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Supervision, Regulation and Credit Department

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, James J. Mawn
Name of the Holding Company Director and Official

Director/President
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

03/28/2018
Date of Signature

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

- [x] 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 1246935
C.I.

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2017
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Northern Bancorp, Inc.
Legal Title of Holding Company

275 Mishawum Road
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Woburn	MA	01801

same
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Francis Kenney — CFO
Name / Title

(781) 937-5400
Area Code / Phone Number / Extension

(781) 937-5416
Area Code / FAX Number

fkenney@nbtc.com
E-mail Address

www.nbtc.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

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.

NORTHERN BANCORP, INC.
ANNUAL REPORT OF BANK HOLDING COMPANIES – FR Y-6
FISCAL YEAR END DECEMBER 31, 2017

REPORT ITEM 1: Enclosed is a copy of the Audited Consolidated Financial Statements for Northern Bancorp, Inc. and Subsidiary Years Ended December 31, 2017 and 2016

REPORT ITEM 2A: Organizational Chart (business address for all entities is 275 Mishawum Road, Woburn, MA 01801; all entities incorporated in Massachusetts; LEI is not applicable unless otherwise noted)

NORTHERN BANCORP, INC.

| (100%)

Northern Bank & Trust Company
(LEI #: 549300EE39SNC5DXTC46)

		GP		GP	GP
(100%)	(100%)	(100%)	(100%)	(100%)	(100%)
N.B. & T. Securities Corp. II	N.B. & T. Securities Corp. IV	NBTC Realty LLC	289 Great Road Realty Trust	Northern 1031 Exchange LLC	NBTC Great Road, LLC

REPORT ITEM 2B (DOMESTIC BRANCH LISTING): Attached is a copy of the domestic branch listing for Northern Bancorp, Inc. (#1246935). There are no changes to the listing as of fiscal year end 2017.

Results: A list of branches for your depository institution: NORTHERN BANK & TRUST COMPANY (ID_RSSD: 900306).
This depository institution is held by NORTHERN BANCORP, INC. (1246935) of WOBURN, MA.
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
		Full Service (Head Office)	900306	NORTHERN BANK & TRUST COMPANY	275 MISHAWUM ROAD	WOBURN	MA	01801	MIDDLESEX	UNITED STATES	Not Required	Not Required	NORTHERN BANK & TRUST COMPANY	900306	
		Full Service	1891634	ACTON BRANCH	414 MASSACHUSETTS AVENUE	ACTON	MA	01720	MIDDLESEX	UNITED STATES	Not Required	Not Required	NORTHERN BANK & TRUST COMPANY	900306	
		Full Service	634601	BILLERICA BRANCH	482 BOSTON RD	BILLERICA	MA	01821	MIDDLESEX	UNITED STATES	Not Required	Not Required	NORTHERN BANK & TRUST COMPANY	900306	
		Full Service	1891607	BURLINGTON BRANCH	13 CENTER STREET	BURLINGTON	MA	01803	MIDDLESEX	UNITED STATES	Not Required	Not Required	NORTHERN BANK & TRUST COMPANY	900306	
		Full Service	1891643	CHELMSFORD BRANCH	14 LITTLETON ROAD	CHELMSFORD	MA	01824	MIDDLESEX	UNITED STATES	Not Required	Not Required	NORTHERN BANK & TRUST COMPANY	900306	
		Full Service	1891616	LITTLETON BRANCH	265 GREAT ROAD	LITTLETON	MA	01460	MIDDLESEX	UNITED STATES	Not Required	Not Required	NORTHERN BANK & TRUST COMPANY	900306	
		Full Service	1189377	MELROSE BRANCH	514 FRANKLIN ST	MELROSE	MA	02176	MIDDLESEX	UNITED STATES	Not Required	Not Required	NORTHERN BANK & TRUST COMPANY	900306	
		Full Service	4681443	READING BRANCH	600 MAIN STREET	READING	MA	01867	MIDDLESEX	UNITED STATES	Not Required	Not Required	NORTHERN BANK & TRUST COMPANY	900306	
		Full Service	4969806	SUDBURY BRANCH	430 BOSTON POST ROAD	SUDBURY	MA	01776	MIDDLESEX	UNITED STATES	Not Required	Not Required	NORTHERN BANK & TRUST COMPANY	900306	
		Full Service	1176667	WESTFORD BRANCH	45 MAIN ST	WESTFORD	MA	01886	MIDDLESEX	UNITED STATES	Not Required	Not Required	NORTHERN BANK & TRUST COMPANY	900306	
		Full Service	3960758	LEXINGTON STREET BRANCH	215 LEXINGTON STREET	WOBURN	MA	01801	MIDDLESEX	UNITED STATES	Not Required	Not Required	NORTHERN BANK & TRUST COMPANY	900306	
		Full Service	1994030	WOBURN BRANCH	303 MAIN STR	WOBURN	MA	01801	MIDDLESEX	UNITED STATES	Not Required	Not Required	NORTHERN BANK & TRUST COMPANY	900306	

NORTHERN BANCORP, INC.
WOBURN, MASSACHUSETTS
FISCAL YEAR ENDING DECEMBER 31, 2017

REPORT ITEM 3(1): SECURITIES HOLDERS > 5% AS OF 12/31/17

1. **James Mawn Group**[1]

Country of Citizenship/Incorporation/Formation: USA

Number and Percentage of Voting Securities:

9675 shares	-	13.55%	Mawn Family Limited Partnership (General Partners: James J. Mawn, Jr. and Marilyn C. Mawn) (Woburn, MA)
3700 shares	-	5.18%	Marital Trust under the James J. Mawn Revocable Trust (Trustees: Rita M. Mawn, James J. Mawn, M. Catherine Riley, Alicia J. Mawn-Mahlau and Marilyn C. Mawn) (Gloucester, MA)
3632 shares	-	5.08%	James J. Mawn (Jr.) (Concord, MA)
2110 shares	-	2.95%	Family Trust under the James J. Mawn Revocable Trust (Trustees: Rita M. Mawn, James J. Mawn, M. Catherine Riley, Alicia J. Mawn-Mahlau and Marilyn C. Mawn) (Gloucester, MA)
1626 shares	-	2.28%	Northern Bank & Trust Company, Trustee for James J. Mawn, IRA (Woburn, MA)
1662 shares	-	2.33%	Rita M. Mawn (Gloucester, MA)
1282 shares	-	1.79%	Mary Catherine Riley (Princeton, NJ)
1153 shares	-	1.61%	Sheila E. Carpenter (Ann Arbor, MI)
795 shares	-	1.11%	Cede & Co. FBO Joseph A. Riley, IRA (Princeton, NJ)
762 shares	-	1.07%	Northern Bank & Trust Company, Trustee for Sam A. Mawn-Mahlau, IRA (Winchester, MA)
619 shares	-	.87%	Alicia J. Mawn-Mahlau (Winchester, MA)
250 shares	-	.35%	Northern Bank Trust & Company, Trustee for M. Catherine Riley, IRA (Princeton, NJ)
148 shares	-	.21%	Louise Mawn (Nashville, TN)
50 shares	-	.07%	Mary Negri and Dominic R. Negri (Woburn, MA)
30 shares	-	.04%	Rita M. Barger (Manlius, NY)
20 shares	-	.03%	Rita M. Mawn (surviving joint tenant) (Gloucester, MA)

[1] Alicia J. Mawn-Mahlau also owns a beneficial interest in 49 shares (.07%) of the Mawn and Mawn, P.C. 401(k) Plan over which she has no power to vote.

2. Dorothy Mawn Group[2]

Country of Citizenship/Incorporation/Formation: USA

Number and Percentage of Voting Securities:

9564 shares	-	13.39%	Thomas M. Mawn, Jr., Trust Fund B (Trustees: Dorothy M. Mawn, Mary Elizabeth Mawn-Ferullo and Catherine A. Webb) (Woburn, MA)
6356 shares	-	8.90%	Dorothy Mawn Grandchildren's Trust (Trustees: Mary Elizabeth Mawn-Ferullo and Russell A. Mawn) (Woburn, MA)
3861 shares	-	5.41%	Thomas and Dorothy Mawn Family Limited Partnership (General Partners: Russell A. Mawn and Mary Elizabeth Mawn-Ferullo) (Woburn, MA)
1218 shares	-	1.71%	Mary Elizabeth Mawn-Ferullo (Woburn, MA)
149 shares	-	.21%	Dorothy M. Mawn, IRA (Woburn, MA)
385 shares	-	.54%	Dorothy Mawn Family Children's Trust (Trustees: Mary Elizabeth Mawn-Ferullo and Russell A. Mawn) (Woburn, MA)
155 shares	-	.22%	J. Lawrence Mawn (Medford, MA)
65 shares	-	.09%	Russell A. Mawn (Washington, DC)

Note: Mary Elizabeth Mawn-Ferullo has the power to vote the following in the capacities noted:

551 shares	-	.77%	Mawn and Mawn P.C. 401(k) Plan (Trustees: Mary Elizabeth Mawn-Ferullo and Barbara E. Mearls) (Woburn, MA)
200 shares	-	.28%	NJI Trust (Trustees: Mary Elizabeth Mawn-Ferullo and William Naughton) (Woburn, MA)

[2] Mary Elizabeth Mawn-Ferullo also owns a beneficial interest in 452 shares (.63%) of the Mawn and Mawn P.C. 401(k) Plan over which she has no power to vote other than in her capacity as co-trustee with Barbara E. Mearls.

Northern Bancorp, Inc.
Report Item 3(1) for Fiscal Year Ending 12/31/17 (Continued)

3. <u>McCall Family (Woburn, MA)</u>

Country of Citizenship/Incorporation/Formation: USA

Number and Percentage of Voting Securities:

788 shares	-	1.10%	Marie S. McCall (Woburn, MA)
410 shares	-	.57%	Daniel Leo McCall (Woburn, MA)
200 shares	-	.28%	Edward H. McCall, Jr. (Carlisle, MA)
200 shares	-	.28%	Marie S. McCall 1989 Revocable Trust (Trustees: Daniel McCall and Fred Kirk) (Woburn, MA)
790 shares	-	1.11%	Patricia McCall (Hampton Falls, NH)
29 shares	-	.04%	Joseph Dean McCall (Woburn, MA)
29 shares	-	.04%	Marilyn Marie McCall (Woburn, MA)
12 shares	-	.02%	Edward H. McCall 1996 Revocable Trust (Trustees: Daniel McCall and Fred Kirk) (Woburn, MA)
690 shares	-	.97%	Daniel McCall (Woburn, MA)
690 shares	-	.97%	Edward McCall (Woburn, MA)
690 shares	-	.97%	Judith Cutts (Woburn, MA)
690 shares	-	.97%	Maureen Austin (Ramona, CA)
790 shares	-	1.11%	Catherine Hockenbury (Great Falls, VA)

NORTHERN BANCORP, INC.
WOBURN, MASSACHUSETTS
FISCAL YEAR ENDING DECEMBER 31, 2017

REPORT ITEM 3(2): N/A

There are no additional securities holders, other than listed in Report Item 3(1), that owned or controlled five percent or more of any class of voting securities for Northern Bancorp, Inc. during fiscal year 2017.

NORTHERN BANCORP, INC.
WOBURN, MASSACHUSETTS
FISCAL YEAR ENDING DECEMBER 31, 2017

REPORT ITEM 4: INSIDERS (DIRECTORS, EXECUTIVE OFFICERS, AND PRINCIPAL SHAREHOLDERS >10%) – 12/31/17

Joseph Bellino (Director)
Bedford, MA

Principal Occupation
N/A

Title/Position with Holding Company
Director

Title/Position with Subsidiaries
Director Northern Bank & Trust Company

Title/Position with Other Businesses
N/A

Percentage of Voting Shares in Holding Company
.35% Joseph M. Bellino

Percentage of Voting Shares in Subsidiaries
N/A

Percentage of Voting Shares in Other Companies of 25% or More is Held
N/A

Fortunato (Fred) Salvucci (Director)
Weston, MA

Principal Occupation
N/A

Title/Position with Holding Company
Director

Title/Position with Subsidiaries
Director Northern Bank & Trust Company

Title/Position with Other Businesses
N/A

Percentage of Voting Shares in Holding Company
.13% Frederick Salvucci

Percentage of Voting Shares in Subsidiaries
N/A

Percentage of Voting Shares in Other Companies of 25% or More is Held
194 Mishawum Road Nominee Trust (50% - Cadaro Realty LLC)
Normac Warehouse LLC (1/3 - Cadaro Realty LLC)
Normac Warehouse II LLC (1/3 – Cadaro Realty LLC)
Cadaro Realty LLC
Fred Salvucci Corp.

John C. Martini (Director)
Woburn, MA

Principal Occupation
Insurance Agent

Title/Position with Holding Company
Director

Title/Position with Subsidiaries
Director Northern Bank & Trust Company

Title/Position with Other Businesses
N/A

Percentage of Voting Shares in Holding Company
1.82% John C. Martini

Percentage of Voting Shares in Subsidiaries
N/A

Percentage of Voting Shares in Other Companies of 25% or More is Held
N/A

Mary Elizabeth Mawn-Ferullo (Director/Treasurer)
Woburn, MA

Principal Occupation
Attorney

Title/Position with Holding Company
Director, Treasurer, Principal Shareholder

Title/Position with Subsidiaries
Director Northern Bank & Trust Company
Director Northern Bank & Trust Charitable Foundation, Inc.
Director N.B. & T. Securities Corp. IV

Title/Position with Other Businesses

Director, Clerk, Treasurer	Mawn and Mawn, P.C.
Trustee	Mawn and Mawn P.C. 401(k) Plan, NJI Trust, C.L.M. Realty Trust, Thomas M. Mawn, Jr. Trust Fund B, Westford Center Trust, Franklin Street Nominee Trust, Roger M. Ormes Jr. Family Insurance Trust, Thomas M. Mawn Jr. 1989 Family Irrevocable Trust, Dorothy Mawn Grandchildren's Trust, Dorothy Mawn Family Children's Trust, Josephine Dalton Trust, Calvin J. Reid Family Trust
General Partner	Thomas and Dorothy Mawn Family Limited Partnership
Manager	Haven Properties LLC
Director	Burbeen Free Lecture Fund

Percentage of Voting Shares in Holding Company
*See Dorothy Mawn Group

Percentage of Voting Shares in Subsidiaries
N/A

Percentage of Voting Shares in Other Companies of 25% or More is Held

Mawn and Mawn, P.C.	50%

James J. Mawn (Director, President, Chairman)
Concord, MA

Principal Occupation

President	Northern Bank & Trust Company

Title/Position with Holding Company
President, Director, Chairman

Title/Position with Subsidiaries

Director, President, CEO	Northern Bank & Trust Company
Director, Clerk	N. B. & T. Securities Corp. II
Director, President	N.B. & T. Securities Corp. IV
Manager	NBTC Holdings, LLC, NBTC Sudbury, LLC, NBTC Great Road, LLC
Director, President	Northern Bank & Trust Charitable Foundation, Inc.

Title/Position with Other Businesses

Director	Mawn and Mawn, P.C., PV Manager, Inc.
Trustee	Franklin Street Nominee Trust, C.L.M. Realty Trust, James Mawn Children's Trust, Mawn Family Children's Trust, Marital Trust under the James J. Mawn Revocable Trust, Family Trust under the

	James J. Mawn Revocable Trust, Old Road Nominee Trust, Mawn Family Mishawum Trust, Lincoln Road Trust, Mawn Franklin Trust, Roger M. Ormes, Jr. Family Insurance Trust
Manager	Haven Properties LLC, Pheasant Hill LLC, Mishawum Properties, LLC, Normac Warehouse LLC, Normac Warehouse II LLC, Presidential Ventures, LLC, Air Force One, LLC, JJM Investments, LLC
Limited Partner/ General Partner	Mawn Family Limited Partnership

Percentage of Voting Shares in Holding Company
*See James Mawn Group

Percentage of Voting Shares in Subsidiaries
N/A

Percentage of Voting Shares in Other Companies of 25% or More is Held
Franklin Street Nominee Trust (35%)
Pheasant Hill LLC (99%)
Old Road Nominee Trust (50%)
Sanderson Road Nominee Trust (50%)
Normac Warehouse LLC (1/3)
Normac Warehouse II LLC (1/3)
Lincoln Road Trust (50%)
PV Manager, Inc. (50%)
Air Force One, LLC (97.50%)
JJM Investments, LLC (100%)

Alicia J. Mawn-Mahlau (Director, Assistant Clerk)
Winchester, MA

Principal Occupation
None

Title/Position with Holding Company
Director, Assistant Clerk

Title/Position with Subsidiaries

Director, Assistant Secretary	Northern Bank & Trust Company
Director, Assistant Clerk	N. B. & T. Securities Corp. II
Director	Northern Bank & Trust Charitable Foundation, Inc.

Title/Position with Other Businesses

Director	Mawn and Mawn, P.C.
Trustee	Mawn Family Children's Trust, Marital Trust under the James J. Mawn Revocable Trust, Family Trust under the James J. Mawn Revocable Trust

Limited Partner Mawn Family Limited Partnership

Percentage of Voting Shares in Holding Company
*See James Mawn Group

Percentage of Voting Shares in Subsidiaries
N/A

Percentage of Voting Shares in Other Companies of 25% or More is Held
N/A

Donald P. Queenin (Assistant Treasurer)
Woburn, MA

Principal Occupation
Executive Vice President Northern Bank & Trust Company

Title/Position with Holding Company
Assistant Treasurer

Title/Position with Subsidiaries

Director, Executive Vice President	Northern Bank & Trust Company
Director, Treasurer	N B. & T. Securities Corp. II
Director, Clerk	N.B. & T. Securities Corp. IV
Manager	NBTC Realty, LLC, NBTC Holdings, LLC, NBTC Sudbury LLC
Director, Clerk	Northern Bank & Trust Charitable Foundation, Inc.

Title/Position with Other Businesses

Chairman	Woburn Redevelopment Authority
Director	Massachusetts Independent Bankers (president), Woburn Public Library Foundation, Inc. (treasurer) Woburn Community Educational Foundation, Inc. (treasurer)
Officer	Woburn Development Corp. (president)
Federal Delegate	Independent Community Bankers of America
Chairman	Large Bank Council

Percentage of Voting Shares in Holding Company
.01% Donald P. Queenin

Percentage of Voting Shares in Subsidiaries
N/A
Percentage of Voting Shares in Other Companies of 25% or More is Held
N/A

Mary Catherine Riley (Clerk)
Princeton, NJ

Principal Occupation
None

Title/Position with Holding Company
Clerk

Title/Position with Subsidiaries

Director, Secretary	Northern Bank & Trust Company

Title/Position with Other Businesses

Director	Mawn and Mawn, P.C.
Trustee	Mawn Family Children's Trust, Marital Trust under the James J. Mawn Revocable Trust, Family Trust under the James J. Mawn Revocable Trust
Limited Partner	Mawn Family Limited Partnership

Percentage of Voting Shares in Holding Company
*See James Mawn Group

Percentage of Voting Shares in Subsidiaries
N/A

Percentage of Voting Shares in Other Companies of 25% or More is Held
N/A

Francis Kenney (Chief Financial Officer)
Peabody, MA

Principal Occupation

Executive Vice President/Treasurer/CFO	Northern Bank & Trust Company

Title/Position with Holding Company
Chief Financial Officer

Title/Position with Subsidiaries

Executive Vice President/Treasurer/CFO	Northern Bank & Trust Company
President	N B. & T. Securities Corp. II
Treasurer	N.B. & T. Securities Corp. IV
Manager	NBTC Realty, LLC, NBTC Holdings, LLC, NBTC Sudbury LLC, NBTC Great Road, LLC
Treasurer	Northern Bank & Trust Charitable Foundation, Inc.
Trustee	289 Great Road Realty Trust

Title/Position with Other Businesses
N/A

Percentage of Voting Shares in Holding Company
N/A
Percentage of Voting Shares in Subsidiaries
N/A
Percentage of Voting Shares in Other Companies of 25% or More is Held
N/A

James Mawn Group (Principal Shareholder)
Woburn, MA

Principal Occupation
N/A

Title/Position with Holding Company
Principal Shareholder

Title/Position with Subsidiaries
N/A

Title/Position with Other Businesses
N/A

Percentage of Voting Shares in Holding Company[1]

13.55%	Mawn Family Limited Partnership (General Partners: James J. Mawn, Jr. and Marilyn C. Mawn)
5.18%	Marital Trust under the James J. Mawn Revocable Trust (Trustees: Rita M. Mawn, James J. Mawn, M. Catherine Riley, Alicia J. Mawn-Mahlau and Marilyn C. Mawn)
5.08%	James J. Mawn (Jr.)
2.95%	Family Trust under the James J. Mawn Revocable Trust (Trustees: Rita M. Mawn, James J. Mawn, M. Catherine Riley, Alicia J. Mawn-Mahlau and Marilyn C. Mawn)
2.28%	Northern Bank & Trust Company, Trustee for James J. Mawn, IRA
2.33%	Rita M. Mawn
1.79%	Mary Catherine Riley
1.61%	Sheila E. Carpenter
1.11%	Cede & Co. FBO Joseph A. Riley, IRA
1.07%	Northern Bank & Trust Company, Trustee for Sam A. Mawn-Mahlau, IRA
.87%	Alicia J. Mawn-Mahlau
.35%	Northern Bank Trust & Company, Trustee for M. Catherine Riley,

[1] Alicia J. Mawn-Mahlau also owns a .07% beneficial interest in the Mawn and Mawn P.C. 401(k) Plan over which she has no power to vote.

.21%	Louise Mawn
.07%	Mary Negri and Dominic R. Negri
.04%	Rita M. Barger
.03%	Rita M. Mawn

Percentage of Voting Shares in Subsidiaries
N/A

Percentage of Voting Shares in Other Companies of 25% or More is Held
N/A

Dorothy Mawn Group (Principal Shareholder)
Woburn, MA

Principal Occupation
N/A

Title/Position with Holding Company
Principal Shareholder

Title/Position with Subsidiaries
N/A

Title/Position with Other Businesses
N/A

Percentage of Voting Shares in Holding Company[2]

13.39%	Thomas M. Mawn, Jr., Trust Fund B (Trustees: Dorothy M. Mawn, Mary Elizabeth Mawn-Ferullo and Catherine A. Webb)
8.90%	Dorothy Mawn Grandchildren's Trust (Trustees: Mary Elizabeth Mawn-Ferullo and Russell A. Mawn)
5.41%	Thomas and Dorothy Mawn Family Limited Partnership (General Partners: Russell A. Mawn and Mary Elizabeth Mawn-Ferullo)
1.71%	Mary Elizabeth Mawn-Ferullo
.21%	Northern Bank & Trust Company for Dorothy M. Mawn, IRA
.54%	Dorothy Mawn Family Children's Trust (Trustees: Mary Elizabeth Mawn-Ferullo and Russell A. Mawn)
.22%	J. Lawrence Mawn
.09%	Russell A. Mawn

Note: Mary Elizabeth Mawn-Ferullo has the power to vote the following in the capacities noted:

.77%	Mawn and Mawn P.C. 401(k) Plan (Trustees: Mary Elizabeth Mawn-Ferullo and Barbara E. Mearls)

[2] Mary Elizabeth Mawn also owns a .63% beneficial interest in Mawn and Mawn P.C. 401(k) Plan over which she has no additional power to vote, other than in her capacity as co-trustee with Barbara E. Mearls.

.28%	NJI Trust (Trustees: Mary Elizabeth Mawn-Ferullo and William Naughton)

Percentage of Voting Shares in Subsidiaries
N/A

Percentage of Voting Shares in Other Companies of 25% or More is Held
N/A

Dorothy M. Mawn (Principal Shareholder)
Woburn, MA

Principal Occupation
N/A

Title/Position with Holding Company
Principal Shareholder

Title/Position with Subsidiaries
N/A

Title/Position with Other Businesses
Trustee Thomas M. Mawn, Jr., Trust Fund B

Percentage of Voting Shares in Holding Company
*See Dorothy Mawn Group

Percentage of Voting Shares in Subsidiaries
N/A

Percentage of Voting Shares in Other Companies of 25% or More is Held
Thomas M. Mawn, Jr., Trust Fund B (100%) Westford Center Trust (33 1/3%)
Franklin Street Nominee Trust (30%)
Wingaersheek Investment Trust (33 1/3%)
Thomas M. Mawn 1989 Family Irrevocable Trust (100%)

Northern Bancorp, Inc. and Subsidiary

Audited Consolidated Financial Statements

Years Ended December 31, 2017 and 2016
With Independent Auditors' Report

NORTHERN BANCORP, INC. AND SUBSIDIARY

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2017 and 2016

CONTENTS

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Northern Bancorp, Inc. and Subsidiary

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Northern Bancorp, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 auditors' 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Northern Bancorp, Inc. and Subsidiary 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 accounting principles generally accepted in the United States of America.

The Board of Directors and Stockholders
Northern Bancorp, Inc. and Subsidiary

Other Matter

We have also audited, in accordance with auditing standards generally accepted in the United States of America, Northern Bancorp, Inc. and Subsidiary's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 28, 2018 expressed an unmodified opinion on the effectiveness of Northern Bancorp, Inc. and Subsidiary's internal control over financial reporting.

BAKER NEWMAN & NOYES LLC
Portland, Maine
March 28, 2018

NORTHERN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2017 and 2016

	2017	2016
	(In thousands)	
ASSETS		
Cash and due from banks	$ 103,569	$ 85,943
Restricted cash	1,208	1,207
Securities available-for-sale	59,634	47,375
Federal Home Loan Bank of Boston stock	6,064	6,099
Loans held for sale	3,228	7,436
Loans	1,829,741	1,492,550
Allowance for loan losses	(23,140)	(21,035)
Loans, net	1,806,601	1,471,515
Accrued interest receivable	6,051	4,858
Premises and equipment, net	29,550	29,297
Cash surrender value of life insurance	33,650	24,812
Deferred tax asset, net	10,023	12,015
Other assets	8,376	2,705
Total assets	$2,067,954	$1,693,262
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$1,669,267	$1,334,282
Securities sold under agreements to repurchase	17,681	13,742
Federal Home Loan Bank of Boston advances	150,000	143,000
Subordinated notes payable	39,747	39,661
Other liabilities	25,448	17,295
Total liabilities	1,902,143	1,547,980
Commitments and contingencies (notes 3, 4, 8, 10 and 11)		
Stockholders' equity:		
Preferred stock, $10 par value; 10,000 shares authorized; 248 shares issued; liquidation preference of $6,200,000	2	2
Additional paid-in capital preferred stock	6,152	6,152
Common stock, $10 par value; 180,000 shares authorized; 100,905 shares issued	1,009	1,009
Additional paid-in capital common stock	4,961	4,961
Retained earnings	164,526	141,385
Accumulated other comprehensive loss	(4,351)	(2,502)
Treasury stock, at cost (29,479 and 29,034 shares)	(6,488)	(5,725)
Total stockholders' equity	165,811	145,282
Total liabilities and stockholders' equity	$2,067,954	$1,693,262

See accompanying notes

NORTHERN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2017 and 2016

	2017	2016
	(In thousands, except share and per share data)	
Interest and dividend income:		
Loans	$92,375	$73,765
Securities	855	744
Other	604	377
Total interest and dividend income	93,834	74,886
Interest expense:		
Deposits	13,285	8,910
Federal Home Loan Bank of Boston advances	1,199	731
Securities sold under agreements to repurchase	35	30
Subordinated notes payable	2,371	2,690
Total interest expense	16,890	12,361
Net interest income	76,944	62,525
Provision for loan losses	3,105	4,405
Net interest income after provision for loan losses	73,839	58,120
Noninterest income:		
Customer service fees	1,699	1,571
Earnings on life insurance	838	670
Gains and referral fees on loans sold	553	1,441
Other, net	1,911	1,217
Total noninterest income	5,001	4,899
Operating expenses:		
Salaries and employee benefits	19,610	17,609
Net occupancy and equipment	4,012	3,765
Data processing	2,612	2,464
Professional fees	1,545	1,074
Advertising	999	642
FDIC Assessment	1,677	770
Other	3,874	3,866
Total operating expenses	34,329	30,190
Income before income taxes	44,511	32,829
Provision for income taxes	21,707	12,669
Net income	$22,804	$20,160
Net income per common share	$312.04	$274.42
Weighted average common shares outstanding	71,689	71,882

See accompanying notes

NORTHERN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2017 and 2016

	2017	2016
	(In thousands)	
Net income	$22,804	$20,160
Other comprehensive loss:		
Unrealized holding losses on securities	(158)	(194)
Reclassification adjustment for amounts included in net income relating to securities	156	(34)
Pension liability adjustment	(2,445)	(1,318)
Reclassification adjustment for amounts included in net income relating to pension liability adjustment	458	334
Change in fair value of interest rate swap agreement	162	67
Other comprehensive loss	(1,827)	(1,145)
Income taxes related to items of other comprehensive loss	749	474
Other comprehensive loss	(1,078)	(671)
Comprehensive income	$21,726	$19,489

See accompanying notes

NORTHERN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2017 and 2016
(In thousands except outstanding share data)

	Shares of Preferred Stock Outstanding	Shares of Common Stock Outstanding	Preferred Stock	Additional Paid-in Capital Preferred Stock	Common Stock	Additional Paid-in Capital Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stock-holders' Equity
Balance, December 31, 2015	248	71,896	$ 2	$ 6,152	$1,009	$ 4,961	$122,881	$ (1,831)	$ (5,709)	$ 127,465
Net income	–	–	–	–	–	–	20,160	–	–	20,160
Dividends declared – common stock ($17.00 per share)	–	–	–	–	–	–	(1,222)	–	–	(1,222)
Dividends declared – preferred stock (7%)	–	–	–	–	–	–	(434)	–	–	(434)
Purchase of treasury stock ($651 per share)	–	(25)	–	–	–	–	–	–	(16)	(16)
Other comprehensive loss	–	–	–	–	–	–	–	(671)	–	(671)
Balance, December 31, 2016	248	71,871	$ 2	$ 6,152	$1,009	$ 4,961	$141,385	$ (2,502)	$ (5,725)	$145,282
Net income	–	–	–	–	–	–	22,804	–	–	22,804
Dividends declared – preferred stock (7%)	–	–	–	–	–	–	(434)	–	–	(434)
Purchase of treasury stock ($1,360 per share)	–	(25)	–	–	–	–	–	–	(34)	(34)
Purchase of treasury stock ($1,734 per share)	–	(420)	–	–	–	–	–	–	(729)	(729)
ASU 2018-02 reclassification adjustment (see note 1)	–	–	–	–	–	–	771	(771)	–	–
Other comprehensive loss	–	–	–	–	–	–	–	(1,078)	–	(1,078)
Balance, December 31, 2017	248	71,426	$ 2	$ 6,152	$1,009	$ 4,961	$ 164,526	$ (4,351)	$(6,488)	$165,811

See accompanying notes

NORTHERN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

	2017	2016
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 22,804	$ 20,160
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,105	4,405
Gains and referral fees on loans sold	(553)	(1,441)
Amortization of debt issuance costs	86	103
Amortization of net deferred loan origination costs, net of fees	(1,340)	(2,337)
Amortization of low income housing investment	68	-
Loss on disposal of assets	28	40
Depreciation and amortization	1,763	1,789
Net amortization (accretion) of securities	49	(34)
Write-down on available-for-sale securities	107	-
Deferred income tax expense (benefit)	2,741	(2,116)
Earnings on life insurance	(838)	(670)
Proceeds from sale of loans held for sale	66,666	127,570
Origination of loans held for sale	(61,905)	(125,642)
Change in accrued interest receivable	(1,193)	(1,260)
Change in other assets	(136)	(644)
Change in other liabilities	2,549	1,814
Net cash provided by operating activities	34,001	21,737
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Purchases	(16,056)	(16,561)
Maturities, calls and repayments	3,639	19,454
Change in restricted cash	(1)	(151)
Proceeds from sale of Federal Home Loan Bank of Boston stock	2,604	1,692
Purchase of Federal Home Loan Bank of Boston stock	(2,569)	(5,450)
Loan originations, net of principal payments	(336,851)	(305,157)
Purchase of life insurance	(8,000)	-
Additions to premises and equipment	(2,647)	(1,726)
Net cash used by investing activities	(359,881)	(307,899)
Cash flows from financing activities:		
Stock repurchases	(763)	(16)
Net increase in deposits	334,985	138,193
Net increase (decrease) in repurchase agreements	3,939	(2,997)
Net proceeds on long-term Federal Home Loan Bank of Boston advances	7,000	20,000
Net proceeds from short-term Federal Home Loan Bank of Boston advances	-	85,000
Proceeds from issuance of subordinated notes payable	-	25,000
Debt issuance costs	-	(354)
Dividends paid	(1,655)	(1,592)
Net cash provided by financing activities	343,506	263,234
Net increase (decrease) in cash and cash equivalents	17,626	(22,928)
Cash and due from banks at beginning of year	85,943	108,871
Cash and due from banks at end of year	$ 103,569	$ 85,943

NORTHERN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended December 31, 2017 and 2016

	2017	2016
	(In thousands)	
Supplemental disclosures:		
Interest paid	$ 16,740	$ 11,462
Income taxes paid	18,768	15,207
Supplemental disclosure of noncash transactions:		
Dividends declared and included in other liabilities	109	1,330
ASU 2018-02 reclassification	771	-
Transfer of other real estate from premises and equipment to other assets	603	-
Low income housing investment included in other assets and other liabilities	5,000	-
Net impact of accounting for available-for-sale securities:		
Investments	(2)	(228)
Deferred income taxes	-	88
Other comprehensive loss	(2)	(140)
Net impact of accounting for defined benefit retirement plan:		
Other liabilities	(1,987)	(984)
Deferred income taxes	813	414
Other comprehensive loss	(1,174)	(570)
Net impact of accounting for interest rate swap agreement:		
Other liabilities	162	67
Deferred income taxes	(64)	(28)
Other comprehensive income	98	39

See accompanying notes

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of Northern Bancorp, Inc. and Subsidiary (the Company) include the accounts of its wholly-owned subsidiary, Northern Bank & Trust Company (the Bank) and the Bank's subsidiaries, of which two engage in the purchase and sale of securities on their own behalf and one was established to hold real estate. A subsidiary of the Bank, Northern 1031 Exchange LLC, was created in 2015 to facilitate Internal Revenue Code (IRC) Section 1031 exchanges, transactions which will allow the exchanger to defer potential capital gains tax. All significant intercompany accounts and transactions have been eliminated in consolidation.

Business

Substantially all of the Company's activities are carried out through the Bank, a state-chartered commercial bank, with twelve branch locations principally in Middlesex County, Massachusetts. The Bank's primary deposit products are demand, savings and time certificates and its primary lending products are real estate and commercial business loans.

Basis of Presentation and Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to change in the near term relate to the determination of the allowance for loan losses and the determination of the funded status of the defined benefit plan.

Cash and Due from Banks

Cash and due from banks include cash on hand, amounts due from banks and short-term investments with an original maturity of ninety days or less.

Restricted Cash

The Company is required to maintain certain levels of cash on deposit with the lender in conjunction with the subordinated notes payable. Amounts required are specified in the agreements. The Company also is required, at times, to maintain collateral balances with its swap counterparty due to market value fluctuations and to maintain a reserve account to offset any uncollectible amounts from the daily credit card settlement.

Securities

All of the Company's securities have been classified as available-for-sale and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive loss, net of tax effects.

1. Summary of Significant Accounting Policies (Continued)

Premiums and discounts on securities are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of securities below their cost attributable to credit losses that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Interest income on debt securities is included in income as earned, based on rates applied to principal amounts outstanding.

Federal Home Loan Bank of Boston (FHLBB) Stock

The Company is required to own shares of capital stock in the FHLBB in order to borrow from the FHLBB. This stock is carried at its cost and can only be sold to the FHLBB based on its current redemption policies.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value as determined in the aggregate by outstanding commitments from investors or, in the absence of such commitments, the current investor yield requirements. Cost approximates fair value.

Loans

The Company grants mortgage, commercial and consumer loans to customers in a broad, diversified geographic area. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in loan's geographic market.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for the allowance for loan losses and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Net deferred loan origination fees or costs are generally deferred and recognized as an adjustment of the related loan yield. The Bank recognizes prepayments in determining the amount to be amortized.

Interest on loans is included in income as earned based on rates applied to principal amounts outstanding. Accrual of interest on loans is discontinued either when reasonable doubt exists as to the full, timely collection of interest or principal, or when a loan becomes contractually past due by ninety days, unless the loan is well secured and in the process of collection. Past due status is based on contractual terms of the loan. When a loan is placed on non-accrual status, all interest previously accrued is reversed against current period interest income. Interest subsequently received on non-accrual loans, including impaired loans, is either applied against principal or recorded as income according to management's judgment as to the collectability of principal.

1. Summary of Significant Accounting Policies (Continued)

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 loan balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance.

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, level of delinquent loans, qualitative factors including risk ratings, 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 specific and general components. The specific component relates to loans that are classified as impaired, whereby an allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of the loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

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

C & I – Loans in this segment are made to businesses and are generally secured by the assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and the resulting decreased consumer spending, will have an effect on the credit quality in this segment.

Commercial real estate – Loans in this segment include both income-producing properties and owner-occupied properties. The underlying cash flows generated by the properties may be adversely impacted by a downturn in the economy as evidenced by increased vacancy rates or a general slowdown in business which will, in turn, have an effect on the credit quality of this segment.

Residential real estate – Loans in this segment are predominantly 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 of this segment.

Construction – All loans in this segment are collateralized by real estate for construction and land intended for development. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

1. Summary of Significant Accounting Policies (Continued)

Home equity lines of credit – Loans in this segment are typically collateralized by a subordinate lien position on 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 of this segment.

Other – secured & unsecured – Repayment of loans in this segment is generally dependent on the credit quality of the individual borrower.

Management evaluates non-accrual loans and loans rated substandard or worse for impairment. A loan is considered impaired when, based on current information and events, it is probable that a creditor will be unable to collect the scheduled payments of principal and/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. 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, or the fair value of the collateral if the loan is collateral dependent.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over their estimated useful lives, or the expected lease term, whichever is less. The expected lease term includes option periods to the extent that the exercise of such options is reasonably assured.

Other Real Estate Owned

Other real estate owned is carried at the lower of cost or fair value less estimated costs to sell. Other real estate owned (included in other assets) amounted to $603,000 and $0 at December 31, 2017 and 2016.

The recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure is $0 and $206,000 as of December 31, 2017 and 2016.

Servicing Assets

Servicing assets are recognized as separate assets when rights are acquired through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying servicing assets by predominant characteristics, such as interest rates and terms. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount. As of December 31, 2017, and 2016, servicing assets recorded and included in other assets amount to $175,000 and $229,000, respectively. No valuation allowance was required as the fair value exceeded the carrying value for each year.

1. Summary of Significant Accounting Policies (Continued)

Debt Issuance Costs

Debt issuance costs incurred relating to the issuance of subordinated notes payable, less amortization, are recorded against the principal balance of the related debt, and are being amortized straight line over the life of the related notes.

Transfers of Financial Assets

Transfers of financial assets 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 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.

Advertising

The Company's policy is to expense advertising costs as incurred. Advertising expenses are $999,000 and $642,000 for the years ended December 31, 2017 and 2016, respectively.

Income Taxes

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. Valuation allowances are recorded if necessary to reduce deferred tax assets to amounts management concludes are more likely than not to be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted accordingly through the provision for income taxes.

Assets and liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the "more-likely-than-not" threshold, based upon the technical merits of the position. Estimated interest and penalties, if applicable, related to uncertain tax positions are included as a component of income tax expense. Management has determined that the Bank has not taken, nor does it expect to take, any uncertain tax positions in any income tax return.

1. Summary of Significant Accounting Policies (Continued)

Net Income per Common Share

Net income per common share is the equivalent of basic and diluted earnings per share. It is computed by dividing net income available to common stockholders, which consists of net income reduced by dividends declared on preferred stock, by the weighted average number of common shares outstanding.

Accumulated Other Comprehensive Loss

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, certain pension liability adjustments and changes in fair value of interest rate swap agreements, are reported as a separate component of the equity section of the consolidated balance sheets. Such items, along with net income, are components of comprehensive income.

The change in accumulated other comprehensive loss for the years ended December 31, 2017 and 2016 is comprised of the following:

	Net Unrealized Losses on Securities Available-for-Sale	Minimum Pension Liability Adjustment	Fair Value of Interest Rate Swap Agreement	Accumulated Other Comprehensive Loss
		(In thousands)		
Balance at December 31, 2015	$ (130)	$ (1,634)	$ (67)	$ (1,831)
Other comprehensive (loss) income, net of taxes of $88, $414 and $(28), respectively	(140)	(570)	39	(671)
Balance at December 31, 2016	$ (270)	$ (2,204)	$ (28)	$ (2,502)
ASU 2018-02 reclassification	$ (63)	$ (721)	$ 13	$ (771)
Other comprehensive (loss) income, net of taxes of $ -, $813 and $(64), respectively	(2)	(1,174)	98	(1,078)
Balance at December 31, 2017	$ (335)	$ (4,099)	$ 83	$ (4,351)

1. Summary of Significant Accounting Policies (Continued)

The reclassifications out of accumulated other comprehensive loss for the years ended December 31, 2017 and 2016 are comprised of the following:

Details About Accumulated Other Comprehensive Income Components	Amounts Reclassified From Accumulated Other Comprehensive Income		Affected Line in the Statement Where Net Income is Presented
	2017	2016	
	(In thousands)		
Net amortization (accretion) of securities	$ 49	$ (34)	Interest income on securities
Write-down on available-for-sale securities	107	–	Other noninterest-income
	156	(34)	
Tax effect	(61)	13	Provision for income taxes
	$ 95	$ (21)	Net income
Amortization of defined benefit pension items			
Prior service costs	$ 152	$ 157	
Actuarial losses	306	177	
	458	334	Salaries and employee benefits
Tax effect	(193)	(141)	Provision for income taxes
	$ 265	$ 193	Net income

Reclassifications

Certain 2016 accounts have been reclassified to conform to the 2017 presentation.

Derivative Financial Instruments

In 2012, the Bank entered into an interest rate swap agreement to manage its interest rate risk on certain deposits. The swap has been determined to be highly effective and is considered to be a cash flow hedge. The Bank records the swap at estimated fair value and it is included in other assets or liabilities in the consolidated balance sheets with the effective portion of the swap, net of taxes, recorded as a component of accumulated other comprehensive loss. The ineffective portion of the swap, if any, is recorded in the income statement. The total notional amount of the swap at December 31, 2017 and 2016 is $18,000,000. The fair value of the swap at December 31, 2017 and 2016 is $117,000 and ($45,000), and is recorded in other assets and other liabilities, respectively. The Bank is exposed to credit loss on the fair value, not the notional amount of the swap, in the event of nonperformance by the counterparty to the interest rate swap agreement. However, the Bank does not anticipate nonperformance by the counterparty. As a result of the market valuation as of December 31, 2017 and 2016, the Company was required to maintain a collateral balance with the counterparty of $280,000 which has been recorded as restricted cash. See note 5.

1. Summary of Significant Accounting Policies (Continued)

The Bank enters into interest rate lock commitments (IRLCs) for residential mortgage loans, which commit the Bank to lend funds to a potential borrower at a specific interest rate and within a specified period of time. IRLCs that relate to the origination of mortgage loans that will be held for sale are considered derivative financial instruments. Outstanding IRLCs expose the Bank to the risk that the price of mortgage loans underlying the IRLCs may decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. The IRLCs are free-standing derivatives which are carried at fair value with changes in fair value recorded as a component of gain and referral fees on loans sold in the income statement. Changes in the fair value of IRLCs subsequent to inception are based on changes in the fair value of the underlying loan resulting from the fulfillment of the commitment and changes in the probability that the loan will fund within the terms of the commitment, which is affected primarily by changes in mortgage interest rates and the passage of time. The notional amount of IRLCs was $4,277,000 and $9,320,000 as of December 31, 2017 and 2016. The fair value of such commitments was an asset (included in other assets) of $21,000 and $139,000 and a liability (included in other liabilities) of $8,000 and $15,000 at December 31, 2017 and 2016, respectively.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued amendments to Accounting Standards Codification (ASC) section 606 *Revenue from Contracts with Customers* through issuance of ASU 2014-09, *Revenue from Contracts with Customers.* In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606), which deferred the effective date by one year. The guidance in these updates affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The amendments in these updates are effective for interim and annual reporting periods beginning after December 15, 2017. The Company anticipates that the amendments of the ASUs will not have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* The amendments in this ASU address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The more significant changes are:

1. **<u>Summary of Significant Accounting Policies (Continued)</u>**

1. Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

2. Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value.

3. Eliminate the requirement to disclose the methods and assumptions used to estimate fair value that is required to be disclosed for financial instruments measured at amortized cost.

4. Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

ASU 2016-01 is effective for years beginning after December 15, 2017, and interim periods within those fiscal years. The Company anticipates that the amendments of this ASU will not have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

1. Summary of Significant Accounting Policies (Continued)

In March 2017, the FASB issued ASU 2017-08, *Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The amendments in this ASU shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12 *Derivatives and Hedging (Topic 815); Targeted Improvements to Accounting for Hedging Activities*. This ASU was issued 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 this ASU make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP based on the feedback received from preparers, auditors, users, and other stakeholders. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted in any interim period after issuance of this ASU. This ASU is not expected to have material impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The ASU provides an option to reclassify stranded tax effects resulting from the Tax Cuts and Jobs Act within accumulated comprehensive income or loss to retained earnings. The amendments in the ASU also require certain disclosures about stranded tax effects. ASU 2018-02 is effective for the Company for its fiscal year beginning after December 15, 2018, and interim periods within these fiscal years. Early adoption is permitted. The Company early adopted this ASU in the 2017 consolidated financial statements and therefore has recorded a reclassification adjustment from accumulated other comprehensive loss to retained earnings in the amount of \$771,000.

Subsequent Events

Events occurring after the balance sheet date are evaluated by management to determine whether such events should be recognized or disclosed in the consolidated financial statements. Management has evaluated subsequent events through March 28, 2018, which is the date the consolidated financial statements were available to be issued.

2. Securities Available-for-Sale

The Bank carries available-for-sale securities at fair value. A summary of the amortized cost and fair values of securities available-for-sale at December 31 follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
		(In thousands)		
2017				
Debt securities:				
Bonds of U.S. Government-sponsored entities	$47,214	$ –	$ (369)	$ 46,845
Municipal	1,455	–	(13)	1,442
Mortgage-backed	10,213	95	(158)	10,150
Total debt securities	58,882	95	(540)	58,437
Mutual fund CRA investment	1,197	–	–	1,197
	$60,079	$ 95	$ (540)	$ 59,634
2016				
Debt securities:				
Bonds of U.S. Government-sponsored entities	$33,388	$ 21	$ (196)	$ 33,213
Municipal	1,479	–	(22)	1,457
Mortgage-backed	11,679	114	(265)	11,528
Total debt securities	46,546	135	(483)	46,198
Mutual fund CRA investment	1,273	–	(96)	1,177
	$47,819	$ 135	$ (579)	$ 47,375

At December 31, 2017 and 2016, securities with an estimated fair value of $55,996,000 and $46,198,000, respectively, were pledged as collateral to secure municipal deposits and repurchase agreements.

The amortized cost and estimated fair value of debt securities at December 31, 2017, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations.

	Amortized Cost	Fair Value
	(In thousands)	
Due within one year	$10,453	$10,421
Due after one year through five years	37,725	37,376
Due after five years	491	490
Mortgage-backed securities, amortizing monthly	10,213	10,150
Total debt securities	$58,882	$58,437

2. Securities Available-for-Sale (Continued)

Information pertaining to securities with gross unrealized losses at December 31, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, follows:

	Less than Twelve Months		More than Twelve Months	
	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value
	(In thousands)			
2017				
Debt securities:				
Bonds of U.S. Government sponsored entities	$ (139)	$26,218	$ (230)	$20,627
Municipal	(13)	1,442	–	–
Mortgage-backed	–	–	(158)	5,494
Total debt securities	$ (152)	$ 27,660	$ (388)	$ 26,121
2016				
Debt securities:				
Bonds of U.S. Government-sponsored entities	$(196)	$22,668	$ –	$ –
Municipal	(22)	1,457	–	–
Mortgage-backed	(131)	6,812	(134)	2,404
Total debt securities	(349)	30,937	(134)	2,404
Mutual fund CRA investment	–	–	(96)	1,177
	$ (349)	$ 30,937	$ (230)	$ 3,581

Management evaluates securities for other-than-temporary impairment at least on a quarterly 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.

Thirty-nine and twenty-nine securities had unrealized losses as of December 31, 2017 and 2016, respectively. Of these, nineteen and twenty-five have had continuous losses less than twelve months as of December 31, 2017 and 2016, respectively. Six and three mortgage-backed securities issued by Fannie Mae have had continuous losses for more than twelve consecutive months at December 31, 2017 and 2016, respectively. Thirteen and zero of the bonds of U.S. government-sponsored entities have had continuous losses more than twelve months as of December 31, 2017 and 2016, respectively. The primary cause for unrealized losses within debt securities is the impact movements in market interest rates have had in comparison to the underlying yields on securities and the impact of temporary market fluctuations.

2. Securities Available-for-Sale (Continued)

During the year ended December 31, 2017, the mutual fund CRA investment was deemed other-than-temporarily-impaired and written-down to market value. The write-down was reflected in earnings as a realized loss and amounted to $107,000.

3. Loans

A summary of balances, by type, at December 31, is as follows:

	2017	2016
	(In thousands)	
Commercial and industrial (C & I)	$ 640,852	$ 519,456
Real estate:		
Commercial	793,785	611,006
Residential	160,882	148,365
Construction	205,122	186,947
Home equity	27,105	25,221
Other – secured and unsecured	2,313	1,785
Gross loans	1,830,059	1,492,780
Deferred loan origination costs and other items, net of fees	(318)	(230)
Allowance for loan losses	(23,140)	(21,035)
Total loans	$1,806,601	$1,471,515

Management has identified a concentration of credit with borrowers that conduct business with one franchisor. The loan concentration balances total $485,755,000 and $391,320,000 to fifty-four and fifty-two borrowers in 2017 and 2016, respectively. At December 31, 2017 and 2016, approximately $369,191,000 and $286,079,000 of the loan concentration balances are to franchisees where the stores are located outside the New England states, respectively. At December 31, 2017 and 2016, approximately $75,839,000 and $60,390,000, respectively, of the loan concentration balances to franchisee stores located outside the New England states, are collateralized with real estate. Management has taken steps to monitor the concentration and evaluate the risks associated with the concentration.

The Bank sold loans and has retained the servicing responsibility and received fees for the services provided. Mortgage loans sold in the secondary mortgage market and serviced for others amounted to $45,646,000 and $50,091,000 at December 31, 2017 and 2016, respectively. Included in those loans were $665,000 and $906,000 at December 31, 2017 and 2016, respectively, which were sold with limited recourse. At December 31, 2017, the maximum liability associated with these limited recourse loans is insignificant.

As of December 31, 2017, and 2016, loans amounting to approximately $224,200,000 and $147,197,000, respectively, are pledged as collateral for the ability to borrow up to approximately $159,684,000 and $108,947,000, respectively, through the Federal Reserve's discount window. Additionally, other certain loans amounting to approximately $14,627,000 and $19,629,000 are pledged as collateral for certain municipal deposits at December 31, 2017 and 2016, respectively

3. Loans (Continued)

The following tables present activity in the allowance for loan losses and select loan information, by portfolio segment, for the years ended December 31 (in thousands):

	Real Estate					Other –	
	Commercial	Construction	Residential	Home Equity	C & I	Secured and Unsecured	Total
2017							
Allowance:							
Beginning balance	$ 6,205	$ 2,829	$ 1,450	$ 217	$ 10,320	$ 14	$ 21,035
Provision	2,286	509	(694)	(29)	1,021	12	3,105
Charge-offs	(216)	-	(31)	-	(1,012)	(6)	(1,265)
Recoveries	58	-	7	-	199	1	265
Ending balance	$ 8,333	$ 3,338	$ 732	$ 188	$ 10,528	$ 21	$ 23,140
Ending balance: Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 77	$ -	$ 77
Ending balance: Collectively evaluated for impairment	$ 8,333	$ 3,338	$ 732	$ 188	$ 10,451	$ 21	$ 23,063
Loans ending balance:							
Ending balance: Individually evaluated for impairment	$ 281	$ 1,120	$ 2,156	$ 154	$ 25,125	$ -	$ 28,836
Ending balance: Collectively evaluated for impairment	793,504	204,002	158,726	26,951	615,727	2,313	1,801,223
Loans ending balance	$ 793,785	$ 205,122	$ 160,882	$ 27,105	$ 640,852	$ 2,313	$ 1,830,059
2016							
Allowance:							
Beginning balance	$ 5,679	$ 1,922	$ 1,480	$ 227	$ 7,519	$ 14	$ 16,841
Provision	477	907	(52)	(12)	3,067	18	4,405
Charge-offs	-	-	-	-	(2,384)	(21)	(2,405)
Recoveries	49	-	22	2	2,118	3	2,194
Ending balance	$ 6,205	$ 2,829	$ 1,450	$ 217	$ 10,320	$ 14	$ 21,035
Ending balance: Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 90	$ -	$ 90
Ending balance: Collectively evaluated for impairment	$ 6,205	$ 2,829	$ 1,450	$ 217	$ 10,230	$ 14	$ 20,945
Loans ending balance:							
Ending balance: Individually evaluated for impairment	$ 286	$ 1,190	$ 3,047	$ 179	$ 185	$ -	$ 4,887
Ending balance: Collectively evaluated for impairment	610,720	185,757	145,318	25,042	519,271	1,785	1,487,893
Loans ending balance	$ 611,006	$ 186,947	$ 148,365	$ 25,221	$ 519,456	$ 1,785	$ 1,492,780

3. Loans (Continued)

The following tables present an aged analysis of past due and nonaccrual loans, by portfolio segment, as of December 31 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Held for Investment	Non-Accrual Loans
2017							
Commercial real estate	$ –	$ –	$ –	$ –	$ 793,785	$ 793,785	$ –
Construction	–	–	162	162	204,960	205,122	162
Residential real estate	541	227	463	1,231	159,651	160,882	1,004
Home equity	–	–	80	80	27,025	27,105	100
C & I	6	–	–	6	640,846	640,852	23,487
Other – secured and unsecured	1	–	–	1	2,312	2,313	1
Total	$ 548	$ 227	$ 705	$ 1,480	$1,828,579	$1,830,059	$ 24,754
2016							
Commercial real estate	$ –	$ –	$ –	$ –	$ 611,006	$ 611,006	$ –
Construction	–	–	–	–	186,947	186,947	311
Residential real estate	1,226	–	215	1,441	146,924	148,365	2,021
Home equity	–	–	–	–	25,221	25,221	31
C & I	19,043	–	–	19,043	500,413	519,456	–
Other – secured and unsecured	–	2	–	2	1,783	1,785	–
Total	$20,269	$ 2	$ 215	$20,486	$1,472,294	$1,492,780	$ 2,363

There were no loans greater than 90 days and still accruing at December 31, 2017 and 2016.

The Bank may modify certain loans to retain customers or to maximize collection of the loan balance. All loan modifications are made on a case by case basis. When a modification is made on an impaired loan, the Bank will evaluate the modified terms to current market terms. When a concession is granted that is not at market terms based on the borrower's financial condition, these loans would be classified as a troubled debt restructuring (TDR). As of December 31, 2017, and 2016, loans classified as TDRs totaled approximately $27,522,000 and $3,633,000, respectively.

During 2017, and 2016, new TDRs amounted to $24,963,000 and $0, respectively. New TDRs in 2017 included four commercial and industrial (C & I) loans. Two of the restructured C & I loans included a reduction of interest rate, an extension of credit, an interest only period, waived past due interest and late fees, and a principal charge-off of $564,000. A third restructured C & I loan included a reduction of interest rate, an extension of credit, and an interest only period. A fourth restructured C & I loan included an interest only period.

Additionally, substantially all TDRs in 2017 are performing in accordance with the modified terms and there have been no subsequent defaults or losses on TDRs in 2017 or 2016. The Company has not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings as of December 31, 2017 and 2016.

3. Loans (Continued)

The following tables present impaired loans with no related allowance and with an allowance recorded, by portfolio segment, as of and for the years ended December 31 (in thousands):

	Recorded Carrying Value	Unpaid Principal Balance	Related Allowance	Average Recorded Carrying Value	Interest Income Recognized
2017					
With no related allowance recorded:					
Commercial real estate	$ 281	$ 281	$ –	$ 283	$ 17
Construction	1,120	1,307	–	1,145	47
C & I	25,048	26,248	–	20,232	386
Residential real estate	2,156	2,451	–	2,310	277
Home equity	154	157	–	58	–
Total	28,759	30,444	–	24,028	727
With a related allowance recorded:					
Commercial real estate	–	–	–	–	–
Construction	–	–	–	–	–
C & I	77	83	77	83	5
Residential real estate	–	–	–	–	–
Home equity	–	–	–	–	–
Total	77	83	77	83	5
Total:					
Commercial real estate	281	281	–	283	17
Construction	1,120	1,307	–	1,145	47
C & I	25,125	26,331	77	20,315	391
Residential real estate	2,156	2,451	–	2,310	277
Home equity	154	157	–	58	–
Total impaired loans	$28,836	$30,527	$ 77	$24,111	$ 732

3. Loans (Continued)

2016	Recorded Carrying Value	Unpaid Principal Balance	Related Allowance	Average Recorded Carrying Value	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$ 286	$ 286	$ –	$ 289	$ 18
Construction	1,190	1,357	–	1,387	77
C & I	95	115	–	1,084	55
Residential real estate	3,047	3,523	–	3,744	153
Home equity	179	180	–	151	9
Total	4,797	5,461	–	6,655	312
With a related allowance recorded:					
Commercial real estate	–	–	–	–	–
Construction	–	–	–	–	–
C & I	90	97	90	102	4
Residential real estate	–	–	–	–	–
Home equity	–	–	–	–	–
Total	90	97	90	102	4
Total:					
Commercial real estate	286	286	–	289	18
Construction	1,190	1,357	–	1,387	77
C & I	185	212	90	1,186	59
Residential real estate	3,047	3,523	–	3,744	153
Home equity	179	180	–	151	9
Total impaired loans	$ 4,887	$ 5,558	$ 90	$ 6,757	$ 316

3. Loans (Continued)

The Bank utilizes an internal loan risk rating system for commercial and residential loans as a means of monitoring portfolio credit quality and identifying both problem and potential problem loans. Under the risk rating system, problem loans are classified as either "Substandard", "Doubtful", or "Loss" which correspond to risk ratings eight, nine and ten, respectively. Substandard loans represent those credits with well-defined weaknesses that jeopardize the orderly liquidation of the debt. Loans classified as Doubtful possess all the weaknesses inherent in those classified Substandard with the added characteristic that collection or liquidation in full, on the basis of existing facts, conditions and values, is highly questionable and/or improbable. Loss loans represent loans where the borrower is deemed incapable of debt repayment. Loans not meeting the aforementioned criteria are considered to be Pass rated loans. Loans that do not currently expose the Bank to sufficient enough risk of loss to warrant classification in one of the aforementioned categories but possess qualities to warrant continued supervision and attention and potential weakness, are classified as Management Attention and Special Mention, respectively. Risk ratings are updated as warranted on a periodic basis. Other – secured and unsecured loans are evaluated based on their delinquency status as disclosed in a previous table.

The following tables present loans by internal risk ratings as of December 31 (in thousands):

	Real Estate	Construction	C & I	Total
2017				
Commercial credit exposure:				
Grade:				
Pass (1 – 5.5)	$755,785	$204,126	$607,625	$1,567,536
Pass – Management attention (6)	31,386	–	1,776	33,162
Pass – Special mention (7)	6,614	–	5,886	12,500
Substandard (8)	–	996	25,565	26,561
Doubtful and loss (9 – 10)	–	–	–	–
Total	$793,785	$205,122	$640,852	$1,639,759

	Real Estate	Home Equity	Total
Residential credit exposure:			
Grade:			
Pass (1 – 5.5)	$159,590	$26,905	$186,495
Pass – Management attention (6)	288	–	288
Pass – Special mention (7)	–	46	46
Substandard (8)	1,004	154	1,158
Doubtful and loss (9 – 10)	–	–	–
Total	$160,882	$27,105	$187,987

3. Loans (Continued)

	Real Estate	Construction	C & I	Total
2016				
Commercial credit exposure:				
Grade:				
Pass (1 – 5.5)	$599,504	$185,757	$508,342	$1,293,603
Pass – Management attention (6)	804	–	2,671	3,475
Pass – Special mention (7)	10,698	–	8,352	19,050
Substandard (8)	–	1,190	91	1,281
Doubtful and loss (9 – 10)	–	–	–	–
Total	$611,006	$186,947	$519,456	$1,317,409

	Real Estate	Home Equity	Total
Residential credit exposure:			
Grade:			
Pass (1 – 5.5)	$146,263	$24,992	$171,255
Pass – Management attention (6)	80	–	80
Pass – Special mention (7)	–	50	50
Substandard (8)	2,022	179	2,201
Doubtful and loss (9 – 10)	–	–	–
Total	$148,365	$25,221	$173,586

4. Premises and Equipment and Leases

Premises and equipment consist of the following at December 31:

	2017	2016
	(In thousands)	
Land	$ 6,868	$ 6,877
Land improvements	2,818	2,846
Buildings	21,126	20,859
Leasehold improvements	3,173	3,164
Furniture, fixtures and equipment	7,801	6,924
Construction in progress	237	92
	42,023	40,762
Less accumulated depreciation	(12,473)	(11,465)
Balance at end of year	$29,550	$29,297

4. Premises and Equipment and Leases (Continued)

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 amounted to $1,763,000 and $1,789,000, respectively.

Lessee Leases

The Bank leases several branches and its disaster recovery location under noncancelable operating leases. Pursuant to the terms of these leases, in effect at December 31, 2017, future minimum payments are as follows:

Years Ending	Amount (In thousands)
2018	$699
2019	544
2020	481
2021	352
2022	249
Thereafter	1,148
Total minimum lease payments	$3,473

Rent expense under these leases was $685,000 and $648,000 for the years ended December 31, 2017 and 2016, respectively.

Lessor Leases

The Bank has entered into noncancelable leases of space to others at its main office building and its Littleton location. Pursuant to the terms of these leases, in effect at December 31, 2017, future minimum rentals are as follows:

Years Ending	Amount (In thousands)
2018	$ 193
2019	165
2020	86
	$ 444

Rental income under these leases was $436,000 and $519,000 for the years ended December 31, 2017 and 2016, respectively.

Certain lease agreements contain both options to extend and cost of living adjustments, which are not included above.

See note 8 for information on leases discussed above which are with related parties.

5. Deposits

A summary of balances, by type, at December 31, is as follows:

	2017	2016
	(In thousands)	
Demand	$ 294,520	$ 245,992
NOW	120,878	110,679
Regular savings	242,362	175,400
Money market accounts	343,443	289,800
Total non-certificate accounts	1,001,203	821,871
Term certificates over $250,000	86,639	78,393
Other term certificates	581,425	434,018
Total certificate accounts	668,064	512,411
Total deposits	$1,669,267	$1,334,282

Included in money market accounts for the years ended December 31, 2017 and 2016 were brokered deposits amounting to $129,911,000 and $95,361,000, respectively.

A summary of term certificates, by maturity, at December 31, is as follows:

	2017		2016	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Maturity Dates	(Dollars in thousands)			
2017	$ –	–%	$243,015	.99%
2018	265,055	1.20	144,585	1.24
2019	227,817	1.60	71,148	1.38
2020	120,040	1.79	36,894	1.55
2021	47,061	1.92	16,769	1.74
2022	8,091	2.04	–	–
Total term certificates	$668,064	1.50%	$512,411	1.18%

Included in certificate accounts for the years ended December 31, 2017 and 2016 were brokered deposits amounting to $277,174,000 and $204,593,000, respectively. The brokered deposits had weighted average rates of 1.39% and .96% at December 31, 2017 and 2016, respectively.

5. Deposits (Continued)

In 2012, the Bank entered into an agreement with a broker to place non-maturity funds on deposit up to \$25,000,000. The outstanding balance of the funds at December 31, 2017 and 2016 was \$25,000,000. The funds were committed for a period of seven years; the commitment expires August 19, 2019. The interest rate the Bank will pay is indexed to the one-month LIBOR rate with a margin of .175%. The broker is obligated to maintain a minimum of \$20,000,000 in the deposit account over the term of the commitment. The Bank has entered into an \$18,000,000 notional amount forward swap arrangement whereby the rate is variable for the first two years and will be fixed for the remaining term at a rate of 1.665%. The swap's term commenced on November 19, 2015 and extends to August 19, 2019.

6. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase mature daily with an interest rate of .25% at December 31, 2017 and 2016. Repurchase agreements are collateralized by bonds of U.S. Government-sponsored entities with fair values of \$19,846,000 and \$13,867,000 at December 31, 2017 and 2016, respectively, which are held in the Bank's safekeeping account with a correspondent bank (see note 2). Upon maturity of the agreements, the identical securities pledged as collateral are returned to the Bank.

7. Borrowed Funds

Federal Home Loan Bank of Boston (FHLBB) Advances

The Bank's fixed-rate FHLBB advances at December 31 are as follows:

	2017		2016	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Maturity Dates	(Dollars in thousands)			
2017	$ –	– %	$98,000	.83%
2018	130,000	1.44	25,000	1.07
2019	10,000	1.92	10,000	1.92
2020	–	–	–	–
2021	10,000	1.61	10,000	1.61
	$150,000	1.49%	$143,000	1.00%

The Bank also has an Ideal Way line of credit in the amount of \$5,000,000 with the FHLBB with an interest rate that adjusts daily. There were no advances under this line of credit at December 31, 2017 and 2016.

All borrowings from the FHLBB are secured by a blanket lien on qualified collateral, as defined by the FHLBB.

7. Borrowed Funds (Continued)

Federal Funds Purchased

The Bank maintains federal funds lines of credit with Wells Fargo (up to $10,000,000), Zions Bank (up to $25,000,000), and Eastern Bank (up to $10,000,000). The interest rates adjust daily. There were no federal funds purchased outstanding at Wells Fargo, Zions Bank, or Eastern Bank at December 31, 2017 and 2016.

Subordinated Notes Payable

On September 3, 2013, the Company issued an unsecured subordinated note payable in the amount of $7,000,000. The balance outstanding at December 31, 2017 and 2016 was $7,000,000. The note interest rate at issuance was 7.75% per annum and was payable monthly. On October 30, 2015 the Company and lender agreed to amend the terms. The rate was amended effective September 7, 2023 to the prevailing LIBOR 30 Day Index plus 390 basis points adjusted on the effective date of any change in the LIBOR 30 Day Index. Additionally, the maturity date was extended to October 30, 2030 and mandatory principal payments were eliminated. Subsequently, in return for a payment of $280,000, effective June 30, 2016, a second amendment was executed immediately reducing the interest rate to 5.50% through September 7, 2023 at which time the variable rate terms noted above will take effect. Also, the premium to par for early repayment was terminated. $7,000,000 of the borrowings qualify for Tier 2 capital for regulatory purposes at December 31, 2017 and 2016.

On October 1, 2014, the Company issued an unsecured subordinated note payable in the amount of $3,000,000. The balance outstanding at December 31, 2017 and 2016 was $3,000,000. The note bears interest at 7.50% per annum and is payable monthly. On October 30, 2015, the Company and lender agreed to amend the terms. The rate was amended effective October 2, 2023 to the prevailing LIBOR 30 Day Index rate plus 390 basis points adjusted on the effective date of any change in the LIBOR 30 Day Index. Additionally, the maturity date was extended to October 30, 2030 and mandatory principal payments were eliminated. The Company retained the option to redeem the debt prematurely after year five at a premium to par depending upon the timing of the repayment. $3,000,000 of the borrowings qualify as Tier 2 capital for regulatory purposes at December 31, 2017 and 2016.

On October 30, 2015, the Company issued an unsecured subordinated note payable in the amount of $5,000,000. The balance outstanding at December 31, 2017 and 2016 was $5,000,000. The note bears interest at 5.75% per annum and is payable monthly. The rate converts to adjustable on October 30, 2025 to the prevailing LIBOR 30 Day Index rate plus 390 basis points, adjusting on the effective date of any change in the LIBOR 30 Day Index. The Company may redeem the debt prematurely after year five at a premium to par depending on the timing of the repayment. The final maturity date is October 30, 2030. $5,000,000 of the borrowing qualifies as Tier 2 capital for regulatory purposes as of December 31, 2017 and 2016.

On January 13, 2016, the Company issued unsecured subordinated notes payable in amounts totaling $25,000,000. The balance outstanding on all notes at December 31, 2017 and 2016 was $25,000,000. The notes bear interest at 5.50% per annum and are payable semi-annually. The rates convert to floating on January 15, 2021 to the prevailing LIBOR three-month index rate plus 382 basis points, adjusting quarterly. The final maturity dates are January 15, 2026 and are callable, in part or whole, after five years. $25,000,000 of the borrowings qualify as Tier 2 capital for regulatory purposes as of December 31, 2017 and 2016.

7. Borrowed Funds (Continued)

Debt issuance costs related to subordinated notes payable, net of accumulated amortization, at December 31, 2017 and 2016 amount to approximately $253,000 and $339,000, respectively.

8. Related-Party Transactions

The Company leases its Westford branch from the Westford Center Trust, a real estate trust controlled by certain directors of the Company. The Company is required to pay annual rent in the amount of $60,000. The lease expires in 2019.

The Company leases it Melrose branch from the Franklin Street Nominee Trust, a real estate trust controlled by two directors of the Company. The Company is required to pay annual rent in the amount of $59,000. The lease expires in 2022.

The Company leases its Chelmsford branch from C.L.M. Realty Trust, a real estate trust controlled by certain directors of the Company. The Company is required to pay annual rent in the amount of $124,000, plus real estate taxes. The lease expires in 2024.

The Company leases its disaster recovery location from the C.L.M. Realty Trust, a real estate trust controlled by certain directors of the Company. The Company is required to pay annual rent in the amount of $57,000, plus real estate taxes and common area charges. The lease expires in 2021.

The Company leases its Reading branch and its residential mortgage location from Haven Properties, LLC, a real estate trust controlled by certain directors of the Company under two separate leases. The Company is required to pay annual rent in the aggregate amounting to $301,000. The leases expire in 2019 and 2021, respectively.

The Company entered into a lease agreement with Mawn & Mawn, P.C. (the Firm), a law firm in which certain directors and executive officers of the Company and the Bank have a controlling ownership interest, to lease a portion of the Bank's main office building. The lease expires in 2020. Income recorded by the Bank in 2017 and 2016 was $95,000 and $97,000. The Firm also provides legal services to the Company. Legal fees paid to the Firm for the years ended December 31, 2017 and 2016 amounted to $356,000 and $309,000, respectively.

Loans to officers, directors and their affiliates amounted to $9,239,000 and $10,255,000 at December 31, 2017 and 2016, respectively. In 2017, there were additions of $2,253,000 and payments and reductions amounted to $3,269,000. In 2016, there were additions of $1,901,000 and payments and reductions amounted to $399,000. Additionally, at December 31, 2017 and 2016, unadvanced loan commitments to these related parties totaled $10,958,000 and $11,160,000, respectively.

Deposits from related parties totaled approximately $25,478,000 and $27,655,000 at December 31, 2017 and 2016, respectively.

9. Income Taxes

Allocation of federal and state income taxes between current and deferred portions for the years ended December 31 is as follows:

	2017	2016
	(In thousands)	
Current provision:		
Federal	$14,814	$11,731
State	4,152	3,054
Total current	18,966	14,785
Deferred expense (benefit):		
Federal	(1,326)	(1,544)
Effect of change in federal statutory tax rate	4,466	-
State	(399)	(572)
Total deferred	2,741	(2,116)
Total provision for income taxes	$21,707	$12,669

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
Statutory federal income tax rate	35.0%	35.0%
Increase (decrease) resulting from:		
State taxes, net of federal benefit	6.1	6.0
Tax-exempt interest income	(0.5)	(0.7)
Tax credits	(0.1)	(2.2)
Effective change in federal statutory tax rate	10.0	0.0
Other, net	(1.7)	0.5
Effective tax rate	48.8%	38.6%

9. Income Taxes (Continued)

The tax effects of each item that gives rise to net deferred tax assets at December 31 are as follows:

	2017	2016
	(In thousands)	
Deferred tax assets (liabilities):		
Employee benefit plans	$ 2,787	$3,674
Allowance for loan losses	6,560	8,588
Pension liability adjustment	1,634	1,543
Net unrealized losses on securities available-for-sale	109	171
Interest rate swap agreement	(33)	18
Premises and equipment	(1,682)	(2,445)
Other	648	466
Total deferred tax asset, net	$10,023	$12,015

A summary of the change in the net deferred tax asset for the years ended December 31 is as follows:

	2017	2016
	(In thousands)	
Balance at beginning of year	$12,015	$9,425
Deferred tax (expense) benefit	(2,741)	2,116
Deferred tax effect net of unrealized losses on securities available-for-sale	-	88
Deferred tax effect of minimum pension liability adjustment	813	414
Deferred tax effect of interest rate swap	(64)	(28)
Total deferred tax asset, net	$10,023	$12,015

On December 22, 2017, the U.S. federal government enacted a tax bill, H.R.1, *An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018* (Tax Cuts and Jobs Act). Among other provisions, the Tax Cuts and Jobs Act reduces the corporate federal income tax rate to a newly enacted rate of 21% for tax years beginning after December 31, 2017. At the date the new legislation is enacted, under ASC 740, "Income Taxes", the Company is required to recognize the effects of the change in tax law and rates on its deferred tax assets and liabilities as a charge to income tax expense. As a result of the above Tax Cuts and Jobs Act and the revaluation of deferred tax assets and liabilities at December 31, 2017, the Company recognized additional income tax expense of $4,466,000 in 2017.

In 2017, the Company invested in a Qualified Housing Project (Housing Project) that generates low-income housing credits and uses the proportional amortization method. Under this method, the Company recognizes amortization as a component of income tax expense on the initial cost of the tax credit investment in proportion to anticipated total tax credits over the life of the investment. The Company's investment in the Housing Project is $4,932,000 (included in other assets) at December 31, 2017. The Company's capital commitments outstanding to the Housing Project at December 31, 2017 is $4,665,000 which is included in other liabilities and is expected to be paid in quarterly installments through 2025. Amortization expense recorded as a component of tax expense in 2017 amounted to $68,000.

9. Income Taxes (Continued)

In 2017, the Company purchased Massachusetts housing development and historic rehabilitation tax credits totaling $3,000,000. In 2016, the Company recognized federal energy tax credits as a result of investing in an energy partnership in the amount of $716,000. The Company uses the flow-through method of accounting for the income tax credits whereby the income tax credits are treated as a reduction of state or federal income taxes immediately in the year in which the credit is generated. These credits reduced the Company's provision for state income taxes by $3,000,000 in 2017 and federal income taxes by $716,000 in 2016.

10. Other Commitments, Contingencies and Concentrations

In the normal course of business, there are outstanding commitments and contingencies which are not reflected in the accompanying consolidated financial statements.

Loan Commitments

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 extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, the following financial instruments were outstanding for which contract amounts represent credit risk:

	Contract Amount	
	2017	2016
	(In thousands)	
Commitments to grant loans	$ 63,076	$154,828
Unadvanced funds on commercial lines of credit	87,047	75,802
Unadvanced funds on home equity lines of credit	21,279	21,194
Unadvanced construction funds	89,426	125,042
Undrawn commitment on closed loans	19,827	27,327
Standby letters-of-credit	6,894	5,779
Other lines of credit and credit reserves	15,862	14,019
Unused credit card line	2,329	1,135

10. Other Commitments, Contingencies and Concentrations (Continued)

Commitments to extend credit are agreements to lend to a customer as long as 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. The commitments for lines of credit may expire without being drawn upon, therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

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

The Company accrues credit losses related to off-balance sheet financial instruments. Potential losses on off-balance sheet loan commitments are estimated using similar risk factors to determine the allowance for loan losses. The allowance for off-balance sheet loan losses is recorded within other liabilities and the balance is $185,000 and $270,000 at December 31, 2017 and 2016, respectively.

Employment Agreements

The Company has entered into employment agreements with certain executive officers that generally provide for a specified minimum annual compensation and the continuation of certain benefits currently received. Such employment may be terminated for cause, as defined, without incurring any continuing obligations. The agreements have initial terms of three years and are renewable annually thereafter.

Other Contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial position or results of operations.

Concentration

At December 31, 2017 and 2016, approximately $23,557,000 and $19,991,000 of cash surrender value of life insurance was with two insurance companies.

11. Retirement Plans

401(k)/Profit Sharing Plan

The Bank has a 401(k)/Profit Sharing Plan, which covers substantially all full-time employees. Employees become eligible for employer matching contributions after one year of employment. The Bank may make matching contributions based on employees' contributions, and/or make other "discretionary" contributions, which are allocated based upon salary to "non-highly compensated eligible participants." Employer contributions vest throughout the first five years of participation, with 100% vesting after year six. During the years ended December 31, 2017 and 2016, expenses relating to the plan amounted to \$254,000 and \$237,000, respectively.

Supplemental Executive Retirement Plan – Defined Benefits

In accounting for its defined benefit plan, the Company (a) recognizes in its statement of financial position the funded status of the benefit plan, (b) measures the plan's assets and its obligations that determine its funded status as of the end of the fiscal year, (c) recognizes, through other comprehensive loss, net of tax, changes in the funded status of the benefit plan that are not recognized as net periodic benefit cost, and (d) discloses additional information about certain effects on net periodic benefit cost for the next fiscal year that relates to the delayed recognition of certain benefit cost elements.

The Company has entered into salary continuation and supplemental life insurance agreements with its executives. The salary continuation agreements provide for a predetermined until death supplemental retirement benefit based upon a percentage of the executive's salary with the amount subject to vesting requirements, to be provided for until death, after the individual reaches a defined 'retirement age'. In addition, upon an executive's death during his period of active employment, a death benefit will be paid to his designated beneficiaries.

These non-qualified plans represent direct liabilities of the Company, and as such have no specific assets set aside to settle the benefit obligation. The funded status is the aggregate amount accrued, or the "Accumulated Benefit Obligation", which is equal to the present value of the retirement benefits to be provided to the employee or any beneficiary in exchange for the employee's service rendered to that date.

The amounts charged to expense for supplemental retirement programs were \$1,662,000 and \$1,403,000 for the years ended December 31, 2017 and 2016, respectively. The Company anticipates accruing an additional \$2,109,000 to the plan for the year ending December 31, 2018, which includes \$152,000 for the amortization of unrecognized prior service cost and \$546,000 for amortization of actuarial losses.

11. Retirement Plans (Continued)

Information pertaining to activity in the plan at December 31 is as follows:

	2017	2016
	(In thousands)	
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 12,741	$ 11,091
Service cost	691	578
Interest cost	513	491
Plan amendments	–	(53)
Actuarial loss	2,445	1,371
Benefits paid	(743)	(737)
Projected benefit obligation at end of year	15,647	12,741
Fair value of plan assets	–	–
Funded status	$(15,647)	$(12,741)
Accrued pension liability and accumulated benefit obligation, included in other liabilities	$(15,647)	$(12,741)

At December 31, 2017 and 2016, the discount rate used in determining the actuarial present value of the benefit obligation was 3.60% and 4.14%, respectively, and the rate of increase in compensation was 5%.

A summary of the components of net periodic pension expense and other plan data at December 31 follows:

	2017	2016
	(In thousands)	
Service cost	$ 691	$ 578
Interest cost	513	491
Amortization	458	334
Net periodic pension expense	$1,662	$1,403

For the years ended December 31, 2017 and 2016, the discount rate on benefit obligations used to determine net periodic pension cost was 4.14% and 4.59%, respectively, and the rate of increase in future compensation was 5%.

11. Retirement Plans (Continued)

At December 31, the following amounts were reflected in accumulated other comprehensive loss, net of tax:

	2017	2016
	(In thousands)	
Prior service cost	$ 272	$ 424
Net actuarial loss	5,461	3,322
	$ 5,733	$ 3,746

Estimated future benefit payments which reflect expected future service, as appropriate, are as follows:

Years Ending	Amount (In thousands)
2018	$ 749
2019	811
2020	754
2021	694
2022	633
2023 – 2027	2,659

Deferred Compensation Plan

Effective January 1, 2018, the Company has created a voluntary Deferred Compensation Plan for certain executives established to provide employees the ability to defer compensation until retirement or death. The Plan allows executives to voluntarily defer salary, commission and/or bonus compensation for a period of up to 10 years as a personal tax management strategy. The participants will realize an earnings credit on the funds from the Company which is subject to the discretion of the Board of Directors. At the Company's option, funds may also be contributed to an employee's account by the Company to attract and retain employees.

12. Capital

Minimum Regulatory Capital Requirements

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank 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. Prompt corrective action provisions are not applicable to bank holding companies.

12. Capital (Continued)

Management believes, as of December 31, 2017 and 2016, that the Company and the Bank met all capital adequacy requirements to which they are subject, including the Capital Conservation Buffer.

At December 31, 2017, the most recent notification from the Federal Deposit Insurance Corporation (FDIC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, minimum ratios as set forth in the table must be maintained. There are no conditions or events since that notification that management believes would have changed the Bank's category.

Effective January 1, 2015, the Bank adopted the Basel III capital adequacy rules which, among other changes, added a new risk-weighted capital measure called Common Equity Tier I (CETI). The Basel III capital adequacy guidelines require all banks and bank holding companies to maintain minimum capital ratios as follows:

- Common equity tier I to risk-weighted assets of 4.5%
- Total risk-based capital to risk-weighted assets of 8.0%
- Tier I capital to total risk-weighted assets of 6.0%
- Tier I capital to average assets (Leverage Ratio) of 4.0%

In addition to the above minimum requirements, on January 1, 2016, the Company and Bank became subject to a Capital Conservation Buffer requirement, which is being phased in over four years at 0.625% each year until fully implemented at 2.5% on January 1, 2019. The requirement limits capital distributions and certain discretionary bonus payments to management if the Company and/or Bank does not maintain the minimum required Capital Conservation Buffer. At December 31, 2017, the Capital Conservation Buffer is 1.25%.

The Company's and Bank's actual capital amounts and ratios are presented in the table below:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Company as of December 31, 2017						
Total capital to risk-weighted assets	$233,245	11.9%	$157,095	≥8.0%	$196,369	≥10%
Common equity tier 1 to risk-weighted assets	164,009	8.4	88,366	≥4.5	127,640	≥6.5
Tier 1 capital to risk-weighted assets	170,163	8.7	117,822	≥6.0	157,095	≥8.0
Tier 1 capital to average assets	170,163	8.5	79,988	≥4.0	99,985	≥5.0

12. Capital (Continued)

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Bank as of December 31, 2017						
Total capital to risk-weighted assets	$230,216	11.7%	$157,059	≥8.0%	$196,324	≥10%
Common equity tier 1 to risk-weighted assets	206,881	10.5	88,346	≥4.5	127,611	≥6.5
Tier 1 capital to risk-weighted assets	206,881	10.5	117,795	≥6.0	157,059	≥8.0
Tier 1 capital to average assets	206,881	10.3	79,981	≥4.0	99,977	≥5.0
Company as of December 31, 2016						
Total capital to risk-weighted assets	$208,235	12.7%	$131,168	≥8.0%	$163,960	≥10%
Common equity tier 1 to risk-weighted assets	141,575	8.6	73,782	≥4.5	106,574	≥6.5
Tier 1 capital to risk-weighted assets	147,729	9.0	98,376	≥6.0	131,168	≥8.0
Tier 1 capital to average assets	147,729	9.1	65,271	≥4.0	81,588	≥5.0
Bank as of December 31, 2016						
Total capital to risk-weighted assets	$202,274	12.3%	$131,115	≥8.0%	$163,894	≥10%
Common equity tier 1 to risk-weighted assets	181,776	11.1	73,752	≥4.5	106,531	≥6.5
Tier 1 capital to risk-weighted assets	181,776	11.1	98,337	≥6.0	131,115	≥8.0
Tier 1 capital to average assets	181,776	11.1	65,244	≥4.0	81,555	≥5.0

12. Capital (Continued)

For the Company, total risk-weighted assets factored into the risk-based capital calculations, including the common equity tier 1 ratio in 2017, were $1,963,692,000 and $1,639,596,000 at December 31, 2017 and 2016, respectively. Average assets utilized in the leverage capital calculation were $1,999,701,000 and $1,631,769,000 at December 31, 2017 and 2016, respectively.

For the Bank, total risk-weighted assets factored into the risk-based capital calculations, including the common equity tier 1 ratio in 2017, were $1,963,243,000 and $1,638,943,000 at December 31, 2017 and 2016, respectively. Average assets utilized in the leverage capital calculation were $1,999,531,000 and $1,631,102,000 at December 31, 2017 and 2016, respectively.

Restrictions on Subsidiary's Loans, Advances and Dividends

Bank regulatory authorities restrict the amounts available for payment of dividends by the Bank to the Company if the effect thereof would cause the capital of the Bank to be reduced below applicable capital requirements. These restrictions indirectly restrict the Company's ability to pay common stock dividends.

Federal laws and regulations also prohibit the Company from borrowing from the Bank unless the loans are secured by specified amounts of collateral. In addition, such secured loans to the Company from the Bank generally are limited to ten percent of the Bank's capital and surplus. At December 31, 2017 and 2016, no such transactions existed between the Company and the Bank.

Cash Reserve

The Bank is required at times to maintain reserve balances with the Federal Reserve Bank of Boston. At December 31, 2017 and 2016, there were no reserve requirements.

Preferred Stock

The Company has offered and sold, to accredited investors, 248 shares of 7.00% Series A Non-Cumulative Redeemable Perpetual Preferred Stock (the Preferred Stock), par value $10.00 per share (liquidation preference $25,000 per share) at an offer price of $25,000 per share.

Dividends on the Preferred Stock are payable in the sole discretion of the Company's Board of Directors (BOD) or a committee thereof. If the BOD or a duly authorized committee of the BOD does not declare a dividend on the Preferred Stock before the dividend payment date for any dividend period, such dividend will not be cumulative and will not accrue or be payable for such dividend period, and the Company will have no obligation to pay dividends for such dividend period, whether or not dividends on the Preferred Stock are declared for any future dividend period. The Company declared dividends on the Preferred Stock each quarter since the issuance of the stock.

12. Capital (Continued)

The Preferred Stock has no maturity date, and the Company is not required to repurchase or redeem the Preferred Stock. Accordingly, the Preferred Stock will remain outstanding indefinitely, unless the Company decides to redeem the outstanding shares. Any redemption of Preferred Stock proposed by the Company is subject to the prior approval of the Board of Governors of the Federal Reserve (the Federal Reserve). The Preferred Stock is not redeemable prior to the fifth anniversary of the closing of the sale of such Preferred Stock, except that prior to the fifth anniversary, the Company may, at its option and subject to receipt of any required regulatory approval, redeem the Preferred Stock in whole, but not in part, after the occurrence of a "regulatory capital treatment event" (as defined), in each case for cash at a redemption price of $25,000 per share, plus an amount equal to any declared and unpaid dividends up to the redemption date, without accumulation of any undeclared dividends. Except under limited circumstances as required by law, holders of our Preferred Stock do not have any voting rights. There is no public market for the Preferred Stock and no such market is expected to develop. The Preferred Stock has not been approved or disapproved by the FDIC, any state banking authority, the Securities and Exchange Commission (the SEC), or any state or foreign securities commission.

13. Fair Values of Financial Instruments

Fair value estimates, methods and assumptions are set forth below for the Company's financial instruments.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

13. Fair Values of Financial Instruments (Continued)

In determining the appropriate levels, the Company performs a detailed analysis of the assets that are measured and reported on a fair value basis. At each reporting period, all assets for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Fair Value on a Recurring Basis

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of December 31:

	2017 (In thousands)			
	Total	Level 1	Level 2	Level 3
Securities available-for-sale:				
Bonds of U.S. Government-sponsored entities	$46,845	$ –	$46,845	$ –
Municipal	1,442	–	1,442	–
Mortgage-backed	10,150	–	10,150	–
Mutual fund CRA investment	1,197	1,197	–	–
Interest rate lock commitments (included in other assets)	21	–	–	21
Interest rate swap (included in other assets)	117	–	–	117
Total assets measured at fair value	$59,772	$1,197	$58,437	$138
Interest rate lock commitments (included in other liabilities)	$(8)	$ –	$ –	$(8)
Total liabilities measured at fair value	$(8)	$ –	$ –	$(8)

	2016 (In thousands)			
	Total	Level 1	Level 2	Level 3
Securities available-for-sale:				
Bonds of U.S. Government-sponsored entities	$33,213	$ –	$33,213	$ –
Municipal	1,457	–	1,457	–
Mortgage-backed	11,528	–	11,528	–
Mutual fund CRA investment	1,177	1,177	–	–
Interest rate lock commitments (included in other assets)	139	–	–	139
Total assets measured at fair value	$47,514	$1,177	$46,198	$139
Interest rate lock commitments (included in other liabilities)	$ (15)	–	–	(15)
Interest rate swap (included in other liabilities)	(45)	–	–	(45)
Total liabilities measured at fair value	$(60)	$ –	$ –	$(60)

The activity in level 3 assets is immaterial.

13. Fair Values of Financial Instruments (Continued)

Fair Value on a Nonrecurring Basis

The table below presents the balances of assets measured at fair value on a nonrecurring basis during the year ending December 31:

	2017 (In thousands)				
	Total	Level 1	Level 2	Level 3	Total Losses
Impaired loans	$ 7,633	$ –	$ –	$ 7,633	$ 564
	$ 7,633	$ –	$ –	$ 7,633	$ 564

Impaired loans were written-down to their estimated fair value of $7,633,000 at December 31, 2017, resulting in an impairment charge through the allowance for loan losses. The loans do not trade in active, open markets with readily observable prices. Accordingly, the Company estimates the fair value of these loans based upon the estimated fair value of the underlying collateral. Due to the nature of the valuation inputs, these certain loans are classified within Level 3 of the valuation hierarchy.

For the years ended December 31, 2017 and 2016, the application of valuation techniques applied to similar assets has been consistent. The following is a description of the valuation methodologies used for determining the fair value of financial instruments:

Assumptions

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

Cash and Due from Banks

For cash, due from banks and short-term investments having maturities of ninety days or less, the carrying amounts approximate fair value.

Restricted Cash

The carrying amounts approximate fair value.

13. Fair Values of Financial Instruments (Continued)

Securities Available-for-Sale

Fair values for securities available-for-sale are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted prices of comparable instruments (see above table).

Federal Home Loan Bank of Boston Stock

The estimated fair value of Federal Home Loan Bank of Boston stock, which approximates carrying value, represents the price at which the Bank could liquidate its holdings.

Loans Held for Sale

The carrying value of loans held for sale approximates fair value based on current market transactions.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, commercial real estate, residential mortgage, residential construction and installment. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and nonperforming categories. For adjustable loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses based on market interest rates for loans with similar terms or borrowers of similar credit quality.

Accrued Interest Receivable

The carrying value of accrued interest receivable on investments and loans approximates fair value.

Cash Surrender Value of Life Insurance

The carrying value of this asset approximates its fair value.

Servicing Assets

Servicing assets do not trade in an active, open market with readily observable prices. While sales do occur, the precise terms and conditions typically are not readily available. Accordingly, the Company estimates the fair value using discounted cash flow models incorporating numerous assumptions from the perspective of market participants including servicing income, servicing costs, market discount rates, prepayment speeds, and default rates.

13. Fair Values of Financial Instruments (Continued)

Derivative Financial Instruments

Derivative financial instruments consist of interest rate lock commitments and an interest rate swap. The fair values are estimated based on methodologies which consider the interest rate spread between the fixed and variable components of the agreement, estimates of future interest rate movements, and time value of money.

Deposits

The fair value of deposits with no stated maturity, such as demand deposits, NOW, regular savings and money market accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discounted rate is estimated using market rates currently offered for certificates of similar remaining maturities.

Securities Sold Under Agreements to Repurchase

The fair value estimate of securities sold under agreements to repurchase approximates carrying value as they mature daily and bear market interest rates.

Federal Home Loan Bank of Boston Advances

The fair values of Federal Home Loan Bank of Boston advances are estimated using discounted cash flow analyses based on the current incremental borrowing rates for similar types of borrowing arrangements.

Subordinated Notes Payable

The fair value of the subordinated notes payable is estimated using discounted cash flow analyses based on the change in current swap curve.

Accrued Interest Payable

The carrying value of accrued interest payable on deposits and borrowings, included in other liabilities, approximates fair value.

Off-Balance Sheet Instruments

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of agreements and the creditworthiness of the counterparties. These fair values are not material and are not shown below.

Fair value estimates are based on existing on and off balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial instruments include the deferred tax assets, premises and equipment and investment in real estate. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

13. Fair Values of Financial Instruments (Continued)

The carrying values and estimated fair values of the Company's financial instruments as of December 31 are as follows:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial assets:				
Cash and due from banks	$ 103,569	$ 103,569	$ 85,943	$ 85,943
Restricted cash	1,208	1,208	1,207	1,207
Securities available-for-sale	59,634	59,634	47,375	47,375
Federal Home Loan Bank of Boston stock	6,064	6,064	6,099	6,099
Loans and loans held for sale, net	1,809,829	1,827,643	1,478,951	1,501,435
Interest rate swap	117	117	–	–
Interest rate lock commitment	21	21	139	139
Accrued interest receivable	6,051	6,051	4,858	4,858
Cash surrender value of life insurance	33,650	33,650	24,812	24,812
Servicing assets	175	356	229	403
Financial liabilities:				
Deposits	1,669,267	1,668,002	1,334,282	1,335,260
Securities sold under agreements to repurchase	17,681	17,681	13,742	13,742
Federal Home Loan Bank of Boston advances	150,000	149,637	143,000	142,765
Interest rate swap	–	–	45	45
Interest rate lock commitment	8	8	15	15
Subordinated notes payable	39,747	37,163	39,661	37,532
Accrued interest payable	1,271	1,271	1,121	1,121