rating at December 31, 2016:

	Commercial	Residential Real Estate	Commercial Real Estate	Construction and Land Development	Consumer	Total
			(In thousands)			
Grade						
Pass/watch	$ 118,267	$ 707,910	$ 364,505	$ 80,838	$ 59,912	$ 1,331,432
Special mention	550	-	1,340	-	-	1,890
Substandard	1,566	3,177	11,799	256	456	17,254
Doubtful	122	227	-	192	12	553
Total	$ 120,505	$ 711,314	$ 377,644	$ 81,286	$ 60,380	$ 1,351,129

The following table presents a summary of information pertaining to impaired loans by loan segment and class as of and for the year ended December 31, 2017:

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance For Loan Losses	Average Balances
With no related allowance for loan losses				
Commercial	$ 300	$ 300	$ -	
Residential real estate	1,244	1,261	-	
Commercial real estate	3,338	3,338	-	
Construction and land development	-	-	-	
Consumer	-	-	-	
Total impaired with no related allowance	$ 4,882	$ 4,899	$ -	
With a related allowance for loan losses				
Commercial	$ 321	$ 352	$ 40	
Residential real estate	1,136	1,224	42	
Commercial real estate	417	417	6	
Construction and land development	401	427	117	
Consumer	661	616	61	
Total impaired with an allowance recorded	$ 2,936	$ 3,036	$ 266	
Total				
Commercial	$ 621	$ 652	$ 40	$ 470
Residential real estate	2,380	2,485	42	2,666
Commercial real estate	3,755	3,755	6	5,605
Construction and land development	401	427	117	693
Consumer	661	616	61	333
Total impaired loans	$ 7,818	$ 7,935	$ 266	$ 9,767

The following table presents a summary of information pertaining to impaired loans by loan segment and class as of and for the year ended December 31, 2016:

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance For Loan Losses	Average Balances
With no related allowance for loan losses				
Commercial	$ -	$ -	$ -	
Residential real estate	1,072	1,099	-	
Commercial real estate	5,074	4,770	-	
Construction and land development	103	103	-	
Consumer	-	-	-	
Total impaired with no related allowance	$ 6,249	$ 5,972	$ -	
With a related allowance for loan losses				
Commercial	$ 390	$ 406	$ 91	
Residential real estate	1,176	1,489	94	
Commercial real estate	673	509	27	
Construction and land development	306	318	84	
Consumer	241	247	3	
Total impaired with an allowance recorded	$ 2,786	$ 2,969	$ 299	
Total				
Commercial	$ 390	$ 406	$ 91	$ 425
Residential real estate	2,248	2,588	94	2,665
Commercial real estate	5,747	5,279	27	5,743
Construction and land development	409	421	84	693
Consumer	241	247	3	292
Total impaired loans	$ 9,035	$ 8,941	$ 299	$ 9,818

Interest income recognized on impaired loans during the years ended December 31, 2017 and 2016 was not material.

As of December 31, 2017 there were no loans in the process of foreclosure. As of December 31, 2016, there were six loans collateralized by residential real estate in the process of foreclosure with a total balance of $828,000.

Troubled Debt Restructurings

A loan modification constitutes a TDR if the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. To determine whether or not a loan should be classified as a TDR, management evaluates a loan based upon the following criteria:

- The borrower demonstrates financial difficulty; common indicators include past due status with bank obligations, substandard credit bureau reports, or an inability to refinance with another lender; and

- The Company has granted a concession; common concessions include maturity date extension, interest rate adjustments to below market pricing, reduction of principal and deferment of payments.

TDR loans are considered impaired. As of December 31, 2017 and 2016, there were no commitments to lend additional amounts to customers with outstanding loans that are classified as TDRs. One loan which was modified as a TDR within the previous 12 months and for which there was a payment default amounted to $106,000 for the year ended December 31, 2017. A charge-off in the amount of $20,000 was recorded on this loan. For the year ended December 31, 2016, there were no payment defaults or charge-offs on loans which were modified as TDRs within the previous 12 months.

The following table summarizes TDRs that occurred during the period indicated:

	During the Year Ended December 31, 2017		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In thousands)	
Commercial	**2**	**$ 300**	**$ 300**
Residential real estate	**3**	**378**	**384**
Commercial real estate	**-**	**-**	**-**
Construction and land development	**-**	**-**	**-**
Consumer	**1**	**17**	**17**
	6	**$ 695**	**$ 701**

	During the Year Ended December 31, 2016		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In thousands)	
Commercial	1	$ 69	$ 69
Residential real estate	1	776	776
Commercial real estate	-	-	-
Construction and land development	-	-	-
Consumer	1	57	60
	3	$ 902	$ 905

TDRs required allowance for loan losses in the amount of $152,000 and $201,000 at December 31, 2017 and 2016, respectively. The impairment carried as a specific reserve in the allowance for loan losses is calculated by discounting the total expected future cash flows on the loan, or, for collateral-dependent loans, using the fair value of the collateral less costs to sell. The loans were classified as TDRs due to extensions of maturity and interest rate reductions.

Related Party Loans

Certain trustees and executive officers of the Company, and the companies in which they have significant ownership interest, were customers of the Banks during 2017 and 2016. Total loans to such persons and their companies amounted to $3,657,000 and $5,292,000 as of December 31, 2017 and 2016, respectively. During the years ended December 31, 2017 and 2016, $1,806,000 and $2,966,000 of principal advances were made, respectively, and principal payments totaled $3,441,000 and $1,169,000, respectively.

Loans Serviced for Others

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were $220,841,000 and $254,511,000 at December 31, 2017 and 2016, respectively.

Mortgage Servicing Rights

The balance of capitalized mortgage servicing rights, included in other assets at December 31, 2017 and 2016, was $672,000 and $673,000, respectively. The fair value of these rights was $2,024,000 and $1,561,000 at December 31, 2017 and 2016, respectively. The fair value of servicing rights was determined using applicable discount rates and prepayment speeds depending upon the stratification of the specific right. Mortgage servicing rights of $95,000 and $75,000 were capitalized in 2017 and 2016, respectively. Amortization of capitalized mortgage servicing rights was $167,000 and $666,000 in 2017 and 2016, respectively.

As part of the acquisition in 2013, there were mortgage servicing rights of $1,775,000 with a fair value adjustment of $448,000. The fair value adjustment was being amortized on a straight-line basis over 4 years and was fully amortized at December 31, 2016.

5. Premises and Equipment

The following is a summary of premises and equipment as of December 31:

	2017	2016
	(In thousands)	
Land and improvements	**$ 7,674**	$ 8,334
Bank building and leasehold improvements	**30,592**	26,645
Furniture and equipment	**8,190**	9,708
Construction in progress	**216**	1,914
	46,672	46,601
Accumulated depreciation and amortization	**(12,754)**	(15,192)
	$ 33,918	$ 31,409

As part of the acquisition in 2013 there were premises and equipment of $8,783,000 with a fair value adjustment of $1,033,000. The fair value adjustment is being amortized on a straight-line basis over 35 years.

Depreciation and amortization expense included in occupancy expense in the accompanying consolidated statements of income amounted to $1,896,000 and $1,925,000 for the years ended December 31, 2017 and 2016, respectively.

As of December 31, 2017, the Company was obligated under noncancelable operating leases for premises and equipment expiring at various dates through June 2026. Options to renew for additional terms are included under the operating lease agreements. The total minimum rental due in future periods under these agreements is as follows as of December 31 (in thousands):

2018	$ 533
2019	408
2020	353
2021	279
2022	216
Thereafter	461
	$ 2,250

Certain leases contain provisions for escalation of minimum lease payments contingent upon increases in real estate taxes and percentage increases in the Consumer Price Index. Total rental expense amounted to $731,000 and $719,000 for the years ended December 31, 2017 and 2016, respectively.

6. Deposits

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2017 and 2016 was $56,037,000 and $34,383,000, respectively.

The scheduled maturities of time deposits at December 31, 2017 are as follows (in thousands):

2018	$ 160,784
2019	78,771
2020	34,270
2021	13,990
2022	5,702
	$ 293,517

Deposits from related parties, including senior and executive management and the Board of Trustees, held by the Company as of December 31, 2017 and 2016, amounted to $2,010,000 and $2,455,000, respectively.

7. Borrowings

The Banks' FHLBB advances at December 31, 2017 mature through January 4, 2038. Maturities of advances from the FHLBB for the five years ending after December 31, 2017 and thereafter for the respective periods are summarized as follows (in thousands):

2018	$ 142,236
2019	5,566
2020	576
2021	803
2022	881
Thereafter	8,392
	$ 158,454

At December 31, 2017 and 2016, the Banks have no advances from the FHLBB that were redeemable at par at the option of the FHLBB.

As part of the acquisition in 2013 there were FHLBB advances of $46,650,000 with a fair value adjustment of $4,734,000. The fair value adjustment is being amortized on a straight-line basis over 5 years.

At December 31, 2017 and 2016, the interest rates on FHLBB advances ranged from 0% to 6.02% and 0% to 6.02%, respectively. At December 31, 2017 and 2016, the weighted-average interest rate on FHLBB advances was 1.61% and 0.97%, respectively.

As members of the FHLBB, the Banks are required to invest in $100 par value stock of the FHLBB. The amount of FHLBB stock required is the sum of the membership stock investment and activity-based requirements. Redemption of shares held in FHLBB stock requires five years' written notice to the FHLBB. When such stock is redeemed, the Banks would receive from the FHLBB an amount equal to the par value of the stock.

The Banks participated in the Jobs for New England program (JNE) offered by the FHLBB. This is a three-year, $15 million subsidy program dedicated to supporting job growth and economic development throughout New England. The subsidy will be used to write down interest rates to zero percent on advances that finance qualifying loans to small businesses. Beginning February 1, 2016, JNE will provide up to $5 million per year through 2018 on a first-come, first-served basis, with a maximum of $250,000 of interest subsidy available per member per year; JNE advances will not be subject to any prepayment fees. As of December 31, 2017 and 2016, the Banks had borrowed $1,254,000 and $245,000, respectively, through this program.

Amortizing advances are being repaid in monthly payments and are being amortized from the date of the advance to the maturity date on a direct reduction basis. The borrowed funds were collateralized by the Banks' FHLBB stock, a blanket pledge of substantially all first lien mortgages against real property, and all funds placed in deposit accounts at the FHLBB.

The Banks have a combined line of credit with the FHLBB in the amount of $8,323,000. There were no amounts outstanding at December 31, 2017 and 2016.

At December 31, 2017 and 2016, the Banks had pledged approximately $109 million and $77 million, respectively, in various types of loans as part of the Federal Reserve's Borrower-in-Custody secured borrowing program via the Discount Window. This program allows the Banks to maintain custody of the loan documents associated with pledged loans. No amounts were outstanding at December 31, 2017 and 2016.

At December 31, 2017 and 2016, the Banks had pledged approximately $748 million and $759 million, respectively, in various types of loans as part of the Federal Home Loan's loan collateral program via blanket pledges and borrowing program. This program allows the Banks to maintain custody of the loan documents associated with pledged loans.

The Banks also have unsecured lines of credit with two correspondent banks in the amount of $25 million. There were no amounts outstanding at December 31, 2017 and 2016.

Interest rate swaps with notional amounts totaling $69 million and $49 million as of December 31, 2017 and 2016 were designated as cash flow hedges of certain FHLBB advances and were determined to be highly effective during all periods presented. A loss of $11,000 and a gain of $105,000 for the ineffective portion of the hedges were recorded in earnings for the years ended December 31, 2017 and 2016, respectively. The aggregate fair value of the swaps is recorded as an asset or a liability in the consolidated balance sheets with changes in fair value recorded in other comprehensive income or loss. The amount included in accumulated other comprehensive loss would be reclassified to current earnings should the hedges no longer be considered effective. The Company expects the hedges to remain highly effective during the remaining terms of the swaps. The fair value of the swaps was an asset of $948,000 and $431,000 at December 31, 2017 and 2016, respectively.

Summary information about the interest-rate swaps designated as cash flow hedges as of year-end is as follows as of December 31:

	2017	2016
	(Dollars in thousands)	
Notional amounts	**$ 69,000**	$ 49,000
Weighted average pay rates	**1.38%**	1.23%
Weighted average receive rates (one-month LIBOR)	**1.57%**	0.79%
Weighted average maturity	**2.5 Years**	3.0 Years
Unrealized gains	**$ 948**	$ 431

Interest expense recorded on these swap transactions totaled $138,000 and $350,000 during the years ended December 31, 2017 and 2016, respectively, and is reported as a component of interest on advances from the FHLBB. Cash receipts and payments on the swaps are reported as operating activities in the statements of cash flows.

8. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to $87,308,000 and $82,935,000 as of December 31, 2017 and 2016, respectively. These agreements were collateralized by U.S. Treasury securities, U.S. Government sponsored enterprises and mortgage-backed securities with a carrying value of $111,848,000 and $105,676,000 at December 31, 2017 and 2016, respectively.

The average daily balance of these repurchase agreements was $82,977,000 and $76,748,000 during 2017 and 2016, respectively. The maximum borrowings outstanding on these agreements at any month-end reporting period of the Company were $89,042,000 and $86,131,000 during 2017 and 2016, respectively. These repurchase agreements mature daily and carried a weighted average interest rate of 0.31% during 2017 and 0.18% during 2016.

9. Subordinated Debentures

In April 2007, the Trust sold capital securities to the public. The capital securities sold consisted of 5,000 capital securities with a $1,000 liquidation amount for each capital security, for a total of $5,000,000. The capital securities are fully guaranteed by the Company. Each capital security paid a cumulative quarterly distribution at a rate per annum equal to 6.56% through the interest payment date of July 2012, and then thereafter at LIBOR plus 1.55%. As of December 31, 2017 and 2016, the three-month LIBOR was 1.61% and 0.99%, respectively. Each capital security represents an undivided preferred beneficial interest in the assets of the Trust. The Trust used the proceeds of the above sale and the proceeds of the sale of its common securities to the Company to buy $5,155,000 of subordinated debentures issued by the Company. These debentures mature on July 1, 2037. The Company has the right to redeem the debentures, in whole or in part, on any interest payment date after July 1, 2012 at the liquidation amount plus any accrued but unpaid interest to the redemption date. The subordinated debentures have the same financial terms as the capital securities. The Company makes interest payments and other payments under the subordinated debentures to the Trust. The Company's obligations under the subordinated debentures are unsecured and rank junior to all of the Company's other borrowings, except borrowings that by their terms rank equal or junior to the subordinated debentures. The Company guarantees the payment by the Trust of the amounts that are required to be paid on the capital securities, to the extent that the Trust has funds available for such payments.

The Company has an interest rate swap (Swap) agreement effective through July 1, 2022, which was entered into with the objective of reducing the interest rate exposure on the subordinated debentures described above. A forward commitment was used to match the Swap until July 1, 2012, at which time the subordinated debenture converted from a fixed rate to a variable rate instrument at the three month LIBOR rate. As of that date, and as of December 31, 2017 and 2016, the Company pays interest at a 4.35% net rate with the effect of the Swap. The notional principal amount of the Swap outstanding was $5,000,000 as of December 31, 2017 and 2016. The fair value of the Swap was a liability of $133,000 and $219,000 at December 31, 2017 and 2016, respectively.

The Federal Reserve Board limits restricted core capital elements including trust preferred securities to 25% of all core capital elements (which consists of qualifying common stockholders' equity, qualifying non-cumulative preferred stock and Class A minority interest in subsidiaries, as defined), net of any goodwill less any associated deferred tax liability. Amounts of restricted core capital elements in excess of those limits generally may be included in Tier II capital. As of December 31, 2017 and 2016, the Company's trust preferred securities did not exceed the 25% threshold as established within the Federal Reserve Board Ruling.

As part of the acquisition in 2013 there were subordinated debentures of $5,653,000 with a fair value adjustment of $498,000. The fair value adjustment is being amortized on a straight-line basis over 7 years.

10. Income Taxes

The components of income tax expense as of December 31 were as follows:

		2017		2016
		(In thousands)		
Current income tax expense (benefit)				
Federal	**$**	**6,350**	$	3,876
State		**830**		600
Total current income tax expense		**7,180**		4,476
Deferred income tax (benefit) expense				
Federal		**(977)**		215
Enactment of Federal Tax Reform		**449**		-
State		**(275)**		(100)
Total deferred income tax (benefit) expense		**(803)**		115
Total income tax expense	**$**	**6,377**	$	4,592

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows for the years ended December 31:

	2017	2016
	(% of income)	
Federal income tax at statutory rate	**34.0%**	34.0%
(Decrease) increase in tax resulting from		
Tax-exempt income	**(1.9)**	(2.8)
Income on life insurance	**(1.7)**	(1.9)
Enactment of Federal Tax Reform	**2.7**	-
State tax expense, net of federal tax benefit	**2.2**	2.2
Other, net	**3.0**	(0.3)
Effective tax rate	**38.3%**	31.2%

The Company had gross deferred tax assets and gross deferred tax liabilities as follows as of December 31:

		2017		2016
Deferred tax assets		(In thousands)		
Nonaccrual interest on loans	**$**	**21**	$	45
Allowance for loan losses		**2,867**		3,625
Deferred supplemental executive retirement		**1,648**		1,967
Net unrealized holding loss on available-for-sale securities		**766**		1,167
Investment in limited partnerships		**16**		38
Prepaid pension		**185**		-
Other		**183**		202
Gross deferred tax assets		**5,686**		7,044
Deferred tax liabilities				
Pension plan deductions		**-**		(197)
Depreciation		**(781)**		(1,010)
Deferred loan costs, net of fees		**(524)**		(818)
Mortgage servicing rights		**(170)**		(265)
Core deposit intangible and other market value adjustments		**(1,670)**		(2,667)
Other		**(235)**		(115)
Gross deferred tax liabilities		**(3,380)**		(5,072)
Net deferred tax asset	**$**	**2,306**	$	1,972

Deferred tax assets as of December 31, 2017 and 2016, which are included in other assets, have not been reduced by a valuation allowance because management believes that it is more-likely-than-not that the full amount of deferred tax assets will be realized.

In prior years, the Banks were allowed a special tax-basis bad debt deduction under certain provisions of the Internal Revenue Code. As a result, undivided profits of the Company as of December 31, 2017 and 2016 include approximately $8,550,000 for which federal and state income taxes have not been provided. If the Banks no longer qualify as banks as defined in certain provisions of the Internal Revenue Code, this amount will be subject to recapture in taxable income ratably over four years, subject to a combined federal and state tax rate of approximately 27.5%.

11. Employee Benefit Plans

Defined Benefit Pension Plan

The Company provides pension benefits for its employees through participation in the Pentegra Defined Benefit Plan for Financial Institutions (the Pentegra DB Plan), a tax-qualified defined-benefit pension plan. The Pentegra DB Plan operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Pentegra DB Plan.

The Pentegra DB Plan is a single plan under Internal Revenue Code Section 413(c) and, as a result, all of the assets are available to pay all of the liabilities. The risk of participation in multi-employer pension plans is different from single-employer plans. Accordingly, under the Pentegra DB Plan, contributions made by a participating employer may be used to provide benefits to participants of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

Total contributions made to the Pentegra DB Plan, as reported on Form 5500, equal $153,186,000 and $163,138,000 for the plan years ended June 30, 2016 and 2015, respectively. The Company's contributions to the Pentegra DB Plan are not more than 5% of the total contributions to the Pentegra DB Plan.

The Pentegra DB Plan funded status as of July 1, and Company contributions for the calendar year, are as follows:

Employer Identification Number	Plan Number	Contributions December 31,		Funded Status As of July 1,	
		2017	2016	**2017**	2016
13-1564588	333	**$4,977,000**	$5,124,000	**122.10%**	123.86%

Defined Contribution 401(k) Plan

The Company sponsors a 401(k) Defined Contribution Plan (the Plan) which allows its employees to set aside pre-tax and post-tax contributions for retirement savings. Employees may make contributions to the Plan, subject to certain limits based on federal tax laws. The Company, the Banks and MRTC make contributions to the Plan equal to 3% of annual compensation and may make a discretionary annual contribution to the Plan. The Company has the right to terminate the Plan at any time. The Company's 401(k) contribution expense was $428,000 and $390,000 for the years ended December 31, 2017 and 2016, respectively.

Supplemental Executive Retirement Plans (SERP)

In 2001, MVSB entered into SERP agreements with certain executive officers. The agreements require the payment of specified benefits upon retirement over specified periods as described in each agreement. The total liability for the agreements included in other liabilities was $1,098,000 and $1,141,000 at December 31, 2017 and 2016, respectively. Expenses under the agreements were $75,000 and $116,000 for 2017 and 2016, respectively. During 2017 and 2016, $118,000 and $115,000, respectively, was paid to a retired executive per the agreements.

In 2013, MVSB entered into SERP agreements with certain executive officers. The agreements require the payment of specified benefits upon retirement over specified periods as described in each agreement. The total liability for the agreements included in other liabilities was $440,000 and $383,000 at December 31, 2017 and 2016, respectively. Expenses under the agreements were $76,000 and $51,000 for 2017 and 2016, respectively. There were no benefits paid in 2017 and 2016 under the agreements.

MCSB established an additional SERP for certain executive officers. This plan provides nonfunded retirement benefits designed to supplement benefits available through the Company's defined benefit pension plan, 401(k) plan and Social Security. The total liability for the agreements included in other liabilities was $1,123,000 and $996,000 at December 31, 2017 and 2016, respectively. Expenses under the agreements were $222,000 and $172,000 for 2017 and 2016, respectively. There were no benefits paid in 2017 and $769,000 was paid in 2016 to a retired executive per the agreements.

In 2015, MCSB entered into SERP agreements for certain key employees. The agreements require the payment of specified benefits upon retirement over specified periods as described in each agreement. The total liability for the agreements included in other liabilities was $50,000 and $37,000 at December 31, 2017 and 2016, respectively. Expenses under the agreements were $13,000 and $11,000 for 2017 and 2016, respectively. There were no benefits paid in 2017 and 2016 under the agreements.

In 2016, NHMB entered into SERP agreements with certain executive officers. The agreements require the payment of specified benefits upon retirement over specified periods as described in each agreement. The total liability for the agreements included in other liabilities was $727,000 and $479,000 at December 31, 2017 and 2016, respectively. Expenses under the agreements were $419,000 and $479,000 for 2017 and 2016, respectively. There were no benefits paid in 2017 and 2016 under the agreements.

Deferred Compensation Plan

MVSB has a deferred compensation plan for Directors and management employees as defined in the plan. Generally, benefit payments are made only upon retirement, resignation, death, disability, unforeseeable emergency or the occurrence of a change in control of MVSB. Participant accounts are credited interest at the highest deposit rate paid by MVSB. The related obligation at December 31, 2017 and 2016 amounted to $985,000 and $1,088,000, respectively, and is included in other liabilities.

Director Fee Continuation Plans

During 2011, MVSB established a Director Fee Continuation Plan for Independent Directors (MVSB Director Plan). During 2013, MCSB established a Director Fee Continuation Plan for Independent Directors (MCSB Director Plan). Under both plans, other than accelerated vesting due to death, disability or change in control as described in the plans, no benefits vest unless the Director has completed 10 years of services; and the benefits increase based on additional service up to 15 completed years. The plans have a normal retirement date of 70 years of age.

Under the MVSB Director Plan and MCSB Director Plan, the benefit provided is the "Normal Retirement Benefit" which is determined based on the length of an Independent Director's service on the Board (in the capacity of an Independent Director), and the average of the three highest years of Board fees paid to the Independent Director during the last 5 years of service as an Independent Director. The vesting schedule determines the amount of the Normal Retirement Benefit.

Accounting for the Executive and Director Plans

Management accounts for the MVSB Director Plan, the MCSB Director Plan, the NHMB Executive Plan and the MCSB Executive Plan under FASB ASC 715, *Compensation – Retirement Benefits*.

The following is a summary of the Director and Executive plans as of December 31:

	2017	2016
	(In thousands)	
Benefit obligation	**$ 3,543**	$ 2,466
Funded status included in other liabilities	**$ (3,543)**	$ (2,466)
Accumulated benefit obligation	**$ 3,115**	$ 1,918

Amounts recognized in accumulated other comprehensive loss, as of December 31, before tax effect, consisted of:

	2017	2016
	(In thousands)	
Unrecognized net actuarial loss	**$ 135**	$ 314
Unrecognized prior service cost	**257**	371
	$ 392	$ 685

Components of net periodic cost and other comprehensive (income) loss for the year ended December 31, before tax effect, consisted of:

	2017	2016
	(In thousands)	
Components of net periodic cost		
Service cost	**$ 565**	$ 144
Interest cost	**144**	118
Amortization of net actuarial gain	**123**	51
Amortization of prior service cost	**113**	113
Net periodic cost	**945**	426
Changes in benefit obligations recognized in other comprehensive income		
Net actuarial (gain) loss	**(141)**	229
Amortization of net actuarial (loss) gain	**(124)**	10
Amortization of prior service cost	**(100)**	(113)
Total recognized in other comprehensive (income) loss	**(365)**	126
Total recognized in periodic benefit cost and other comprehensive income	**$ 580**	$ 552

The following amounts are expected to be reclassified from accumulated other comprehensive loss and recognized in net periodic benefit cost in 2018 (in thousands):

Amortization of net actuarial gain	$ (78)
Amortization of prior service cost	113
	$ 35

The discount rate used in determining the actuarial present value of projected benefit obligation and net periodic pension was 6.00% in 2017 and 2016 for the Director Plans and 3.00% in 2017 and 2016 for the Executive Officer Plan. The assumed salary inflation rate was 3.00% for 2017 and 2016 for both plans.

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows (in thousands):

2018	197
2019	1,343
2020	187
2021	187
2022	229
Thereafter	1,622

Split-Dollar Life Insurance Arrangement

Pursuant to ASC 715 *Compensation - Retirement Benefits*, MVSB recognized a liability for its future postretirement benefit obligations under an endorsement split-dollar life insurance arrangement. The total liability for the arrangement included in other liabilities was $44,000 and $46,000 at December 31, 2017 and 2016, respectively.

12. Commitment and Contingencies

Off-Balance-Sheet Risk

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to originate loans, standby letters of credit and unadvanced funds on loans. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company'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 amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to originate 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. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include secured interests in mortgages, accounts receivable, inventory, property, plant and equipment and income-producing properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is substantially the same as that involved in extending loan facilities to customers. The Company's outstanding letters of credit generally have a term of less than one year if a letter of credit is drawn.

Notional amounts of financial instruments with off-balance-sheet credit risk are as follows as of December 31:

	2017	2016
	(In thousands)	
Commitments to originate loans	**$ 21,632**	$ 23,293
Standby letters of credit	**6,835**	8,657
Unadvanced portions of loans		
Commercial loans	**80,032**	72,739
Commercial real estate	**16,303**	23,247
Home equity lines	**124,852**	118,623
Construction loans	**38,898**	54,629
Other (consumer, municipal, and non-profit)	**5,588**	1,954
	$ 294,140	$ 303,142

13. Minimum Regulatory Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Banks to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital and Common Equity Tier 1 (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2017 and 2016, that the Company and the Banks met all capital adequacy requirements to which they are subject.

Regulatory capital requirements limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% above its minimum risk-based capital requirements. The final Basel III capital rule became effective for the Bank on January 1, 2015. The capital conservation buffer requirement is being phased in from January 1, 2016 through January 1, 2019, when the full capital conservation buffer requirement will be effective. As of December 31, 2017, NHMB, MCSB and MVSB had a capital conservation buffer of 7.22%, 5.40% and 9.32%, respectively, of risk-weighted assets, which was in excess of the phased-in regulatory requirement of 1.25%.

As of December 31, 2017, the most recent notification from the Federal Deposit Insurance Corporation categorized the Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Common Equity Tier 1 risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There have been no conditions or events since the notification that management believes have changed the Banks' category.

The Company's and the Banks' actual and minimum capital amounts and ratios as of December 31, 2017 are presented in the following table:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(In thousands)			
Total Capital to Risk Weighted Assets						
Consolidated	$ **185,347**	**15.22%**	$ **97,429**	**8.0%**	$ **NA**	
Merrimack County Savings Bank	**82,898**	**13.40**	**49,498**	**8.0**	**65,739**	**10.625%**
Meredith Village Savings Bank	**103,171**	**17.32**	**47,668**	**8.0**	**63,309**	**10.625**
Tier 1 Capital to Risk Weighted Assets						
Consolidated	$ **174,871**	**14.36%**	$ **73,072**	**6.0%**	$ **NA**	
Merrimack County Savings Bank	**78,480**	**12.68**	**37,123**	**6.0**	**53,365**	**8.625%**
Meredith Village Savings Bank	**97,112**	**16.30**	**35,751**	**6.0**	**51,392**	**8.625**
Common Equity Tier 1 Capital to Risk Weighted Assets						
Consolidated	$ **174,871**	**14.36%**	$ **54,804**	**4.5%**	$ **NA**	
Merrimack County Savings Bank	**78,480**	**12.68**	**27,843**	**4.5**	**44,084**	**7.125%**
Meredith Village Savings Bank	**97,112**	**16.30**	**26,813**	**4.5**	**42,454**	**7.125**
Tier 1 Capital to Average Assets						
Consolidated	$ **174,871**	**10.23%**	$ **68,409**	**4.0%**	$ **NA**	
Merrimack County Savings Bank	**78,480**	**9.54**	**32,923**	**4.0**	**41,153**	**5.0%**
Meredith Village Savings Bank	**97,112**	**11.00**	**35,302**	**4.0**	**44,128**	**5.0**

NA = Not applicable

The Company's and the Banks' actual and minimum capital amounts and ratios as of December 31, 2016 are presented in the following table:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(In thousands)			
Total Capital to Risk Weighted Assets						
Consolidated	$ 173,781	15.33%	$ 90,690	8.0%	$ NA	
Merrimack County Savings Bank	78,381	13.42	46,710	8.0	58,387	10.0%
Meredith Village Savings Bank	96,244	17.59	43,780	8.0	54,725	10.0
Tier 1 Capital to Risk Weighted Assets						
Consolidated	$ 164,562	14.52%	$ 68,017	6.0%	$ NA	
Merrimack County Savings Bank	74,645	12.78	35,032	6.0	46,710	8.0%
Meredith Village Savings Bank	90,761	16.59	32,835	6.0	43,780	8.0
Common Equity Tier 1 Capital to Risk Weighted Assets						
Consolidated	$ 164,562	14.52%	$ 51,013	4.5%	$ NA	
Merrimack County Savings Bank	74,645	12.78	26,274	4.5	37,952	6.5%
Meredith Village Savings Bank	90,761	16.59	24,626	4.5	35,571	6.5
Tier 1 Capital to Average Assets						
Consolidated	$ 164,562	10.34%	$ 63,654	4.0%	$ NA	
Merrimack County Savings Bank	74,645	9.71	30,748	4.0	38,435	5.0%
Meredith Village Savings Bank	90,761	11.09	32,741	4.0	40,926	5.0

14. Fair Value Measurements

In accordance with U.S. GAAP, fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. U.S. GAAP defines three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

The Company's investment in debt and mortgage-backed securities available-for-sale is generally classified within Level 2 of the fair value hierarchy. For these securities, the Company obtains fair value measurements using quoted market prices or broker or dealer quotations from independent pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, trading levels, market consensus prepayment speeds, credit information and the instrument's terms and conditions.

The Company's impaired loans are reported at the fair value of the underlying collateral if payment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based upon sales prices of similar properties obtained from a third-party.

The Company's interest rate swap liability is reported at fair value utilizing Level 2 inputs obtained from third-parties.

The following summarizes assets measured at fair value on a recurring basis using the market approach:

	Fair Value Measurements at December 31, 2017, Using			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Available-for-sale securities				
U.S. Treasury securities	**$ 1,989**	**$ -**	**$ 1,989**	**$ -**
U.S. Government sponsored enterprises	**41,164**	**-**	**41,164**	**-**
Mortgage-backed securities	**112,958**	**-**	**112,958**	**-**
	156,111	**-**	**156,111**	**-**
Interest rate swap asset	**815**	**-**	**815**	**-**
Total	**$ 156,926**	**$ -**	**$ 156,926**	**$ -**

	Fair Value Measurements at December 31, 2016, Using			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Available-for-sale securities				
U.S. Treasury securities	$ 5,003	$ -	$ 5,003	$ -
U.S. Government sponsored enterprises	23,110	-	23,110	-
Mortgage-backed securities	122,898	-	122,898	-
	151,011	-	151,011	-
Interest rate swap asset	212	-	212	-
Total	$ 151,223	$ -	$ 151,223	$ -

Under certain circumstances the Company makes adjustments to fair value for certain assets and liabilities that are not measured at fair value on a recurring basis.

The following table presents the financial instruments carried in the consolidated balance sheet by caption and by level in the fair value hierarchy, for which a nonrecurring change to fair value has been recorded:

	Fair Value Measurements at December 31, 2017, Using			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
(Market approach)				
Impaired loans	**$ 647**	**$ -**	**$ 647**	**$ -**
Other real estate owned	**457**	**-**	**457**	**-**
Total	**$ 1,104**	**$ -**	**$ 1,104**	**$ -**

	Fair Value Measurements at December 31, 2016, Using			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservabl e Inputs (Level 3)
	(In thousands)			
(Market approach)				
Impaired loans	$ 691	$ -	$ 691	$ -
Other real estate owned	882	-	882	-
Total	$ 1,573	$ -	$ 1,573	$ -

Impaired loans were written down to their fair value in 2017 and 2016 of $647,000 and $691,000, respectively, resulting in an impairment charge through the allowance for loan losses. Other real estate owned is initially recorded at fair value, and then carried at the lower of the new cost basis or fair value through a provision charge to earnings.

15. Subsequent Events

For the purposes of the presentation of these financial statements in conformity with U.S. GAAP, management has considered transactions or events occurring through March 21, 2018, which is the date that the financial statements were available to be issued. Management has not evaluated subsequent events after that date for inclusion in the financial statements.

The Company entered into an Affiliation Agreement, dated as of December 13, 2017, providing for the combination of Walpole Mutual Bancorp (Walpole MHC), a mutual holding company to be chartered by Savings Bank of Walpole (SBW), solely for the purposes of facilitating an Affiliation of SBW/Walpole MHC with the Company. The Company would emerge as the surviving mutual holding company and SBW would become a wholly-owned subsidiary of the Company. The transaction is pending regulatory approval and is anticipated to close in June 2018.