









Dear Shareholder,

Every day, we focus on showing Westfield Bank customers "what better banking's all about." For us, the idea of better banking starts with putting customers first, while adhering to our core community values.

When we talk about better banking, we're not merely providing customers with service superior to other banks. We're challenging ourselves to work better each day, with each new opportunity and with each interaction.

Better banking is about encouraging growth and embracing change.

Successfully managing growth and change is the key story of 2017 for Westfield Bank, as we navigated our first year following the merger of Chicopee Savings Bank with and into Westfield Bank. I'm delighted to report that the merger went very smoothly as we worked to integrate Chicopee Savings Bank customer accounts, systems, and services. For the first merger in our history, we kept it local and we kept on task to create a transition that was as seamless as possible. In the midst of significant change during this past year, we were able to establish a clear baseline for loans and deposits as we move forward. In important ways, we're a new Westfield Bank—with new metrics and a stronger foundation for future success.

As we look to the future, I'd like to pay tribute to outgoing Board Chair Donald A. Williams—former Westfield Bank CEO, valued leader, treasured friend, and instrumental to our success. On behalf of the entire staff, thank you, Don, for your decades of leadership, service, and insight. We wouldn't be in such a position of strength without you.

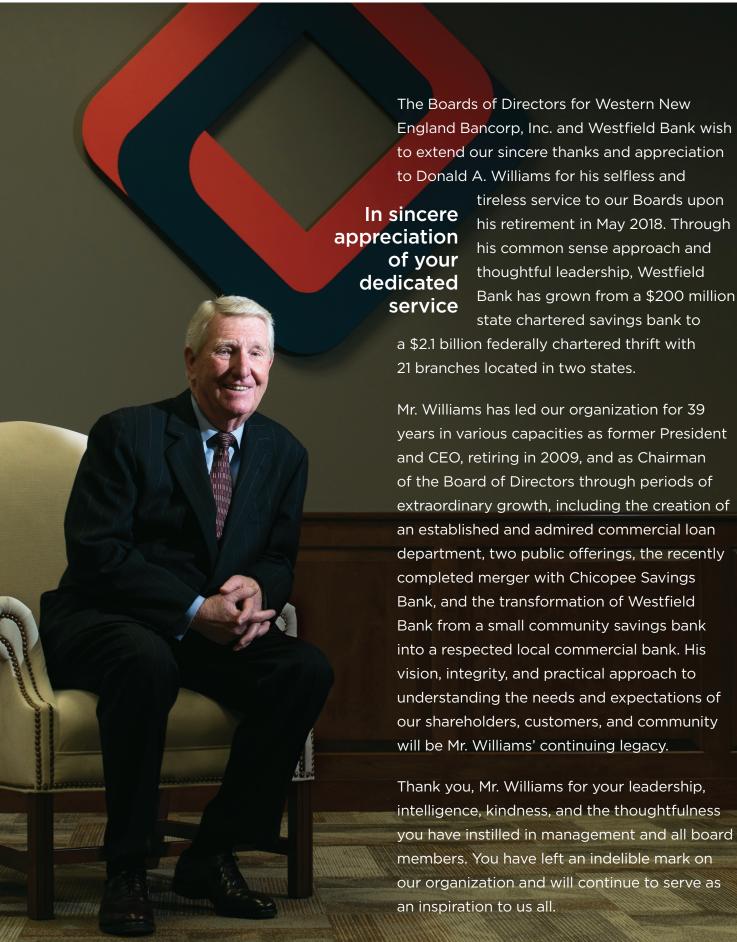
While I'm extending thanks, I'd like to thank every single person who plays a part in our success: Tellers, Lenders, Board Members, and everyone who shares our goal of making life easier and more secure for those we serve. Thank you for your dedication. Together, we're just getting started.

With best regards,

James C. Hagan

President and Chief Executive Officer





Securities and Exchange Commission Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

Commission File No.: 001-16767

Western New England Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Massachusetts 73-1627673 (State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

> 141 Elm Street, Westfield, Massachusetts 01085 (Address of principal executive offices, including zip code)

> > (413) 568-1911

(Registrant's telephone number, including area code)

was \$10.15 on June 30, 2017.

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, \$0.01 par value per share (Title of each class) Securities registered pursuant to Section 12(g) of the Act: The NASDAQ Global Select Market (Name of each exchange on which registered) None.
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes □ No ☒
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes \square No \boxtimes
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes \boxtimes No \square
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such filed). Yes \boxtimes No \square
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. □
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer [X] Non-accelerated filer Smaller reporting company Emerging growth company
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act \Box
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes \Box No [X]
The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2017, was \$315,361,586. This amount was based on the closing price as of June 30, 2017 on The NASDAQ Global Select Market for a share of the registrant's common stock, which

As of March 9, 2018, the registrant had 30,276,673 shares of common stock, \$0.01 per value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the 2018 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

WESTERN NEW ENGLAND BANCORP, INC. ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

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FORWARD-LOOKING STATEMENTS

We may, from time to time, make written or oral "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements contained in our filings with the Securities and Exchange Commission (the "SEC"), our reports to shareholders and in other communications by us. This Annual Report on Form 10-K contains "forward-looking statements" which may be identified by the use of such words as "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential." Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to:

- changes in the interest rate environment that reduce margins;
- changes in the regulatory environment;
- the highly competitive industry and market area in which we operate;
- general economic conditions, either nationally or regionally, resulting in, among other things, a deterioration in credit quality;
- changes in business conditions and inflation;
- changes in credit market conditions;
- changes in the securities markets which affect investment management revenues;
- increases in Federal Deposit Insurance Corporation deposit insurance premiums and assessments could adversely affect our financial condition;
- changes in technology used in the banking business;
- the soundness of other financial services institutions which may adversely affect our credit risk;
- certain of our intangible assets may become impaired in the future;
- our controls and procedures may fail or be circumvented;
- new lines of business or new products and services, which may subject us to additional risks;
- changes in key management personnel which may adversely impact our operations;
- the effect on our operations of governmental legislation and regulation, including changes in accounting regulation or standards, the nature and timing of the adoption and effectiveness of new requirements under the Dodd-Frank Act Wall Street Reform and Consumer Protection Act of 2010, Basel guidelines, capital requirements and other applicable laws and regulations;
- severe weather, natural disasters, acts of war or terrorism and other external events which could significantly impact our business; and
- other factors detailed from time to time in our SEC filings.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the results discussed in these forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Unless the context indicates otherwise, all references in this prospectus to "Western New England Bancorp," "WNEB" "we," "us," "our company," and "our" refer to Western New England Bancorp, Inc. and its subsidiaries (including Westfield Bank, CSB Colts, Inc., Elm Street Securities Corporation, WFD Securities, Inc. and WB Real Estate Holdings, LLC).

PART I

ITEM 1. BUSINESS

Western New England Bancorp, Inc. ("WNEB") (f/k/a "Westfield Financial, Inc.") is a General. Massachusetts-chartered stock holding company and the parent company of Westfield Bank (the "Bank"). On October 21, 2016, the Company acquired Chicopee Bancorp, Inc. ("Chicopee"), the holding company for Chicopee Savings Bank, whereby Chicopee merged with and into Western New England Bancorp, with Western New England Bancorp surviving, and Chicopee Savings Bank merged with and into Westfield Bank (the "Bank"), with the Bank surviving, and in conjunction with the acquisition, the name of the holding company was changed to Western New England Bancorp, Inc. The transaction qualified as a tax-free reorganization for federal income tax purposes. Under the terms of the merger agreement, each outstanding share of Chicopee common stock was converted into the right to receive 2.425 shares of WNEB common stock. The consideration paid in the transaction to shareholders of Chicopee consisted of 11,919,412 shares of our common stock. Based upon the per share closing price of \$7.90 on October 21, 2016, the transaction was valued at approximately \$98.8 million. As a result of this transaction, we added eight branches, \$716.6 million in assets, \$640.9 million in loans and \$545.7 million in deposits to our franchise. Western New England Bancorp was formed in 2001 in connection with its reorganization from a federally-chartered mutual holding company to a Massachusettschartered stock holding company with the second step conversion being completed in 2007. The Bank was formed in 1853 and is a federally chartered savings bank regulated by the Office of the Comptroller of the Currency ("OCC"). As a community bank, we focus on servicing commercial customers, including commercial and industrial lending and commercial deposit relationships. We believe that this business focus is best for our long-term success and viability, and complements our existing commitment to high quality customer service.

Elm Street Securities Corporation, a Massachusetts-chartered security corporation, was formed by us for the primary purpose of holding qualified securities. In February 2007, we formed WFD Securities, Inc., a Massachusetts-chartered security corporation, for the primary purpose of holding qualified securities. In October 2009, we formed WB Real Estate Holdings, LLC, a Massachusetts-chartered limited liability company, for the primary purpose of holding real property acquired as security for debts previously contracted by the Bank. On October 21, 2016, in conjunction with the acquisition of Chicopee, we acquired CSB Colts, Inc., a Massachusetts-chartered security corporation, formed for the primary purpose of holding qualified securities.

Market Area. We operate 21 banking offices in Agawam, Chicopee, Feeding Hills, East Longmeadow, Holyoke, Ludlow, South Hadley, Southwick, Springfield, Ware, West Springfield and Westfield, Massachusetts and Granby and Enfield, Connecticut. Our banking offices in Granby and Enfield, Connecticut, which we opened in June 2013 and November 2014, respectively, are our first locations outside of western Massachusetts. In 2014, we relocated our middle market and commercial real estate lending team to offices in Springfield, Massachusetts. We also have 23 free-standing ATM locations in Chicopee, Holyoke, Southwick, Springfield, West Springfield and Westfield, Massachusetts and 24 traveling/seasonal ATMs. Our primary deposit gathering area is concentrated in the communities surrounding these locations and our primary lending area includes all of Hampden County and Hampshire County in western Massachusetts and Hartford and Tolland Counties in northern Connecticut. In addition, we provide online banking services through our website located at www.westfieldbank.com.

The markets served by our branches are primarily suburban in character, as we operate only one banking office and headquarter our middle market commercial lending team in Springfield, the Pioneer Valley's primary urban market. Westfield, Massachusetts, is located in the Pioneer Valley near the intersection of U.S. Interstates 90 (the Massachusetts Turnpike) and 91. The Pioneer Valley of western Massachusetts encompasses the sixth largest metropolitan area in New England. The Springfield Metropolitan area covers a relatively diverse area ranging from densely populated urban areas, such as Springfield, to outlying rural areas.

Competition. We face intense competition both in making loans and attracting deposits. Our competition for loans comes principally from commercial banks, savings institutions, mortgage banking firms, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms. Historically, our most direct competition for deposits has come from savings and commercial banks. We face additional competition for deposits from internet-based institutions, credit unions, brokerage firms and insurance companies.

Personnel. As of December 31, 2017, we had 255 full-time employees and 62 part-time employees. The employees are not represented by a collective bargaining unit, and we consider our relationship with our employees to be excellent.

Lending Activities

Loan Portfolio Composition. Our loan portfolio primarily consists of commercial real estate loans, commercial and industrial loans, residential real estate loans, home equity loans and consumer loans. At December 31, 2017, we had total loans of \$1.6 billion, of which 58.6% were adjustable rate loans and 41.4% were fixed rate loans. Commercial real estate loans and commercial and industrial loans totaled \$732.6 million and \$238.5 million, respectively. The remainder of our loans at December 31, 2017 consisted of residential real estate loans, home equity loans and consumer loans. Residential real estate and home equity loans outstanding at December 31, 2017 totaled \$650.4 million. Consumer loans outstanding at December 31, 2017 were \$4.5 million.

The interest rates we charge on loans are affected principally by the demand for loans, the supply of money available for lending purposes and the interest rates offered by our competitors. These factors are, in turn, affected by general and local economic conditions, monetary policies of the federal government, including the Federal Reserve Board, legislative tax policies and governmental budgetary matters.

The following table presents the composition of our loan portfolio in dollar amounts and in percentages of the total portfolio at the dates indicated.

6,500	2013	Ā	Amount Total			\$ 264,476 41.54	198,686 31.21	35,371 5.56	498,533 78.31		135,555 21.29	2,572 0.40	138,127 21.69	636,660 100.00	767 (7,459) \$ 629,968
		of	Total			38.49 % \$	32.82	5.57	76.88		22.91	0.21	23.12	100.00 %	••
7 100	2014		Amount			% \$ 278,405	237,436	40,305	556,146		165,728	1,542	167,270	% 723,416	1,270 (7,948)
At December 31,		Percent of	Total	(Dollars in thousands)		37.21	36.60	5.34	79.15		20.66	0.19	20.85	100.00	
At De	2015		Amount	(Dollars		\$ 303,036	298,052	43,512	644,600		168,256	1,534	169,790	814,390	3,823 (8,840) \$ 809,373
		Percent of	Total			46.15 %	33.43	5.90	85.48		14.23	0.28	14.52	100.00 %	
	2016		Amount			\$ 720,741	522,083	92,083	1,334,907		222,286	4,424	226,710	1,561,617	4,867 (10,068)
<u>t</u>		Percent of	Total			45.06 %	34.30	5.70	85.06		14.67	0.27	14.94	00:001	
	2017		Amount			\$ 732,616	557,752	92,599	1,382,967		238,502	4,478	242,980	1,625,947	4,734 (10,831)
					Real estate loans:	Commercial	Residential	Home equity	Total real estate loans	Other loans	Commercial and industrial	Consumer, other	Total other loans	Totalloans	Premiums and deferred loan fees and costs, net Allowance for Ioan losses Total Ioans, net

Loan Maturity and Repricing. The following table shows the repricing dates or contractual maturity dates of our loans as of December 31, 2017. The table does not reflect prepayments or scheduled principal amortization. Demand loans, loans having no stated maturity, and overdrafts are shown as due in within one year.

At December 31, 2017

	Commercial Real Estate	Residential	Home Equity	Commercial and Industrial	Consumer	Unallocated	Totals	
	Real Estate	Residential	(In thousands)	muusti iai	Consumer	Chanocateu	Totals	
Amount due:								
Within one year	\$ 86,655	\$ 43,068	\$ 67,333	\$ 119,324	\$ 376	\$ -	\$ 316,756	
After one year:								
One to three years	159,189	39,809	665	32,354	529	-	232,546	
Three to five years	199,472	48,736	2,014	49,020	1,625	-	300,867	
Five to ten years	261,577	96,563	7,575	37,075	255	-	403,045	
Ten to twenty years	23,975	51,026	15,012	16	831	-	90,860	
Over twenty years	1,748	278,550	<u> </u>	713	862		281,873	
Total due after one year	645,961	514,684	25,266	119,178	4,102		1,309,191	
Total amount due:	732,616	557,752	92,599	238,502	4,478	-	1,625,947	
Net deferred loan origination fees and costs and premiums	(660)	4,050	340	963	41	-	4,734	
Allowance for loan losses	(4,712)	(2,839)	(472)	(2,733)	(71)	(4)	(10,831)	
Loans, net	\$ 727,244	\$ 558,963	\$ 92,467	\$ 236,732	\$ 4,448	\$ (4)	\$1,619,850	

The following table presents, as of December 31, 2017, the dollar amount of all loans contractually due or scheduled to reprice after December 31, 2018, and whether such loans have fixed interest rates or adjustable interest rates.

	 Due	ecember 31, 2	, 2018					
	 Fixed	Ad	ljustable		Total			
		(In t	housands)					
Real estate loans:								
Residential	\$ 352,190	\$	162,494	\$	514,684			
Home equity	25,266		-		25,266			
Commercial real estate	162,152		483,809		645,961			
Total real estate loans	 539,608		646,303		1,185,911			
Other loans:								
Commercial and industrial	106,104		13,074		119,178			
Consumer	4,095		7		4,102			
Total other loans	110,199		13,081		123,280			
Total loans	\$ 649,807	\$	659,384	\$	1,309,191			

The following table presents our loan originations, purchases and principal payments for the years indicated:

	For the	Years E	Inded Decem	ber 31,	
	2017		2016		2015
	_	(In th	nousands)		
Loans:					
Balance outstanding at beginning of year	\$ 1,561,617	\$	814,390	\$	723,416
Originations:					
Real estate loans:					
Residential	8,120		3,522		240
Home equity	28,109		23,093		15,189
Commercial	110,392		78,396		79,734
Total mortgage originations	146,621		105,011		95,163
Commercial and industrial loans	64,324		75,034		51,063
Consumer loans	2,100		871		1,404
Total originations	213,045		180,916		147,630
Purchase of one-to-four family mortgage loans	48,205		108,448		90,743
	261,250		289,364		238,373
Loans acquired from Chicopee Savings Bank at fair value	-		640,892		-
Less:					
Principal repayments, unadvanced funds and other, net	196,168		183,384		147,016
Loan charge-offs (recoveries), net	597		(653)		383
Loans transferred to other real estate owned	155		298		-
Total deductions	196,920		183,029	_	147,399
Ending balance	\$ 1,625,947	\$	1,561,617	\$	814,390

Commercial and Industrial Loans. We offer commercial and industrial loan products and services that are designed to give business owners borrowing opportunities for modernization, inventory, equipment, construction, consolidation, real estate, working capital, vehicle purchases and the financing of existing corporate debt. We offer business installment loans, vehicle and equipment financing, lines of credit, and other commercial loans. At December 31, 2017, our commercial and industrial loan portfolio consisted of 1,777 loans totaling \$238.5 million, or 14.7% of our total loans. Our commercial loan team includes thirteen commercial loan officers, six credit analysts and three portfolio managers. We may hire additional commercial loan officers on an as needed basis.

As part of our strategy of increasing our emphasis on commercial lending, we seek to attract our business customers' entire banking relationship. Most commercial borrowers also maintain commercial deposits. We provide complementary commercial products and services, a variety of commercial deposit accounts, cash management services, internet banking, sweep accounts, a broad ATM network and night deposit services. We offer a remote deposit capture product whereby commercial customers can receive credit for check deposits by electronically transmitting check images from their own locations. Commercial loan officers are based in our commercial lending centers in Springfield, Chicopee and Westfield, and we view our branch network as a means of facilitating these commercial relationships. We intend to continue to expand the volume of our commercial business products and services within our current underwriting standards.

Our commercial and industrial loan portfolio does not have any significant loan concentration by type of property or borrower. The largest concentration of commercial and industrial loans to an industry was to retail trade which comprised approximately 16.7% of the commercial and industrial loan portfolio inclusive of commercial and industrial owner occupied real estate loans as of December 31, 2017. At December 31, 2017, our largest commercial and industrial loan relationship was \$29.8 million to a college. The loan relationship is secured by business assets and owner occupied real estate. The loans to this borrower have performed to contractual terms.

Commercial and industrial loans generally have terms of seven years or less, however, on an occasional basis, may have terms of up to ten years. Among the \$238.5 million we have in our commercial and industrial loan portfolio as of December 31, 2017, \$114.4 million have adjustable interest rates and \$124.1 million have fixed interest rates. Whenever possible, we seek to originate adjustable rate commercial and industrial loans. Borrower activity and market conditions, however, may influence whether we are able to originate adjustable rate loans rather than fixed rate loans. We generally require the personal guarantee of the business owner. Interest rates on commercial and industrial loans generally have higher yields than residential or commercial real estate loans.

Commercial and industrial loans are generally considered to involve a higher degree of risk than residential or commercial real estate loans because the collateral may be in the form of intangible assets and/or inventory subject to market obsolescence. Please see "Risk Factors – Our loan portfolio includes loans with a higher risk of loss." Commercial and industrial loans may also involve relatively large loan balances to single borrowers or groups of related borrowers, with the repayment of such loans typically dependent on the successful operation and income stream of the borrower. These risks can be significantly affected by economic conditions. In addition, business lending generally requires substantially greater oversight efforts by our staff compared to residential or commercial real estate lending, including obtaining and analyzing periodic financial statements of the borrowers. In order to mitigate this risk, we monitor our loan concentration and our loan policies generally to limit the amount of loans to a single borrower or group of borrowers. We also utilize the services of an outside consultant to conduct credit quality reviews of the commercial and industrial loan portfolio.

Commercial Real Estate Loans. We originate commercial real estate loans to finance the purchase of real property, which generally consists of apartment buildings, business properties, multi-family investment properties and construction loans to developers of commercial and residential properties. In underwriting commercial real estate loans, consideration is given to the property's historic cash flow, current and projected occupancy, location and physical condition. At December 31, 2017, our commercial real estate loan portfolio consisted of 998 loans, totaling \$732.6 million, or 45.1% of total loans. Since 2013, commercial real estate loans have grown by \$468.1 million, or 177.0%, from \$264.5 million at December 31, 2013 to \$732.6 million at December 31, 2017. Organic commercial real estate loan growth since 2013 was \$66.3 million, or 25.1%.

The majority of the commercial real estate portfolio consists of loans which are collateralized by properties in the Pioneer Valley of Massachusetts and northern Connecticut. Our commercial real estate loan portfolio is diverse, and does not have any significant loan concentration by type of property or borrower. We generally lend up to a loan-to-value ratio of 80% on commercial properties. We, however, will lend up to a maximum of 85% loan-to-value ratio and will generally require a minimum debt coverage ratio of 1.15. Our largest non-owner occupied commercial real estate loan relationship was \$15.1 million at December 31, 2017, which is secured by multiple commercial properties located within the Bank's primary lending area. The loans to this borrower are performing.

We also offer construction loans to finance the construction of commercial properties located in our primary market area. At December 31, 2017, we had \$84.4 million in commercial construction loans and commitments that are committed to refinance into permanent mortgages at the end of the construction period and \$13.4 million in commercial construction loans and commitments that are not committed to permanent financing at the end of the construction period.

Commercial real estate lending involves additional risks compared with one-to-four family residential lending. Payments on loans secured by commercial real estate properties often depend on the successful management of the properties, on the amount of rent from the properties, or on the level of expenses needed to maintain the properties. Repayment of such loans may therefore be adversely affected by conditions in the real estate market or the general economy. Also, commercial real estate loans typically involve large loan balances to

single borrowers or groups of related borrowers. In order to mitigate this risk, we obtain and analyze periodic financial statements of the borrowers as well as monitor our loan concentration risk on a quarterly basis and our loan policies generally limit the amount of loans to a single borrower or group of borrowers.

Because of increased risks associated with commercial real estate loans, our commercial real estate loans generally have higher rates than residential real estate loans. Please see "Risk Factors – Our loan portfolio includes loans with a higher risk of loss." Commercial real estate loans generally have adjustable rates with repricing dates of five years or less; however, occasionally repricing dates may be as long as 10 years. Whenever possible, we seek to originate adjustable rate commercial real estate loans. Borrower activity and market conditions, however, may influence whether we are able to originate adjustable rate loans rather than fixed rate loans.

Residential Real Estate Loans and Originations. Prior to the acquisition of Chicopee in 2016, Westfield Bank referred our residential real estate borrowers to a third-party mortgage company and substantially all of our residential real estate loans were underwritten, originated and serviced by a third-party mortgage company. Subsequent to the acquisition of Chicopee, Westfield Bank began to process and underwrite substantially all of our originations internally through our Loan Center located in Westfield, MA. Residential real estate borrowers submit applications to us and the loan is closed in Westfield Bank's name and is booked directly into our portfolio. Loans can either be held in portfolio or, if eligible, can be sold on the secondary market for a fee. Westfield Bank retains the servicing rights to these loans. Some other mortgage types such as government-insured loans are brokered through a third-party mortgage company. The third-party mortgage company approves and closes the loan in their name. They keep the servicing rights to these loans and Westfield Bank retains no residual ownership interest. Westfield Bank receives a fee for each loan brokered to the third-party mortgage company.

In 2017, we purchased \$48.2 million in residential loans from a New England-based bank as a means of supplementing our loan growth. While management has used residential loan growth to supplement the loan portfolio, the long-term strategy remains focused on commercial lending. At December 31, 2017, loans on one-to-four family residential properties, including home equity lines, accounted for \$650.4 million, or 40.0% of our total loan portfolio.

Our residential adjustable rate mortgage loans generally are fully amortizing loans with contractual maturities of up to 30 years, payments due monthly. Our adjustable rate mortgage loans generally provide for specified minimum and maximum interest rates, with a lifetime cap and floor, and a periodic adjustment on the interest rate over the rate in effect on the date of origination. As a consequence of using caps, the interest rates on these loans are not generally as rate sensitive as our cost of funds. The adjustable rate mortgage loans that we originate generally are not convertible into fixed rate loans.

Adjustable rate mortgage loans generally pose different credit risks than fixed rate loans, primarily because as interest rates rise, the borrower's payments rise, increasing the potential for default. To date, we have not experienced difficulty with payments for these loans. At December 31, 2017, our residential real estate included \$205.4 million in adjustable rate loans, or 12.6% of our total loan portfolio, and \$352.4 million in fixed rate loans, or 21.7% of our total loan portfolio.

Our home equity loans totaled \$92.6 million, or 5.7% of total loans at December 31, 2017. Home equity loans include \$25.3 million in fixed rate loans, or 1.6% of total loans, and \$67.3 million in adjustable rate loans, or 4.1% of total loans. These loans may be originated in amounts up to 85% current loan to value (CLTV) of the appraised value of the property securing the loan. The term to maturity on our home equity and home improvement loans may be up to 20 years.

Consumer Loans. Consumer loans are generally originated at higher interest rates than residential and commercial real estate loans, but they also generally tend to have a higher credit risk than residential real estate loans because they are usually unsecured or secured by rapidly depreciable assets. Management, however, believes that offering consumer loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.

We offer a variety of consumer loans to retail customers in the communities we serve. Examples of our consumer loans include automobile loans, collateral loans and personal lines of credit tied to deposit accounts to provide overdraft protection. At December 31, 2017, the consumer loan portfolio totaled \$4.5 million, or 0.3% of total loans. Our consumer lending will allow us to diversify our loan portfolio while continuing to meet the needs of the individuals and businesses that we serve.

Loans collateralized by rapidly depreciable assets such as automobiles or that are unsecured entail greater risks than residential real estate loans. In such cases, repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance, since there is a greater likelihood of damage, loss or depreciation of the underlying collateral. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. Further, collections on these loans are dependent on the borrower's continuing financial stability and, therefore, are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. There was no repossessed collateral relating to consumer loans at December 31, 2017. Finally, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans if a borrower defaults.

Loan Approval Procedures and Authority. Individuals authorized to make loans on our behalf are designated by our Senior Lending Officer and approved by the Board of Directors. Each designated loan officer has loan approval authority up to prescribed limits that depend upon the officer's level of experience.

Upon receipt of a completed loan application from a prospective borrower, we order a credit report and verify other information. If necessary, we obtain additional financial or credit related information. We also require an appraisal for all commercial real estate loans greater than \$250,000, which is performed by licensed or certified third-party appraisal firms and reviewed by our credit administration department.

For loans that are \$250,000 or under, an assessment of valuation will be performed by a qualified individual. The individual performing the assessment of valuation is independent from the loan production and will validate the evaluation methodology by supporting criteria. If the valuation assessment is over 80% loan to value (LTV) a full appraisal will be ordered by a licensed appraiser. For loan amounts over \$250,000 a full appraisal is required by a licensed appraiser.

Commercial and Industrial Loans and Commercial Real Estate Loans. We lend up to a maximum loan-to-value ratio of 85% on commercial properties and the majority of these loans require a minimum debt coverage ratio of 1.15. Commercial real estate lending involves additional risks compared with one-to-four-family residential lending. Because payments on loans secured by commercial real estate properties are often dependent on the successful operation or management of the properties, and/or the collateral value of the commercial real estate securing the loan, repayment of such loans may be subject, to a greater extent, to adverse conditions in the real estate market or the economy. Also, commercial real estate loans typically involve large loan balances to single borrowers or groups of related borrowers. Our loan policies limit the amounts of loans to a single borrower or group of borrowers to reduce this risk.

Our lending policies permit our lending and underwriting departments to review and approve commercial and industrial loans and commercial real estate loans up to \$3.0 million. Any commercial and industrial or commercial real estate loan application that exceeds \$3.0 million or that would result in the borrower's total credit exposure with us to exceed \$3.0 million, or whose approval requires an exception to our standard loan approval procedures, requires approval of the Executive Committee of the Board of Directors. An example of an exception to our standard loan approval procedures would be if a borrower was located outside our primary lending area. For loans requiring Board approval, management is responsible for presenting to the Board information about the creditworthiness of a borrower and the estimated value of the subject equipment or property. Generally, these determinations are based on financial statements, corporate and personal tax returns, as well as any other necessary information, including real estate and or equipment appraisals.

Residential Real Estate Loans. We originate and fund residential real estate loans secured by one-to-four family residential real estate primarily located in western Massachusetts and northern Connecticut. Loans are originated in amounts up to 97% of the lesser of the appraised value or purchase price of the property. Private mortgage insurance is required on all loans with a loan-to-value ratio in excess of 80%. Fixed-rate mortgages are generally originated for terms ranging in years from five to thirty years. Fixed-rate residential mortgage loans are underwritten to secondary market underwriting guidelines including FICO standards and debt-to-income ratio requirements. We are an approved seller and servicer with Fannie Mae, Freddie Mac and the FHLBB, an approved Mass Housing lender, and an approved broker for government insured loans such as FHA, VA and USRD.

Home Equity Loans. We originate and fund home equity loans secured by owner-occupied one-to-four family residences. These loans may be originated in amounts up to 85% (CLTV) of the current value of the property. Our underwriting standards include a review of the borrower's credit history, an assessment of the borrower's ability to repay and an evaluation of the value of the collateral securing the loan. Originated home equity loans may be offered with fixed-rates of interest and with terms up to twenty years; a fifteen year draw period and a fifteen year amortization period; or indexed to prime rate as reported in the Wall Street Journal. Our lending and underwriting department may approve home equity loans up to \$250,000. Home equity loans in amounts greater than \$250,000 and up to \$350,000 may be approved by certain officers who have been approved by the Board of Directors. Home equity loans over \$350,000, or approval requiring an exception to our standard approval procedures, are reviewed and approved by the Executive Committee of the Board of Directors.

Asset Quality

One of our key operating objectives has been and continues to be the achievement of a high level of asset quality. We maintain a large proportion of loans secured by residential and commercial properties, set sound credit standards for new loan originations and follow careful loan administration procedures. We also utilize the services of an outside consultant to conduct credit quality reviews of our commercial and industrial and commercial real estate loan portfolio on at least an annual basis.

Nonaccrual Loans and Foreclosed Assets. Our policies require that management continuously monitor the status of the loan portfolio and report to the Board of Directors on a monthly basis. These reports include information on nonaccrual loans and foreclosed real estate, as well as our actions and plans to cure the nonaccrual status of the loans and to dispose of the foreclosed property.

The following table presents information regarding nonperforming mortgage, consumer and other loans, and foreclosed real estate as of the dates indicated. All loans where the payment is 90 days or more in arrears as of the closing date of each month are placed on nonaccrual status unless the loan is well secured and in the process of collection. At December 31, 2017, 2016 and 2015, nonperforming loans totaled \$12.8 million, \$14.1 million, and \$8.1 million, respectively. In 2016, we acquired \$6.4 million in nonperforming loans from Chicopee Bancorp. If all nonaccrual loans had been performing in accordance with their terms, we would have earned additional interest income of \$749,000, \$535,000 and \$406,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

	At December 31,														
		2017			2016			2015			2014	<u> </u>		2013	
							(Dollars	in thousand	s)						
Nonaccrual real estate loans:															
Residential	\$	5,961		\$	5,744		\$	1,470		\$	1,323		\$	712	
Home equity		696			120						1			38	
Commercial real estate		2,959			4,452			3,237			3,257			1,449	
Total nonaccrual real estate loans		9,616	•		10,316	_		4,707	-		4,581	•		2,199	
Other loans:			•			_			-			•			
Commercial and industrial		3,019			3,714			3,363			4,233			386	
Consumer		120			27			10			16			1	
Total nonaccrual other loans		3,139	•		3,741	_		3,373	-		4,249	•		387	
Total nonperforming loans		12,755	•		14,057	_		8,080	_		8,830	•		2,586	
Foreclosed real estate, net		155			298			-			-			-	
Total nonperforming assets (1)	\$	12,910		\$	14,355	_	\$	8,080	- -	\$	8,830	-	\$	2,586	-
Nonperforming loans to total loans		0.78	%		0.90	%		0.99	%	-	1.22	%		0.41	%
Nonperforming assets to total assets		0.63			0.69			0.60			0.67			0.20	

⁽¹⁾ TDRs on accrual status not included above totaled \$1.8 million, \$2.1 million, \$495,000, \$50,000 and \$14.5 million at December 31, 2017, 2016, 2015, 2014 and 2013, respectively.

Allowance for Loan Losses. The following table presents the activity in our allowance for loan losses and other ratios at or for the dates indicated.

At or for	Years	Ended	December	· 31.
-----------	-------	-------	----------	-------

	2017		20)16			2015		2014			2013	
					(1	Dollars	in thousa	nds)					
Balance at beginning of year	\$ 10,068		\$ 8.	,840		\$	7,948		\$ 7,459		\$	7,794	
Charge-offs:													
Residential	(124)		(115)			(24)		(31)			(80)	
Commercial real estate	(292)		(170)			-		(350)			(20)	
Home equity loans	(24)			(42)			(34)		-			-	
Commercial and industrial	(289)			-			(345)		(787)			(208)	
Consumer	(319)		(159)			(73)		(55)			(33)	
Total charge-offs	(1,048)	•	(4	486)			(476)		(1,223)			(341)	-
Recoveries:													
Residential	122			9			4		1			1	
Commercial real estate	142		1.	,065			-		-			155	
Home equity loans	42			-			4		-			-	
Commercial and industrial	81			25			51		121			84	
Consumer	64			40			34		15			22	
Total recoveries	451	•	1.	,139			93		137			262	-
Net (charge-offs) recoveries	(597)			653			(383)		(1,086)			(79)	
Provision (credit) for loan losses	1,360			575			1,275		 1,575			(256)	-
Balance at end of year	\$ 10,831	ŧ	\$ 10	,068		\$	8,840	:	\$ 7,948		\$	7,459	=
Total loans receivable (1)	\$ 1,625,947	į	\$ 1,561	,617		\$	814,390	į	\$ 723,416		\$	636,660	=
Average loans outstanding	\$ 1,597,599	:	\$ 1,013	,611		\$	766,548	:	\$ 683,064		\$	604,732	Ē
Allowance for loan losses as a percent of total loans receivable	0.67	%		0.64	%		1.09	%	1.10	%		1.17	%
Net loans charged-off as a percent of average loans outstanding	0.04		(0).06)			0.05		0.16			0.01	

⁽¹⁾ Does not include premiums, deferred costs and fees, or the allowance for loan losses.

We maintain an allowance for loan losses to absorb losses inherent in the loan portfolio based on ongoing quarterly assessments of the estimated losses. Our methodology for assessing the appropriateness of the allowance consists of a review of the components, which include a specific valuation allowance for impaired loans and a general allowance for non-impaired loans. The specific valuation allowance incorporates the results of measuring impairment for specifically identified non-homogenous problem loans and, as applicable, troubled debt restructurings ("TDRs"). The specific allowance reduces the carrying amount of the impaired loans to their estimated fair value, less costs to sell, if collateral dependent. A loan is recognized as impaired when it is probable that principal and/or interest are not collectible in accordance with the loan's contractual terms. The general allowance is calculated by applying loss factors to outstanding loans by type, excluding loans determined to be

impaired. As part of this analysis, each quarter we prepare an allowance for loan losses worksheet which categorizes the loan portfolio by risk characteristics such as loan type and loan grade. The general allowance is inherently subjective as it requires material estimates that may be susceptible to significant change. There are a number of factors that are considered when evaluating the appropriate level of the allowance. These factors include current economic and business conditions that affect our key lending areas, new loan products, collateral values, loan volumes and concentrations, credit quality trends such as nonperforming loans, delinquency and loan losses, and specific industry concentrations within the portfolio segments that may impact the collectability of the loan portfolio. For information on our methodology for assessing the appropriateness of the allowance for loan losses please see Footnote 1 – "Summary of Significant Accounting Policies" of our notes to consolidated financial statements.

In addition, management employs an independent third party to perform a semi-annual review of a sample of our commercial and industrial loans and commercial real estate loans. During the course of their review, the third party examines a sample of loans, including new loans, existing relationships over certain dollar amounts and classified assets.

Our methodologies include several factors that are intended to reduce the difference between estimated and actual losses; however, because these are management's best estimates based on information known at the time, estimates may differ from actual losses incurred. The loss factors that are used to establish the allowance for pass graded loans are designated to be self-correcting by taking into account changes in loan classification, loan concentrations and loan volumes and by permitting adjustments based on management's judgments of qualitative factors as of the evaluation date. Similarly, by basing the pass graded loan loss factors on loss experience over the prior six years, the methodology is designed to take loss experience into account.

Our allowance methodology has been applied on a consistent basis. Based on this methodology, we believe that we have established and maintained the allowance for loan losses at appropriate levels. Future adjustments to the allowance for loan losses, however, may be necessary if economic, real estate and other conditions differ substantially from the current operating environment resulting in estimated and actual losses differing substantially. Adjustments to the allowance for loan losses are charged to income through the provision for loan losses.

A summary of the components of the allowance for loan losses is as follows:

			December 31, 20	17		December 31, 20	16	December 31, 2015					
	Spec	eific	General	Total	Specific	General	Total	Spec	cific	General	Total		
						(In thousands)							
Commercial real estate	\$	-	\$ 4,712	\$ 4,712	\$ -	\$ 4,083	\$ 4,083	\$	-	\$ 3,856	\$ 3,856		
Residential real estate:													
Residential		-	2,839	2,839	-	2,433	2,433		-	2,122	2,122		
Home equity		-	472	472	-	429	429		-	309	309		
Commercial and industrial		-	2,733	2,733	-	3,085	3,085		-	2,485	2,485		
Consumer		-	71	71	-	38	38		-	22	22		
Unallocated		-	4	4	-	-	-		-	46	46		
Total	\$	-	\$ 10,831	\$ 10,831	\$ -	\$ 10,068	\$ 10,068	\$	-	\$ 8,840	\$ 8,840		

			December 31, 201	4		December 31, 20	13
	Spec	ific	General	Total	Specifi	c General	Total
			·	(In thou	ısands)		
Commercial real estate	\$	-	\$ 3,705	\$ 3,705	\$ 8	2 \$ 3,468	\$ 3,550
Residential real estate:							
Residential		-	1,755	1,755		- 1,454	1,454
Home equity		-	298	298		- 253	253
Commercial and industrial		-	2,174	2,174	1	5 2,176	2,191
Consumer		-	15	15		- 13	13
Unallocated		-	1	1		- (2)	(2)
Total	\$	_	\$ 7,948	\$ 7,948	\$ 9	7 \$ 7,362	\$ 7,459

In addition, the OCC, as an integral part of its examination process, periodically reviews our loan and foreclosed real estate portfolios and the related allowance for loan losses and valuation allowance for foreclosed real estate. The OCC may require us to adjust the allowance for loan losses or the valuation allowance for foreclosed real estate based on their judgment of information available to them at the time of their examination, thereby adversely affecting our results of operations. There were no adjustments recommended during 2017 or 2016.

For the year ended December 31, 2017, we recorded a provision of \$1.4 million to the allowance for loan losses based on our evaluation of the items discussed above. We believe that the allowance for loan losses adequately reflects the level of incurred losses in the current loan portfolio as of December 31, 2017.

Allocation of Allowance for Loan Losses. The following tables set forth the allowance for loan losses allocated by loan category, the total loan balances by category, and the percent of loans in each category to total loans.

			Decen	ber 31, 2017						Decem	ber 31, 2016			December 31, 2015						
Allow for L		ount of owance r Loan		Loan lances by Category	Percent of Loans in Each Category to Total Loans		_	Amount of Allowance for Loan Losses		Loan Balances by Category		Percent of Loans in Each Category to Total Loans		Amount of Allowance for Loan Losses		Loan Balances by Category		Percent of Loans in Each Category to Total Loans		
										(In thousands)										
Commercial real estate	\$	4,712	\$	732,616	45.06	%		\$	4,083	\$	720,741	46.15	%	\$	3,856	\$	303,036	37.21	%	
Real estate mortgage:																				
Residential		2,839		557,752	34.30				2,433		522,083	33.43			2,122		298,052	36.60		
Home equity		472		92,599	5.70				429		92,083	5.90			309		43,512	5.34		
Commercial loans		2,733		238,502	14.67				3,085		222,286	14.24			2,485		168,256	20.66		
Consumer loans		71		4,478	0.27				38		4,424	0.28			22		1,534	0.19		
Unallocated		4		-	0.00				-		-	0.00			46		-	0.00		
Total allowances for loan losses	\$	10,831	\$	1,625,947	100.00	%	_	\$	10,068	\$	1,561,617	100.00	%	\$	8,840	\$	814,390	100.00	%	

			Decen	ber 31, 2014					Decem	ber 31, 2013		
	Alle	ount of owance Loan		Loan lances by Category	Percent Loans Each Categor Total Lo	in y to	Alle	ount of owance Loan osses		Loan lances by ategory	Percen Loans Eacl Categor Total Lo	in h ry to
						(In thou	ısands)					
Commercial real estate	\$	3,705	\$	278,405	38.49	%	\$	3,550	\$	264,476	41.54	%
Real estate mortgage:												
Residential		1,755		237,436	32.82			1,454		198,686	31.21	
Home equity		298		40,305	5.57			253		35,371	5.56	
Commercial loans		2,174		165,728	22.91			2,191		135,555	21.29	
Consumer loans		15		1,542	0.21			13		2,572	0.40	
Unallocated		1		-	0.00			(2)		-	0.00	
Total allowances for loan losses	\$	7,948	\$	723,416	100.00	%	\$	7,459	\$	636,660	100.00	%

Potential Problem Loans. The Company performs an internal analysis of the loan portfolio in order to identify and quantify loans with higher than normal risk. Loans having a higher risk profile are assigned a risk rating corresponding to the level of weakness identified in the loan. The Company maintains a listing of "classified loans" consisting of Special Mention, Substandard and Doubtful loans, which are generally transferred to the Special Assets or Collections area for additional monitoring. Loans identified as containing loss are normally partially or fully charged off. In addition, the Company closely monitors the classified loans for signs of deterioration to mitigate the growth in nonaccrual loans, including performing additional due diligence, updating valuations and requiring additional financial reporting from the borrower. At December 31, 2017, classified loans, totaled \$63.6 million, of which \$43.7 million are not considered impaired. See the section titled *Asset Quality* in Part I, Item 1. Business found elsewhere in this report for further discussion on classification of potential problem loans.

Loans Acquired with Deteriorated Credit Quality. Loans acquired in a transfer, including business combinations, where there is evidence of credit deterioration since origination and it is probable at the date of acquisition the Company will not collect all contractually required principal and interest payments, are accounted for under accounting guidance for purchased credit-impaired loans. This guidance provides that the excess of the cash flows initially expected to be collected over the fair value of the loans at the acquisition date (i.e., the accretable yield) is accreted into interest income over the estimated remaining life of the loans, provided that the timing and amount of future cash flows is reasonably estimated. The difference between the contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. Subsequent to acquisition, probable decreases in expected cash flows are recognized through a provision for loan losses, resulting in an increase to the allowance for loan losses. If the Company has probable and significant increases in cash flows expected to be collected, the Company will first reverse any previously established allowance for loan losses and then increase interest income as a prospective yield adjustment.

Investment Activities. The Board of Directors reviews and approves our investment policy on an annual basis. The Chief Executive Officer and Chief Financial Officer, as authorized by the Board of Directors, implement this policy based on the established guidelines within the written policy.

Our investment policy is designed primarily to manage the interest rate sensitivity of our assets and liabilities, to generate a favorable return without incurring undue interest rate and credit risk, to complement our lending activities and to provide and maintain liquidity within the range established by policy. In determining our investment strategies, we consider our interest rate sensitivity, yield, credit risk factors, maturity and amortization schedules, and other characteristics of the securities to be held.

Federally-chartered savings banks have authority to invest in various types of assets, including U.S. Treasury obligations, securities of various government-sponsored enterprises, mortgage-backed securities, certain certificates of deposit of insured financial institutions, repurchase agreements, overnight and short-term loans to other banks and corporate debt instruments.

Securities Portfolio. We invest in government-sponsored enterprise debt securities which consist of bonds issued by the Federal Home Loan Mortgage Corporation and the Federal Farm Credit Banks. We also invest in corporate bonds which are diversified amongst a number of companies and industries and are rated in one of the four highest nationally-recognized investment grade categories. These securities have maturities that do not exceed 7 years. In addition, we have investments in Federal Home Loan Bank stock and mutual funds that invest only in securities allowed by the OCC.

Our mortgage-backed securities, the majority of which are directly or indirectly insured or guaranteed by or Fannie Mae, Freddie Mac or Ginnie Mae, consist primarily of fixed rate securities.

The following table sets forth the composition of our securities portfolio at the dates indicated.

				At Dec	ember 31	•		
		2017		2	2016		20	15
	Amortized	d	Fair Value	 Amortized Cost		air alue	Amortized Cost	Fair Value
Available-for-sale:		_						
Debt securities:								
Government-sponsored enterprise obligations	\$ 25,15	1	\$ 24,381	\$ 43,140	\$	42,008	\$ 4,000	\$ 3,951
State and municipal bonds	3,222	2	3,239	4,117		4,008	2,794	2,801
Corporate bonds	56,084	4	56,144	50,255		50,317	21,176	21,136
Total debt securities	84,45	7	83,764	 97,512		96,333	27,970	27,888
Mortgage-backed securities:								
Government-sponsored mortgage-backed securities	185,769	9	182,001	184,127	1	80,136	138,186	135,959
U.S. government guaranteed mortgage-backed securities	16,82	1	16,254	17,753		17,350	11,030	10,903
Total mortgage-backed securities	202,590	0	198,255	 201,880	1	97,486	149,216	146,862
Marketable equity securities:								
Mutual funds	6,72	7	6,397	6,586		6,296	6,438	6,247
Common and preferred stock	*,.=	-	-	-		-	1,309	1,593
Total marketable equity securities	6,72	7	6,397	 6,586		6,296	7,747	7,840
Total available-for-sale securities	\$ 293,774	4	\$ 288,416	 \$ 305,978	\$ 3	00,115	\$ 184,933	\$ 182,590
Held-to-maturity:	,							,
Debt securities:								
Government-sponsored enterprise obligations	\$ -	-	\$ -	\$ -	\$	-	\$ 30,146	\$ 29,928
State and municipal bonds	-	-	-	-		-	6,845	6,811
Corporate bonds	-	-	-	-		-	23,969	23,717
Total debt securities			-	 =		-	60,960	60,456
Mortgage-backed securities:								
Government-sponsored mortgage-backed securities		-	-	-		-	148,085	147,889
U.S. government guaranteed mortgage-backed securities		-	-	-		-	29,174	29,274
Total mortgage-backed securities		_ :	-	 -		-	177,259	177,163
Total held-to-maturity securities	\$	-	\$ -	\$ -	\$	_	\$ 238,219	\$ 237,619

Mortgage-Backed Securities. The following table sets forth the amortized cost and fair value of our mortgage-backed securities, which are classified as available-forsale or held-to-maturity at the dates indicated.

					At December 31,				
		2017			2016			2015	
	Amortized	Percent of	Fair	Amortized	Percent of	Fair	Amortized	Percent of	Fair
	Cost	Total	Value	Cost	Total	Value	Cost	Total	Value
					(In thousands)				
Available-for-sale:									
Government-sponsored residential mortgage-backed	\$ 185,769	91.70 %	\$ 182,001	\$ 184,127	91.21 %	\$ 180,136	\$ 138,186	42.32 %	\$ 135,959
U.S. government guaranteed residential mortgage-backed	16,821	8.30	16,254	17,753	8.79	17,350	11,030	3.38	10,903
Total available-for-sale	202,590	100.00	198,255	201,880	100.00	197,486	149,216	45.70	146,862
Held-to-maturity:									
Government-sponsored residential mortgage-backed	,	•	•	1	•	ı	148,085	45.36	147,889
U.S. government guaranteed residential mortgage-backed	1	1	1	1	1	1	29,174	8.94	29,274
Total held-to-maturity	1	1	1	1	1	•	177,259	54.30	177,163
,			,			!	!		
Total	\$ 202,590	100.00	\$ 198,255	\$ 201,880	100.00	\$ 197,486	\$ 326,475	100.00	\$ 324,025

Securities Portfolio Maturities. The composition and maturities of the debt securities portfolio and the mortgage-backed securities portfolio at December 31, 2017 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or redemptions that may occur.

			More than One Year	One Year	More than Five Years	ive Years					
	One Year or Less	or Less	through Five Years	ve Years	through Ten Years	n Years	More than Ten Years	Fen Years	Tot	Total Securities	
		Weighted		Weighted		Weighted		Weighted			Weighted
	Amortized	Average	Amortized	Average	Amortized	Average	Amortized	Average	Amortized	Fair	Average
	Cost	Yield	Cost	Yield	Cost	X reld	Cost	Y ield	Cost	value	y ield
					(Dolla	(Dollars in thousands)	nds)				
Debt securities available-for-sale:											
Government-sponsored enterprise obligations	S	% -	\$ 1,500	1.44 %	\$ 18,500	2.23 %	\$ 5,151	3.00 %	\$ 25,151	\$ 24,381	2.34 %
State and municipal bonds	1	•	480	3.76	1,142	3.81	1,600	2.91	3,222	3,239	3.36
Corporate bonds	1		31,103	2.97	24,981	3.08	1	1	56,084	56,144	3.02
Total debt securities available-for-sale	1	ı	33,083	2.91	44,623	2.74	6,751	2.98	84,457	83,764	2.83
Mortgage-hacked securities available-for-sale:											
Government-sponsored residential mortgage-backed	ı	,	21,186	1.91	5,754	2.06	158,829	2.42	185,769	182,001	2.35
U.S. government guaranteed residential mortgage-backed		i	'	ı	1		16,821	2.27	16,821	16,254	2.27
Total mortgage-backed securities available-for-sale	1	i	21,186	1.91	5,754	2.06	175,650	2.41	202,590	198,255	2.35
Total available-for-sale	\$	% -	\$ 54,269	2.52 %	\$ 50,377	2.67 %	\$ 182,401	2.43 %	\$ 287,047	\$ 282,019	2.49 %

Sources of Funds

General. Deposits, short-term borrowings, long-term debt, scheduled amortization and prepayments of loan principal, maturities and calls of securities and funds provided by operations are our primary sources of funds for use in lending, investing and for other general purposes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources."

Deposits. We offer a variety of deposit accounts having a range of interest rates and terms. We currently offer regular savings deposits, interest-bearing demand accounts, non-interest-bearing demand accounts, money market accounts and time deposits. We have expanded the types of deposit products that we offer to include online and mobile banking services, tiered money market accounts and customer repurchase agreements to complement our increased emphasis on attracting commercial banking relationships.

Deposit flows are influenced significantly by general and local economic conditions, changes in prevailing interest rates, pricing of deposits and competition. Our deposits are primarily obtained from areas surrounding our offices. We rely primarily on paying competitive rates, service and long-standing relationships with customers to attract and retain these deposits.

When we determine our deposit rates, we consider local competition, U.S. Treasury securities offerings and the rates charged on other sources of funds. Core deposits (defined as regular accounts, money market accounts, and interest-bearing and non-interest-bearing demand accounts) represented 63.1% of total deposits on December 31, 2017 and 62.3% on December 31, 2016. At December 31, 2017 and December 31, 2016, time deposits with remaining terms to maturity of less than one year amounted to \$300.5 million and \$321.1 million, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Net Interest and Dividend Income" for information relating to the average balances and costs of our deposit accounts for the years ended December 31, 2017, 2016 and 2015.

Deposit Distribution and Weighted Average Rates. The following table sets forth the distribution of our deposit accounts, by account type, at the dates indicated.

				At D	ecember 31,				
		2017			2016			2015	
		_	Weighted Average			Weighted Average			Weighted Average
	Amount	Percent	Rates	Amount	Percent	Rates	Amount	Percent	Rates
				(Dollars	s in thousand	s)			
Demand deposits	\$ 311,851	20.72 %	- %	\$ 303,993	20.03 %	- %	\$157,844	17.54	% - %
Interest-bearing checking accounts	87,394	5.80	0.39	82,406	5.43	0.46	28,913	3.21	0.30
Regular accounts	140,081	9.30	0.12	149,455	9.85	0.13	75,225	8.35	0.11
Money market accounts	410,223	27.24	0.40	409,274	26.96	0.41	242,647	26.95	0.34
Total core deposit accounts	949,549	63.06	0.23	945,128	62.26	0.24	504,629	56.05	0.20
Time deposits:									
Due within the year	300,531	19.95	1.15	321,078	21.15	1.13	240,662	26.73	1.02
Over 1 year through 3 years	213,780	14.19	1.58	199,309	13.13	1.42	92,650	10.29	1.27
Over 3 years	42,222	2.80	1.59	52,556	3.46	1.64	62,422	6.93	1.81
Total time deposit accounts	556,533	36.94	1.35	572,943	37.74	1.28	395,734	43.95	1.20
Total	\$ 1,506,082	100.00 %	0.65 %	\$ 1,518,071	100.00 %	0.63 %	\$900,363	100.00	% 0.64 %

Time Deposit Maturities. At December 31, 2017, we had \$140.0 million in time deposits with balances of \$250,000 and over maturing as follows:

Maturity Period	A	mount	Weighted Av Rate	erage
	(In t	housands)		
3 months or less	\$	19,329	0.86	%
Over 3 months through 6 months		30,812	1.29	
Over 6 months through 12 months		19,280	1.34	
Over 12 months		70,572	1.71	
Total	\$	139,993	1.45	%

Time Deposit Balances by Rates. The following table sets forth, by interest rate ranges, information concerning our time deposits at the dates indicated.

At December 31, 2017

					110 20 0001110					
	ess than ne Year	On	e to Two Years	_	Two to ree Years		ore than ee Years	 Total	Percent Total	
				(Dollar	s in thousands))				
1.00% and under	\$ 73,441	\$	16,503	\$	6,555	\$	6,624	\$ 103,123	18.53	%
1.01% to 2.00%	227,090		162,058		22,419		35,235	446,802	80.28	
2.01% to 3.00%	_		1,219		5,026		363	 6,608	1.19	_
Total	\$ 300,531	\$	179,780	\$	34,000	\$	42,222	\$ 556,533	100.00	%

Short-term borrowings and long-term debt. We also use short-term borrowings and long-term debt as an additional source of funds to finance our lending and investing activities and to provide liquidity for daily operations. Short-term borrowings are made up of Federal Home Loan Bank of Boston ("FHLBB") advances (including line of credit advances) with an original maturity of less than one year as well as customer repurchase agreements, which have an original maturity of one day. Short-term borrowings issued by the FHLBB were \$133.0 million at December 31, 2017 and \$155.0 million at December 31, 2016. We had an "Ideal Way" line of credit with the FHLBB for \$9.5 million for the years ended December 31, 2017 and 2016. Interest on this line of credit is payable at a rate determined and reset by the FHLBB on a daily basis. The outstanding principal is due daily but the portion not repaid will be automatically renewed. There were no advances outstanding under this line at December 31, 2017 and 2016, respectively.

Our repurchase agreements are with commercial customers. These agreements are linked to customers' checking accounts. Excess funds are swept out of certain commercial checking accounts and into repurchase agreements where the customers can earn interest on their funds. At December 31, 2017 and 2016, such repurchase agreement borrowings totaled \$11.7 million and \$17.4 million, respectively. In addition, we have a \$4.0 million line of credit with Bankers Bank Northeast ("BBN") and a \$50.0 million line of credit with PNC Bank, respectively, at an interest rate determined and reset by BBN and PNC on a daily basis. At December 31, 2017 and 2016, we had no advances outstanding under these lines. As part of our contract with BBN, we are required to maintain a reserve balance of \$300,000 with BBN for our use of this line.

Long-term debt consists of FHLBB advances, securities sold under repurchase agreements and customer repurchase agreements with an original maturity of one year or more. At December 31, 2017, we had \$164.8 million in long-term debt with the FHLBB and no long-term customer repurchase agreements. This compares to \$124.8 million in FHLBB advances and no long-term customer repurchase agreements at December 31, 2016. During 2016, we prepaid FHLBB borrowings in the amount of \$42.5 million with a weighted average rate of 2.29% and incurred a prepayment expense of \$915,000.

Financial Services – In conjunction with our acquisition of Chicopee in October 2016, we retained a partnership with a third party registered broker dealer, Linsco/Private Ledger ("LPL"), while discontinuing our strategic alliance with our previous service provider, Charter Oak, a division of MassMutual. Through LPL, we offer customers a range of non-deposit investment products, including mutual funds, debt, equity and government securities, retirement accounts, insurance products and fixed and variable annuities. We receive a portion of the commissions generated by LPL from sales to customers.

Supervision and Regulation

Western New England Bancorp and the Bank are subject to extensive regulation under federal and state laws. The regulatory framework applicable to savings and loan holding companies and their insured depository institution subsidiaries is intended to protect depositors, the federal deposit insurance fund (the "DIF"), consumers and the U.S. banking system, rather than investors.

Set forth below is a summary of the significant laws and regulations applicable to Western New England Bancorp and its subsidiaries. The summary description that follows is qualified in its entirety by reference to the full text of the statutes, regulations, and policies that are described. Such statutes, regulations, and policies are subject to ongoing review by Congress and state legislatures and federal and state regulatory agencies. A change in any of the statutes, regulations, or regulatory policies applicable to Western New England Bancorp and its subsidiaries could have a material effect on the results of the Company.

Overview. Western New England Bancorp is a separate and distinct legal entity from the Bank. Western New England Bancorp is a Massachusetts corporation and registered savings and loan holding company under the Home Owners' Loan Act (the "HOLA"), as amended, and is subject to the supervision of and regular examination by the Board of Governors of the Federal Reserve System (the "FRB," the "Federal Reserve Board" or the "Federal Reserve") as its primary federal regulator. In addition, the Federal Reserve Board has enforcement authority over Western New England Bancorp and its non-savings association subsidiaries. Western New England Bancorp is also subject to the jurisdiction of the SEC and is subject to the disclosure and other regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. Western New England Bancorp is traded on the NASDAQ under the ticker symbol, "WNEB," and is subject to the NASDAQ stock market rules.

The Bank is organized as a federal savings association under the HOLA. The Bank is subject to the supervision of, and to regular examination by, the Office of the Comptroller of the Currency (the "OCC") as its chartering authority and primary federal regulator. To a limited extent, the Bank is also subject to the supervision and regulation of the Federal Deposit Insurance Corporation (the "FDIC") as its deposit insurer. Financial products and services offered by Western New England Bancorp and the Bank are subject to federal consumer protection laws and implementing regulations promulgated by the Consumer Financial Protection Bureau (the "CFPB"). Western New England Bancorp and the Bank are also subject to oversight by state attorneys general for compliance with state consumer protection laws. The Bank's deposits are insured by the FDIC up to the applicable deposit insurance limits in accordance with FDIC laws and regulations. The Bank is a member of the FHLBB, and is subject to the rules and requirements of the FHLBB. The subsidiaries of Western New England Bancorp and the Bank are subject to federal and state laws and regulations, including regulations of the FRB and the OCC, respectively.

Set forth below is a description of the significant elements of the laws and regulations applicable to Western New England Bancorp and its subsidiaries. Statutes, regulations and policies are subject to ongoing review by Congress, state legislatures and federal and state agencies. A change in any statute, regulation or policy

applicable to Western New England Bancorp may have a material effect on the results of Western New England Bancorp and its subsidiaries.

Federal Savings and Loan Holding Company Regulation. Western New England Bancorp is a savings and loan holding company as defined by the HOLA. In general, the HOLA restricts the business activities of savings and loan holding companies to those permitted for financial holding companies under the Bank Holding Company Act of 1956 as amended (the "BHC Act"), as amended. Permissible businesses activities includes banking, managing or controlling banks and other activities that the FRB has determined to be so closely related to banking "as to be a proper incident thereto," as well as any activity that is either (i) financial in nature or incidental to such financial activity (as determined by the FRB in consultation with the Secretary of the Treasury) or (ii) complementary to a financial activity, and that does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as determined solely by the FRB). Activities that are financial in nature include, among others, securities underwriting and dealing, insurance underwriting and making merchant banking investments.

Mergers and Acquisitions. The HOLA, the federal Bank Merger Act and other federal and state statutes regulate direct and indirect acquisitions of savings associations by savings and loan holding companies or other savings associations. The HOLA requires the prior approval of the FRB for the direct or indirect acquisition of more than 5% of the voting shares of a savings association or its parent holding company and for a company, other than a savings and loan holding company, to acquire 25% or more of any class of voting securities of a savings association or a savings and loan holding company. Under the Change in Bank Control Act, any person, including a company, may not acquire, directly or indirectly, control of an insured depository institution without providing 60 days' prior notice and receiving a non-objection from the appropriate federal banking agency.

Under the Bank Merger Act, the prior approval of the OCC is required for a federal savings association to merge with another insured depository institution, where the resulting institution is a federal savings association, or to purchase the assets or assume the deposits of another insured depository institution. In reviewing applications seeking approval of merger and acquisition transactions, the federal bank regulatory agencies must consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, performance records under the Community Reinvestment Act of 1977 (the "CRA") (see the section captioned "Community Reinvestment Act of 1977" included elsewhere in this section) and the effectiveness of the subject organizations in combating money laundering.

Source of Strength Doctrine. FRB policy requires savings and loan holding companies to act as a source of financial and managerial strength to their subsidiary savings associations. Section 616 of the Dodd-Frank Act codified the requirement that holding companies act as a source of financial strength to their insured depository institution subsidiaries. As a result, Western New England Bancorp is expected to commit resources to support the Bank, including at times when Western New England Bancorp may not be in a financial position to provide such resources. Any capital loans by a savings and loan holding company to any of its subsidiary savings associations are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary savings associations. In the event of a savings and loan holding company's bankruptcy, any commitment by the savings and loan holding company to a federal banking agency to maintain the capital of a subsidiary insured depository institution will be assumed by the bankruptcy trustee and entitled to priority of payment.

<u>Dividends</u>. The principal source of Western New England Bancorp's liquidity is dividends from the Bank. The OCC imposes various restrictions and requirements on the Bank's ability to make capital distributions, including cash dividends. The OCC's prior approval is required if the total of all distributions, including the proposed distribution, declared by a federal savings association in any calendar year would exceed an amount equal to the Bank's net income for the year-to-date plus the Bank's retained net income for the previous two years, or that would cause the Bank to be less than well capitalized. In addition, section 10(f) of the HOLA requires a subsidiary savings association of a savings and loan holding company, such as the Bank, to file a notice with the Federal Reserve prior to declaring certain types of dividends.

Western New England Bancorp and the Bank are also subject to other regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory

minimums. The appropriate federal banking agency is authorized to determine, under certain circumstances relating to the financial condition of a savings and loan holding company or a savings association, that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. The federal banking agencies have indicated that paying dividends that deplete an insured depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings.

<u>Capital Adequacy.</u> In July 2013, the FRB, the OCC and the FDIC approved final rules (the "Capital Rules") that established a new capital framework for U.S. banking organizations. The Capital Rules generally implement the Basel Committee on Banking Supervision's (the "Basel Committee") December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. In addition, the Capital Rules implement certain provisions of the Dodd-Frank Act. Pursuant to the Dodd-Frank Act, Western New England Bancorp, as a savings and loan holding company, is subject to the Capital Rules.

The Capital Rules substantially revised the risk-based capital requirements applicable to holding companies and their depository institution subsidiaries as compared to prior U.S. general risk-based capital rules. The Capital Rules revised the definitions and the components of regulatory capital and impacted the calculation of the numerator in banking institutions' regulatory capital ratios. The Capital Rules became effective on January 1, 2015, subject to phase-in periods for certain components and other provisions.

The Capital Rules: (i) require a capital measure called "Common Equity Tier 1" ("CET1") and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. Under the Capital Rules, for most banking organizations, including Western New England Bancorp, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock and the most common forms of Tier 2 capital are subordinated notes and a portion of the allocation for loan and lease losses, in each case, subject to the Capital Rules' specific requirements.

Pursuant to the Capital Rules, the minimum capital ratios as of January 1, 2015 are:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

The Capital Rules also require a "capital conservation buffer," composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity and other capital instrument repurchases and compensation based on the amount of the shortfall. Thus, when fully phased-in on January 1, 2019, the capital standards applicable to Western New England Bancorp will include an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios inclusive of the capital conservation buffer of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%.

The Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

In addition, under the current general risk-based capital rules, the effects of accumulated other comprehensive income or loss ("AOCI") items included in shareholders' equity (for example, marks-to-market of securities held in the available-for-sale portfolio) under U.S. GAAP are reversed for the purposes of determining regulatory capital ratios. Under the Capital Rules, the effects of certain AOCI items are not excluded; however, banking organizations not using advanced approaches, were permitted to make a one-time permanent election to continue to exclude these items in January 2015. The Company and the Bank made this election.

Implementation of the deductions and other adjustments to CET1 that began on January 1, 2015, are phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019. The risk-weighting categories in the Capital Rules are standardized and include a risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of assets.

In November 2017, the FRB finalized a rule extending the currently applicable capital rules for non-advanced approaches institutions, including the treatment of mortgage servicing assets. This rule is in effect pending the comment period and review of the general proposal to simplify the Capital Rules for non-advanced approaches institutions.

Western New England Bancorp is in compliance with the targeted capital ratios under the Capital Rules at December 31, 2017. The Bank is subject to the Capital Rules on the same phase-in schedule as Western New England Bancorp. We believe that Western New England Bancorp and the Bank will remain in compliance with the targeted capital ratios as such requirements are phased in.

<u>Prompt Corrective Action</u>. Pursuant to Section 38 of the Federal Deposit Insurance Act ("FDIA"), federal banking agencies are required to take "prompt corrective action" ("PCA") should an insured depository institutions fail to meet certain capital adequacy standards. At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits. Furthermore, if an insured depository institution is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the appropriate federal banking agency, and the holding company must guarantee the performance of that plan. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

For purposes of PCA, to be: (i) well-capitalized, an insured depository institution must have a total risk based capital ratio of at least 10%, a Tier 1 risk based capital ratio of at least 8%, a CET1 risk based capital ratio of at least 6.5%, and a Tier 1 leverage ratio of at least 5%; (ii) adequately capitalized, an insured depository institution must have a total risk based capital ratio of at least 8%, a Tier 1 risk based capital ratio of at least 6%, a CET1 risk based capital ratio of at least 4.5%, and a Tier 1 leverage ratio of at least 4%; (iii) undercapitalized, an insured depository institution would have a total risk based capital ratio of less than 8%, a Tier 1 risk based capital ratio of less than 6%, a CET1 risk based capital ratio of less than 4.5%, and a Tier 1 leverage ratio of less than 4%; (iv) significantly undercapitalized, an insured depository institution would have a total risk based capital ratio of less than 6%, a Tier 1 risk based capital ratio of less than 4%, a CET1 risk based capital ratio of less than 3%, and a Tier 1 leverage ratio of less than 3%.; (v) critically undercapitalized, an insured depository institution would have a ratio of tangible equity to total assets that is less than or equal to 2%. As of December 31, 2017, the most recent notification from the OCC categorized the Bank as "well-capitalized" under the PCA framework.

<u>Volcker Rule</u>. Section 619 of the Dodd-Frank Act, commonly known as the Volcker Rule, restricts the ability of banking entities, such as Western New England Bancorp, from: (i) engaging in "proprietary trading" and (ii) investing in or sponsoring certain types of funds ("Covered Funds"), subject to certain limited exceptions. The implementing regulation defines a Covered Fund to include certain investments such as collateralized loan obligation ("CLO") and collateralized debt obligation securities. The regulation also provides, among other exemptions, an exemption for CLOs meeting certain requirements. As of December 31, 2017, Western New England Bancorp is compliant with the Volcker Rule.

<u>Business Activities</u>. The Bank derives its lending and investment powers from the HOLA and its implementing regulations promulgated by the OCC. Those laws and regulations limit the Bank's authority to invest in certain types of assets and to make certain types of loans. Permissible investments include, but are not limited to, mortgage loans secured by residential and commercial real estate, commercial and consumer loans, certain types of debt securities, and certain other assets. The Bank may also establish service corporations that may engage in activities not otherwise permissible for the Bank, including certain real estate equity investments and securities and insurance brokerage.

<u>Loans to One Borrower</u>. Generally, a federal savings bank may not make a loan or extend credit to a single borrower or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2017, we were in compliance with these limitations on loans to one borrower.

Qualified Thrift Lender Test. Under federal law, as a federal savings association the Bank must comply with the qualified thrift lender, or "QTL" test. Under the QTL test, the Bank is required to maintain at least 65% of its "portfolio assets" in certain "qualified thrift investments" in at least nine months of the most recent 12-month period. "Portfolio assets" means, in general, the Bank's total assets less the sum of:

- specified liquid assets up to 20% of total assets;
- goodwill and other intangible assets; and
- value of property used to conduct the Bank's business.

"Qualified thrift investments" include certain assets that are includable without limit, such as residential and manufactured housing loans, home equity loans, education loans, small business loans, credit card loans, mortgage backed securities, Federal Home Loan Bank stock and certain U.S. government obligations. In addition, certain assets are includable as "qualified thrift investments" in an amount up to 20% of portfolio assets, including certain consumer loans and loans in "credit-needy" areas.

The Bank may also satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Internal Revenue Code. Failure by the Bank to maintain its status as a QTL would result in restrictions on activities, including restrictions on branching and the payment of dividends. If the Bank were unable to correct that failure within a specified period of time, it must either continue to operate under those restrictions on its activities or convert to a national bank charter. The Bank met the QTL test in each of the prior 12 months and, therefore, is a "qualified thrift lender."

The Community Reinvestment Act of 1977. The Bank has a responsibility under the CRA, as implemented by OCC regulations, to help meet the credit needs of its communities, including low and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for insured depository institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The OCC assesses the Bank's record of compliance with the CRA. The Bank's failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on its activities and the activities of Western New England Bancorp. The Bank's most recent CRA rating was "Outstanding."

Consumer Protection and CFPB Supervision. The Dodd-Frank Act centralized responsibility for consumer financial protection by creating the CFPB, an independent federal agency responsible for implementing, enforcing, and examining compliance with federal consumer financial laws. As Western New England Bancorp has less than \$10 billion in total consolidated assets, the OCC continues to exercise primary examination authority over the Bank with regard to compliance with federal consumer financial laws and regulations. Under the Dodd-Frank Act, state attorneys general are empowered to enforce rules issued by the CFPB.

Western New England Bancorp and the Bank are subject to a number of federal and state laws designed to protect borrowers and promote fair lending. These laws include, among others, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, various state law counterparts, and the Consumer Financial Protection Act of 2010.

Transactions with Affiliates and Loans to Insiders. Under federal law, transactions between insured depository institutions and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act ("FRA"), and the FRB's implementing Regulation W. In a holding company context, at a minimum, the parent holding company of a bank or savings association, and any companies which are controlled by such parent holding company, are "affiliates" of the bank or savings association. Generally, sections 23A and 23B are intended to protect insured depository institutions from losses arising from transactions with non-insured affiliates, by limiting the extent to which a depository institution or its subsidiaries may engage in covered transactions with any one affiliate and with all affiliates of the depository institution in the aggregate, and by requiring that such transactions be on terms that are consistent with safe and sound banking practices.

Section 22(h) of the FRA restricts loans to directors, executive officers, and principal stockholders ("insiders"). Under Section 22(h), loans to insiders and their related interests may not exceed, together with all other outstanding loans to such persons and affiliated entities, the insured depository institution's total capital and surplus. Loans to insiders above specified amounts must receive the prior approval of the board of directors. Further, under Section 22(h), loans to insiders must be made on terms substantially the same as offered in comparable transactions to other persons, except that such insiders may receive preferential loans made under a benefit or compensation program that is widely available to the bank's employees and does not give preference to the insider over the employees. Section 22(g) of the FRA places additional limitations on loans to executive officers.

<u>Enforcement</u>. The OCC has primary enforcement responsibility over savings associations, including the Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders and to remove directors and officers. In general, these enforcement actions may be initiated in response to unsafe or unsound practices, and any violation of laws and regulations.

Standards for Safety and Soundness. The Bank is subject to certain standards designed to maintain the safety and soundness of individual insured depository institutions and the banking system. The OCC has prescribed safety and soundness guidelines relating to (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate exposure; (v) asset growth, concentration, and quality; (vi) earnings; and (vii) compensation and benefit standards for officers, directors, employees and principal shareholders. A savings association not meeting one or more of the safety and soundness guidelines may be required to file a compliance plan with the OCC.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. Management is not aware of any practice, condition or violation that might lead to the termination of the Bank's deposit insurance.

<u>Federal Deposit Insurance</u>. The FDIC's deposit insurance limit is \$250,000 per depositor, per insured bank, for each account ownership category. The deposits of the Bank are insured up to applicable limits by the DIF of the FDIC. The Bank is subject to deposit insurance assessments to maintain the DIF. The FDIC uses a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account an insured depository institution's capital level and supervisory rating, commonly known as the "CAMELS" rating. The risk matrix utilizes different risk categories which are distinguished by capital levels and supervisory ratings. As a result

of the Dodd-Frank Act, the base for insurance assessments is now consolidated average assets less average tangible equity. Assessment rates are calculated using formulas that take into account the risk of the institution being assessed.

FDIC insurance expenses include deposit insurance assessments and Financing Corporation ("FICO") assessments related to outstanding FICO bonds. The FICO is a mixed-ownership government corporation established by the Competitive Equality Banking Act of 1987, whose sole purpose was to function as a financing vehicle for the now defunct Federal Savings & Loan Insurance Corporation. FICO bonds mature in 2017 through 2019.

<u>Depositor Preference</u>. The FDIA provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Federal Home Loan Bank System. The Bank is a member of the FHLBB, which is one of the regional Federal Home Loan Banks comprising the Federal Home Loan Bank System. Each Federal Home Loan Bank serves as a central credit facility primarily for its member institutions. The Bank, as a member of the FHLBB, is required to acquire and hold shares of capital stock in the FHLBB. Required percentages of stock ownership are subject to change by the FHLBB, and the Bank was in compliance with this requirement with an investment in FHLBB capital stock at December 31, 2017. If there are any developments that cause the value of our stock investment in the FHLBB to become impaired, we would be required to write down the value of our investment, which could affect our net income and shareholders' equity.

Reserve Requirements. FRB regulations require insured depository institutions to maintain non-interest earning reserves against their transaction accounts (primary interest-bearing and regular checking accounts). The Bank's required reserves can be in the form of vault cash. If vault cash does not fully satisfy the required reserves, in the form of a balance maintained with the Federal Reserve Bank of Boston.

<u>Financial Privacy and Data Security.</u> Western New England Bancorp is subject to federal laws, including the Gramm-Leach Bliley Act, and certain state laws containing consumer privacy protection provisions. These provisions limit the ability of banks and other financial institutions to disclose non-public information about consumers to affiliated and non-affiliated third parties and limit the reuse of certain consumer information received from non-affiliated institutions. These provision require notice of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to affiliates or non-affiliated third parties by means of "opt out" or "opt in" authorizations.

The Gramm-Leach Bliley Act requires that financial institutions implement comprehensive written information security programs that include administrative, technical, and physical safeguards to protect consumer information. Further, pursuant to interpretive guidance issued under the Gramm-Leach Bliley Act and certain state laws, financial institutions are required to notify customers of security breaches that result in unauthorized access to their nonpublic personal information.

Preventing Suspicious Activity. Under Title III of the USA PATRIOT Act, all financial institutions are required to take certain measures to identify their customers, prevent money laundering, monitor customer transactions and report suspicious activity to U.S. law enforcement agencies. Financial institutions also are required to respond to requests for information from federal banking agencies and law enforcement agencies. Information sharing among financial institutions for the above purposes is encouraged by an exemption granted to complying financial institutions from the privacy provisions of Gramm-Leach Bliley Act and other privacy laws. Financial institutions are required to have anti-money laundering programs in place, which include, among other things, performing risk assessments and customer due diligence. The primary federal banking agencies and the Secretary of the Treasury have adopted regulations to implement several of these provisions. On May 11, 2018, the Bank must

comply with the new Customer Due Diligence Rule, which clarifies and strengthens the existing obligations for identifying new and existing customers and explicitly include risk-based procedures for conducting ongoing customer due diligence. Financial institutions also are required to establish internal anti-money laundering programs. The effectiveness of institutions in combating money laundering activities is a factor to be considered in any application submitted by an insured depository institution under the Bank Merger Act. Western New England Bancorp and the Bank have in place a Bank Secrecy Act and USA PATRIOT Act compliance program and engage in limited transactions with foreign financial institutions or foreign persons.

The Fair Credit Reporting Act's ("FCRA") Red Flags Rule requires financial institutions with covered accounts (e.g. consumer bank accounts and loans) to develop, implement, and administer an identity theft prevention program. This program must include reasonable policies and procedures to detect suspicious patterns or practices that indicate the possibility of identity theft, such an inconsistencies in personal information or changes in account activity.

Office of Foreign Assets Control Regulation. The U.S. has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the "OFAC" rules based on their administration by the Office of Foreign Assets Control, which is an office within the U.S. Department of Treasury (the "OFAC"). The OFAC-administered sanctions targeting countries take many different forms. Generally, the sanctions contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without an OFAC license. Failure to comply with these sanctions could have legal and reputational consequences.

Incentive Compensation. The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the date of enactment and at least every three years thereafter and on "golden parachute" payments in connection with approvals of mergers and acquisitions. The legislation also authorized the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. The Dodd-Frank Act requires the federal banking agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities with at least \$1 billion in total consolidated assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits that could lead to material financial loss to the entity. The federal banking agencies and the SEC most recently proposed such regulations in 2016, but the regulations have not yet been finalized. If the regulations are adopted in the form initially proposed, they will restrict the manner in which executive compensation is structured.

The Dodd-Frank Act also gives the SEC authority to prohibit broker discretionary voting on elections of directors, executive compensation matters and any other significant matter. At the 2012 Annual Meeting of Shareholders, Western New England Bancorp's shareholders voted on a non-binding, advisory basis to hold a non-binding, advisory vote on the compensation of named executive officers of Western New England Bancorp annually. In light of the results, the Western New England Bancorp Board of Directors determined to hold the vote annually.

<u>Future Legislative and Regulatory Initiatives</u>. Various legislative and regulatory initiatives are introduced by Congress, state legislatures and different financial regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies, savings and loan holding companies and/or depository institutions. Proposed legislation and regulatory initiatives could change banking statutes and the operating environment of Western New England Bancorp in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. Western New England Bancorp cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it or any

implementing regulations would have on the financial condition or results of operations of Western New England Bancorp. Other legislation may be introduced in Congress, which would further regulate, deregulate or restructure the financial services industry, including proposals to substantially reform the financial regulatory framework. It is not possible to predict whether any such proposals will be enacted into law or, if enacted, the effect which they may have on our business and earnings.

Available Information

We maintain a website at www.westfieldbank.com. The website contains information about us and our operations. Through a link to the Investor Relations section of our website, copies of each of our filings with the SEC, including our Annual Report on Form 10-K, Quarterly Reports Form 10-Q and Current Reports on Form 8-K and all amendments to those reports, can be viewed and downloaded free of charge as soon as reasonably practicable after the reports and amendments are electronically filed with or furnished to the SEC. In addition, copies of any document we file with or furnish to the SEC may be obtained from the SEC at its public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the SEC's public reference room by calling the SEC at 1-800-SEC-0330. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC at its principal office at 100 F Street, N.E., Washington, D.C. 20549. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file or furnish such information electronically with the SEC. The information found on our website or the website of the SEC is not incorporated by reference into this Annual Report on Form 10-K or any other report we file with or furnish to the SEC.

ITEM 1A. RISK FACTORS

Our loan portfolio includes loans with a higher risk of loss. We originate commercial and industrial loans, commercial real estate loans, consumer loans, and residential mortgage loans primarily within our market area. We have developed and implemented a lending strategy that focuses on residential real estate lending as well as servicing commercial customers, including increased emphasis on commercial and industrial lending and commercial deposit relationships. Commercial and industrial loans, commercial real estate loans, and consumer loans may expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans may not be sold as easily as residential real estate. In addition, commercial real estate and commercial and industrial loans may also involve relatively large loan balances to individual borrowers or groups of borrowers. These loans also have greater credit risk than residential real estate for the following reasons:

- *Commercial Real Estate Loans.* Repayment is dependent on income being generated in amounts sufficient to cover operating expenses and debt service.
- Commercial and Industrial Loans. Repayment is generally dependent upon the successful operation of the borrower's business.
- *Consumer Loans*. Consumer loans are collateralized, if at all, with assets that may not provide an adequate source of payment of the loan due to depreciation, damage or loss.

Any downturn in the real estate market or local economy could adversely affect the value of the properties securing the loans or revenues from the borrowers' businesses thereby increasing the risk of non-performing loans.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings could decrease. Our loan customers may not repay their loans according to their terms and the collateral securing the payment of these loans may be insufficient to pay any remaining loan balance. We therefore may experience significant loan losses, which could have a material adverse effect on our operating results. Material additions to our allowance for loan losses also would materially decrease our net income, and the charge-off of loans may cause us to increase the allowance. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. We rely on our loan quality reviews, our experience and our evaluation of economic conditions, among other factors, in determining the amount of the allowance for loan losses. If our assumptions prove to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance.

If a significant portion of any future unrealized losses in our portfolio of investment securities were to become other than temporarily impaired with credit losses, we would recognize a material charge to our earnings, and our capital ratios would be adversely impacted. As of December 31, 2017, the fair value of our securities portfolio was approximately \$304.0 million. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of those securities. These factors include, but are not limited to, changes in interest rates, rating agency downgrades of the securities, defaults by the issuer or individual mortgagors with respect to the underlying securities, and instability in the credit markets. Any of the foregoing factors could cause an-other-than-temporary impairment ("OTTI") in future periods and result in realized losses.

We analyze our investment securities quarterly to determine whether, in the opinion of management, any of the securities have OTTI. To the extent that any portion of the unrealized losses in our portfolio of investment securities is determined to have OTTI and is credit loss related, we will recognize a charge to our earnings in the quarter during which such determination is made, and our capital ratios will be adversely impacted. Generally, a fixed income security is determined to have OTTI when it appears unlikely that we will receive all of the principal and interest due in accordance with the original terms of the investment. In addition to credit losses, losses are recognized for a security having an unrealized loss if the Company has the intent to sell the security or if it is more likely than not that the Company will be required to sell the security before collection of the principal amount.

If dividends are not paid on our investment in the FHLBB, or if our investment is classified as other-than-temporarily impaired, our earnings and/or shareholders' equity could decrease. We own common stock of the FHLBB to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the FHLBB's advance program. There is no market for our FHLBB common stock. There can be no assurance that such dividends will be declared in the future. Further, there can be no assurance that the impact of recent or future legislation on the Federal Home Loan Banks also will not cause a decrease in the value of the FHLBB stock held by us.

It is possible that the capitalization of a Federal Home Loan Bank, including the FHLBB, could be substantially diminished or reduced to zero. Consequently, we believe that there is a risk that our investment in FHLBB common stock could be deemed other-than-temporarily impaired at some time in the future, and if this occurs, it would cause our earnings and shareholders' equity to decrease by the after-tax amount of the impairment charge.

Changes in interest rates could adversely affect our results of operations and financial condition. Our profitability, like that of most financial institutions, depends substantially on our net interest income, which is the difference between the interest income earned on our interest-earning assets and the interest expense paid on our interest-bearing liabilities. Increases in interest rates may decrease loan demand and make it more difficult for borrowers to repay adjustable rate loans. In addition, as market interest rates rise, we will have competitive pressures to increase the rates we pay on deposits, which will result in a decrease of our net interest income.

We also are subject to reinvestment risk associated with changes in interest rates. Changes in interest rates may affect the average life of loans and mortgage-related securities. Decreases in interest rates can result in increased prepayments of loans and mortgage-related securities as borrowers refinance to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest the cash received from such prepayments at rates that are comparable to the rates on existing loans and securities.

Changes in the local economy may affect our future growth possibilities. Our current market area is principally located in Hampden and Hampshire Counties, Massachusetts and Hartford and Tolland Counties in northern Connecticut. Our local economy may affect our future growth possibilities. Our future growth opportunities depend on the growth and stability of our regional economy and our ability to expand our market area. A downturn in our local economy may limit funds available for deposit and may negatively affect our borrowers' ability to repay their loans on a timely basis, both of which could have an impact on our profitability.

We depend on our executive officers and key personnel to continue the implementation of our long-term business strategy and could be harmed by the loss of their services. We believe that our continued growth and future success will depend in large part upon the skills of our management team. The competition for qualified personnel in the financial services industry is intense, and the loss of our key personnel or an inability to continue to attract, retain and motivate key personnel could adversely affect our business. We cannot assure you that we will be able to retain our existing key personnel or attract additional qualified personnel. We have employment agreements with our Chief Executive Officer, Chief Financial Officer, and Executive Vice President and General Counsel and change of control agreements with several other senior executive officers, and the loss of the services of one or more of our executive officers and key personnel could impair our ability to continue to develop our business strategy.

Competition in our primary market area may reduce our ability to attract and retain deposits and originate loans. We operate in a competitive market for both attracting deposits, which is our primary source of funds, and originating loans. Historically, our most direct competition for deposits has come from savings and commercial banks. Our competition for loans comes principally from commercial banks, savings institutions, mortgage banking firms, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms. We also face additional competition from internet-based institutions, brokerage firms and insurance companies. Competition for loan originations and deposits may limit our future growth and earnings prospects.

We operate in a highly-regulated environment that is subject to extensive government supervision and regulation, which may interfere with our ability to conduct business and may adversely impact the results of our operations. We are subject to extensive federal and state supervision and regulation that govern nearly all aspects of

our operations and can have a material impact on our business. Federal banking agencies have significant discretion regarding the supervision, regulation and enforcement of banking laws and regulations.

Financial laws, regulations and policies are subject to amendment by Congress, state legislatures and federal and state regulatory agencies. Changes to statutes, regulations or policies, including changes in the interpretation of regulations or policies, could materially impact our business. These changes could also impose additional costs on us and limit the types of products and services that we may offer our customers. Compliance with laws and regulations can be difficult and costly, and the failure to comply with any law, regulation or policy could result in sanctions by financial regulatory agencies, including civil monetary penalties, private lawsuits, or reputational damage, any of which could adversely affect our business, financial condition, or results of operations. While we have policies and procedures designed to prevent such violations, there can be no assurance that violations will not occur. See the section titled, "Supervision and Regulation" in ITEM 1. Business.

Since the 2008 global financial crisis, financial institutions have been subject to increased scrutiny from Congress, state legislatures and federal and state financial regulatory agencies. Changes to the legal and regulatory framework have significantly altered the laws and regulations under which we operate. Compliance with these changes and any additional or amended laws, regulations and regulatory policies may reduce our ability to effectively compete in attracting and retaining customers. The passage and continued implementation of the Dodd-Frank Act, among other laws and regulations, has increased our costs of doing business and resulted in decreased revenues and net income. Several provisions of the Dodd-Frank Act are subject to further rulemaking, guidance and interpretation by the federal financial regulatory agencies. As a result, we cannot provide assurance that future changes in laws, regulations and policies will not adversely affect our business.

State and federal regulatory agencies periodically conduct examinations of our business, including for compliance with laws and regulations, and our failure to comply with any supervisory actions to which we are or become subject as a result of such examinations may adversely affect our business. Federal and state regulatory agencies periodically conduct examinations of our business, including our compliance with laws and regulations. If, as a result of an examination, an agency were to determine that the financial, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of any of our operations had become unsatisfactory, or violates any law or regulation, such agency may take certain remedial or enforcement actions it deems appropriate to correct any deficiency. Remedial or enforcement actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced against a bank, to direct an increase in the bank's capital, to restrict the bank's growth, to assess civil monetary penalties against a bank's officers or directors, and to remove officers and directors. In the event that the FDIC concludes that, among other things, our financial conditions cannot be corrected or that there is an imminent risk of loss to our depositors, it may terminate our deposit insurance. The OCC, as the supervisory and regulatory authority for federal savings associations, has similar enforcement powers with respect to our business. The CFPB also has authority to take enforcement actions, including cease-and-desist orders or civil monetary penalties, if it finds that we offer consumer financial products and services in violation of federal consumer financial protection laws.

If we were unable to comply with future regulatory directives, or if we were unable to comply with the terms of any future supervisory requirements to which we may become subject, then we could become subject to a variety of supervisory actions and orders, including cease and desist orders, prompt corrective actions, MOUs, and other regulatory enforcement actions. Such supervisory actions could, among other things, impose greater restrictions on our business, as well as our ability to develop any new business. We could also be required to raise additional capital, or dispose of certain assets and liabilities within a prescribed time period, or both. Failure to implement remedial measures as required by financial regulatory agencies could result in additional orders or penalties from federal and state regulators, which could trigger one or more of the remedial actions described above. The terms of any supervisory action and associated consequences with any failure to comply with any supervisory action could have a material negative effect on our business, operating flexibility and overall financial condition.

We may be subject to more stringent capital requirements. The Bank and Western New England Bancorp are each subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital which each of the Bank and Western New England Bancorp must maintain. From time to time, the regulators implement changes to these regulatory capital adequacy guidelines. If we fail to meet these minimum capital guidelines and other regulatory requirements, our financial condition would be materially and adversely

affected. In light of proposed changes to regulatory capital requirements contained in the Dodd-Frank Act and the regulatory accords on international banking institutions formulated by the Basel Committee and implemented by the Federal Reserve and the OCC, we may be required to satisfy additional, more stringent, capital adequacy standards. The ultimate impact of the revised capital and liquidity standards on us cannot be determined at this time and will depend on a number of factors, including the treatment and implementation by the U.S. banking regulators. These requirements, however, and any other new regulations, could adversely affect our ability to pay dividends, or could require us to reduce business levels or to raise capital, including in ways that may adversely affect our financial condition or results of operations.

If the goodwill or other intangible assets recorded in connection with the Company's acquisitions becomes impaired, it could have a negative impact on the Company's profitability. Applicable accounting standards require that the acquisition method of accounting be used for all business combinations. Under this method, if the purchase price of an acquired entity exceeds the fair value of its net assets, the excess is carried on the acquirer's balance sheet as goodwill. At December 31, 2017, we had \$12.5 million of goodwill and \$4.1 million of core deposit intangible on our balance sheet. We will evaluate goodwill for impairment at least annually or more frequently if events or changes in circumstances warrant such evaluation. Write-downs of the amount of impairment, if necessary, are to be charged to earnings in the period in which the impairment occurs. No impairment related to goodwill or core deposit intangibles was recorded for the year ended December 31, 2017. Future evaluations may result in findings of impairment and related write-downs, which could have a material adverse effect on our financial condition and results of operations.

The Company, as part of its strategic plans, periodically considers potential acquisitions. The risks presented by acquisitions could adversely affect our financial condition and results of operations. Any acquisitions will be accompanied by the risks commonly encountered in acquisitions including, among other things: our ability to realize anticipated cost savings and avoid unanticipated costs relating to the merger, the difficulty of integrating operations and personnel, the potential disruption of our or the acquired company's ongoing business, the inability of our management to maximize our financial and strategic position, the inability to maintain uniform standards, controls, procedures and policies, and the impairment of relationships with the acquired company's employees and customers as a result of changes in ownership and management. These risks may prevent us from fully realizing the anticipated benefits of an acquisition or cause the realization of such benefits to take longer than expected.

A breach of information security, including as a result of cyber-attacks, could disrupt our business and impact our earnings. We depend upon data processing, communication and information exchange on a variety of computing platforms and networks, and over the internet. In addition, we rely on the services of a variety of vendors to meet our data processing and communication needs. Despite existing safeguards, we cannot be certain that all of our systems are free from vulnerability to attack or other technological difficulties or failures. If information security is breached or difficulties or failures occur, despite the controls we and our third party vendors have instituted, information can be lost or misappropriated, resulting in financial loss or costs to us, reputational harm or damages to others. Such costs or losses could exceed the amount of insurance coverage, if any, which would adversely affect our earnings.

We continually encounter technological change and the failure to understand and adapt to these changes could hurt our business. The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to customers. Failure to successfully keep pace with technological changes affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We currently conduct our business through our twenty-one banking offices, twenty-three off-site ATMs and twenty-four seasonal/traveling ATMs. The following table sets forth certain information regarding our properties as of December 31, 2017. As of this date, the properties and leasehold improvements owned by us had an aggregate net book value of \$23.5 million. We believe that our existing facilities are sufficient for our current needs.

Location	Ownership	Year Opened	Year of Lease or License Expiration
Main Office:			
141 Elm St.	Owned	1964	N/A
Westfield, MA			
Technology Center:			
9-13 Chapel St.	Leased	2015	2023
Westfield, MA			
Retail Lending:			
136 Elm St.	Owned	2011	N/A
Westfield, MA			
Commercial Lending & Middle Market:			
1500 Main St.	Leased	2014	2019
Springfield, MA			
Commercial Lending/Credit Admin and Training Center:			
219/229 Exchange Street	Owned	2009/1998	N/A
Chicopee, MA			
Branch Offices:			
206 Park St.	Owned	1957	N/A
West Springfield, MA			
655 Main St.	Owned	1968	N/A
Agawam, MA			
26 Arnold St.	Owned	1976	N/A
Westfield, MA			
300 Southampton Rd.	Owned	1987	N/A
Westfield, MA			
462 College Highway	Owned	1990	N/A
Southwick, MA			

382 North Main St.	Leased	1997	2022
E. Longmeadow, MA 1500 Main St.	Leased	2006	2018
Springfield, MA			
1642 Northampton St. Holyoke, MA	Owned	2001	N/A
560 East Main St.	Owned	2007	N/A
Westfield, MA	Owned	2007	N/A
237 South Westfield St. Feeding Hill, MA	Leased	2009	2018
10 Hartford Avenue	Leased	2013	2018
Granby, CT			
47 Palomba Drive Enfield, CT	Leased	2014	2024
39 Morgan Road	Owned	2005	N/A
West Springfield, MA			
70 Center Street Chicopee, MA	Owned	1973	N/A
569 East Street	Owned	1976	N/A
Chicopee, MA			
599 Memorial Drive Chicopee, MA	Leased	1977	2027
435 Burnett Road	Owned	1990	N/A
Chicopee, MA	T J	2002	2022
477A Center Street Ludlow, MA	Leased	2002	2022
350 Palmer Road Ware, MA	Leased	2009	2027
32 Willamansett Street South Hadley, MA	Leased	2008	2027 (1)
•			

⁽¹⁾ This lease is for the land only, the building is owned by Westfield Bank.

ATMs:			
516 Carew Street	Tenant at will	2002	N/A
Springfield, MA			
1000 State Street	Tenant at will	2003	N/A
Springfield, MA			
788 Memorial Avenue	Leased	2006	2020
West Springfield, MA			
2620 Westfield Street	Leased	2006	2020
West Springfield, MA			
98 Southwick Road	Leased	2006	2026
Westfield, MA			
115 West Silver Street	Tenant at will	2005	N/A
Westfield, MA			
1342 Liberty Street	Owned	2001	N/A
Springfield, MA			
98 Lower Westfield Road	Leased	2010	2020
Holyoke, MA			
Westfield State University			
577 Western Avenue			
Westfield, MA			
Woodward Center	Leased	2010	2020
Wilson Hall	Leased	2010	2020
Ely Hall	Leased	2010	2020
214 College Highway	Leased	2010	2020
Southwick, MA			
705 Memorial Drive	Leased	2013	At will
Chicopee, MA			
291 Springfield Street	Owned	2015	N/A
Chicopee, MA			

Big E ATMs:

1305 Memorial Avenue

West Springfield MA

west Springheid, MA			
Better Living Center	Owned	2011	N/A
Better Living Center	Owned	2011	N/A
Better Living Center (Door 6)	Owned	2011	N/A
Big E Coliseum	Owned	2015	N/A
Big E Young Building	Owned	2011	N/A
Big E Mallory Complex	Owned	2011	N/A
627 Randall Road Ludlow, MA	Owned	2015	N/A
229 Exchange Street Chicopee, MA	Owned	2015	N/A

Chicopee, MA

ITEM 3. **LEGAL PROCEEDINGS**

We are not involved in any pending legal proceeding other than routine legal proceedings occurring in the ordinary course of business. In the opinion of management, no legal proceedings will have a material effect on our consolidated financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is currently listed on The NASDAQ Stock Market under the symbol "WNEB." At December 31, 2017, there were 30,487,309 shares of common stock issued and outstanding, and there were approximately 2,295 shareholders of record.

The table below shows the high and low sales prices during the periods indicated as well as dividends declared per share.

	Price Pe	Cash Dividends Declared		
2017	High (\$)	Low (\$)	(\$)	
Fourth Quarter ended December 31, 2017	11.10	10.00	0.03	
Third Quarter ended September 30, 2017	11.03	9.30	0.03	
Second Quarter ended June 30, 2017	10.95	9.75	0.03	
First Quarter ended March 31, 2017	10.75	9.00	0.03	
	Price Pe	er Share	Cash Dividends Declared	
2016	High (\$)	Low (\$)	(\$)	
Fourth Quarter ended December 31, 2016	9.75	7.45	0.03	
Third Quarter ended September 30, 2016	7.97	7.41	0.03	
Second Quarter ended June 30, 2016	8.50	7.35	0.03	

Dividend Policy

First Quarter ended March 31, 2016

The continued payment of dividends depends upon our debt and equity structure, earnings, financial condition, need for capital in connection with possible future acquisitions and other factors, including economic conditions, regulatory restrictions and tax considerations. We cannot guarantee the payment of dividends or that, if paid, that dividends will not be reduced or eliminated in the future.

8.85

7.57

0.03

The only funds available for the payment of dividends on our capital stock will be cash and cash equivalents held by us, dividends paid to us by the Bank, and borrowings. The Bank will be prohibited from paying cash dividends to us to the extent that any such payment would reduce the Bank's capital below required capital levels or would impair the liquidation account to be established for the benefit of the Bank's eligible account holders and supplemental eligible account holders at the time of the reorganization and stock offering.

Recent Sales of Unregistered Securities

There were no sales by us of unregistered securities during the year ended December 31, 2017.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth information with respect to purchases made by us of our common stock during the three months ended December 31, 2017.

Period	Total Number of Shares Purchased		Average Price Paid per Share (\$)	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Program (1)
October 1 - 31, 2017	158,848	<u>-</u>	10.87	158,848	2,599,695
November 1 - 30, 2017	87,858		10.41	87,858	2,511,837
December 1 - 31, 2017	82,798	(2)(3)	10.27	71,228	2,440,609
Total	329,504		10.60	317,934	2,440,609

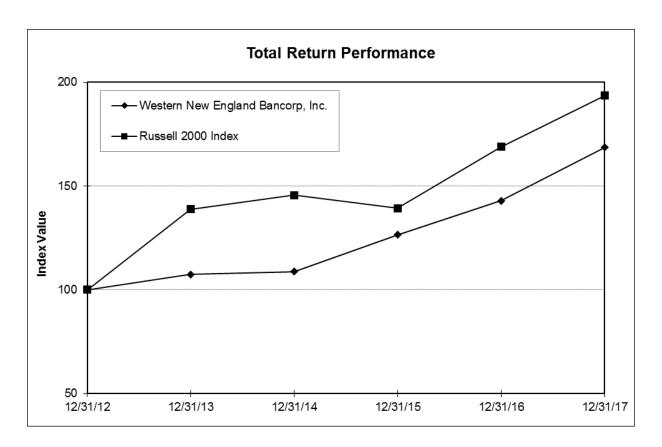
- (1) On January 31, 2017, the Board of Directors authorized an additional stock repurchase program under which the Company may purchase up to 3,047,000 shares, or 10%, of its outstanding common stock. This plan began March 13, 2017 and as of December 31, 2017 there were 2,440,609 shares remaining to be purchased under the repurchase program
- (2) Number includes repurchase of 6,389 shares related to tax obligations for shares of restricted stock that vested on December 31, 2017 under our 2014 Omnibus Incentive Plan. These repurchases were reported by each reporting person on January 3, 2018.
- (3) Number includes repurchase of 5,181 shares related to restricted shares under the legacy Chicopee recognition and retention plan.

Performance Graph

The following graph compares our total cumulative shareholder return by an investor who invested \$100.00 on December 31, 2012 to December 31, 2017, to the total return by an investor who invested \$100.00 in the Russell 2000 Index for the same period.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among Western New England Bancorp, Inc. and the Russell 2000 Index



			Period	Ending		
Index	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17
Western New England Bancorp, Inc.	100.00	107.35	108.75	126.43	142.93	168.62
Russell 2000 Index	100.00	138.82	145.62	139.19	168.85	193.58

ITEM 6. SELECTED FINANCIAL DATA

The summary information presented below at or for each of the years presented is derived in part from our consolidated financial statements. The following information is only a summary, and you should read it in conjunction with our consolidated financial statements and notes beginning on page F-1.

			At December 31,		
	2017	2016(1)	2015	2014	2013
			(In thousands)		
Selected Financial Condition Data:					
Total assets	\$ 2,083,070	\$ 2,076,018	\$ 1,339,930	\$ 1,320,096	\$ 1,276,841
Loans, net (2)	1,619,850	1,556,416	809,373	716,738	629,968
Securities available-for-sale	288,416	300,115	182,590	215,750	243,204
Securities held to maturity (3)	-	-	238,219	278,080	295,013
Deposits	1,506,082	1,518,071	900,363	834,218	817,112
Short-term borrowings	144,650	172,351	128,407	93,997	48,197
Long-term debt	164,786	124,836	153,358	232,479	248,377
Total shareholders' equity	247,281	238,396	139,466	142,543	154,144
Allowance for loan losses	10,831	10,068	8,840	7,948	7,459
Nonperforming loans	12,755	14,057	8,080	8,830	2,586

				For the Y	ears E	nded Decen	nber 31,			
	2	2017	20	16(1)	2	2015	2	014	2	2013
				(In thous	ands, ex	cept per sha	re data)			
Selected Operating Data:										
Interest and dividend income	\$	74,039	\$	48,598	\$	42,476	\$	40,991	\$	41,031
Interest expense		14,645		11,285		10,794		9,923		10,290
Net interest and dividend income		59,394	'	37,313		31,682		31,068		30,741
Provision for loan losses		1,360		575		1,275		1,575		(256)
Net interest and dividend income after										
provision for loan losses		58,034		36,738		30,407		29,493		30,997
Total non-interest income		8,501		5,971		4,865		4,460		4,272
Total non-interest expense		(44,787)		(35,306)		(27,433)		(25,909)		(26,642)
Income before income taxes		21,748		7,403		7,839		8,044		8,627
Income taxes		9,428		2,569		2,124		1,882		1,871
Net income	\$	12,320	\$	4,834	\$	5,715	\$	6,162	\$	6,756
Basic earnings per share	\$	0.41	\$	0.25	\$	0.33	\$	0.34	\$	0.34
Diluted earnings per share	\$	0.41	\$	0.24	\$	0.33	\$	0.34	\$	0.34
Dividends per share paid	\$	0.12	\$	0.12	\$	0.12	\$	0.21	\$	0.29

⁽¹⁾ Reflects the acquisition of Chicopee during 2016.

⁽²⁾ Loans are shown net of deferred loan fees and costs, premiums, allowance for loan losses and unadvanced loan funds.

⁽³⁾ During 2016, securities with an amortized cost of \$136.8 million were reclassified from held-to-maturity to available-for-sale.

At or for the Years Ended December 31,

	2017	<u>'</u>	2016	1)	2015	5	2014	<u> </u>	2013	3
Selected Financial Ratios and										
Other Data (2)										
Performance Ratios:										
Return on average assets	0.59	%	0.32	%	0.42	%	0.48	%	0.53	%
Return on average equity	4.94		2.95		4.10		4.18		4.04	
Average equity to average assets	12.02		11.02		10.35		11.42		13.02	
Equity to total assets at end of year	11.87		11.48		10.41		10.80		12.07	
Interest rate spread	2.91		2.49		2.35		2.42		2.39	
Net interest margin (3)	3.12		2.70		2.53		2.60		2.58	
Average interest-earning assets to average interest-earning liabilities	128.64		125.21		121.47		121.90		122.92	
Total non-interest expense to average assets	2.16		2.37		2.04		2.01		2.07	
Efficiency ratio (4)	65.25		67.40		75.49		73.59		76.79	
Dividend payout ratio	0.29		0.50		0.36		0.62		0.85	
Regulatory Capital Ratios:										
Total risk-based capital	15.53		15.10		17.20		18.68		21.17	
Tier 1 risk-based capital	14.87		14.47		16.23		17.73		20.21	
Common equity tier 1 capital	14.87		14.47		16.23		N/A		N/A	
Tier 1 leverage capital	11.84		12.19		11.16		11.30		12.28	
Asset Quality Ratios:										
Nonperforming loans to total loans	0.78		0.90		0.99		1.22		0.41	
Nonperforming assets to total assets	0.62		0.69		0.60		0.67		0.20	
Allowance for loan losses to total loans	0.66		0.64		1.09		1.10		1.17	
Allowance for loan losses to nonperforming assets	0.84		0.70		1.09		0.90		2.88	
Number of:										
Banking offices	21		21		13		13		12	
Full-time equivalent employees	279		273		189		183		191	

⁽¹⁾ Reflects the acquisition of Chicopee during 2016.

⁽²⁾ Asset Quality Ratios and Regulatory Capital Ratios are end of period ratios.

⁽³⁾ Net interest margin represents tax-equivalent net interest and dividend income as a percentage of average interest-earning assets.

⁽⁴⁾ The efficiency ratio represents the ratio of operating expenses excluding merger related charges divided by the sum of net interest and dividend income and non-interest income, excluding gain and loss on sale of securities and loss on prepayment of borrowings.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview. We strive to remain a leader in meeting the financial service needs of the local community and to provide quality service to the individuals and businesses in the market areas that we have served since 1853. Historically, we have been a community-oriented provider of traditional banking products and services to business organizations and individuals, including products such as residential and commercial real estate loans, consumer loans and a variety of deposit products. We meet the needs of our local community through a community-based and service-oriented approach to banking.

We have adopted a growth-oriented strategy that has focused on increasing commercial lending while decreasing our securities portfolio. Our strategy also calls for increasing deposit relationships and broadening our product lines and services. We believe that this business strategy is best for our long-term success and viability, and complements our existing commitment to high quality customer service. In connection with our overall growth strategy, we seek to:

- grow our commercial and industrial and commercial real estate loan portfolio by targeting businesses in our primary market area and in northern Connecticut as a means to increase the yield on and diversify our loan portfolio and build transactional deposit account relationships;
- focus on expanding our retail banking franchise and increase the number of households served within our market area;
- supplement the commercial focus, grow the residential loan portfolio to diversify risk and deepen customer relationships; and
- grow through acquisitions. We may pursue expansion opportunities in our existing market areas or adjacent areas in strategic locations that maximize growth opportunities or with companies that add complementary products to our existing business and we will look to be opportunistic to expand through the acquisition of banks or other financial service companies.

You should read the following financial results for the year ended December 31, 2017 in the context of this strategy.

- Net income was \$12.3 million, or \$0.41 per diluted share, for the year ended December 31, 2017, compared to \$4.8 million, or \$0.24 per diluted share, for the same period in 2016. The results for the year ended December 31, 2017 showed increases in net interest and dividend income and non-interest income, however, these were partially offset by an increase in non-interest expense, all primarily due to reflecting a full year of combined operating activity since the October 21, 2016 acquisition of Chicopee.
- We had provision for loan loss expense of \$1.4 million for the year ended December 31, 2017, compared to \$575,000 for the year ended December 31, 2016. The allowance was \$10.8 million at December 31, 2017 and \$10.1 million at December 31, 2016, or 0.66% and 0.64% of total loans, respectively. The allowance as a percentage of loans was impacted by the addition of \$640.9 million in loans acquired from Chicopee that were recorded at fair value on October 21, 2016 and required no further allowance subsequent to the acquisition.
- Net interest and dividend income increased \$22.1 million to \$59.4 million for the year ended December 31, 2017, compared to \$37.3 million for the year ended December 31, 2016, primarily due to a \$25.4 million increase in interest income resulting from a \$584.0 million increase in the average balance of loans from the comparable 2016 period resulting from the acquisition of Chicopee on October 21, 2016. Non-interest income increased \$2.5 million to \$8.5 million for the year ended December 31, 2017, compared to \$6.0 million for the same period in 2016 primarily driven by an increase in service charges and fee income.

• Non-interest expense increased \$9.5 million to \$44.8 million at December 31, 2017, compared to \$35.3 million at December 31, 2016. The increase in non-interest expense for the year ended December 31, 2017 was primarily due to a full year of combined operating activity since the October 21, 2016 acquisition of Chicopee.

General. Our consolidated results of operations depend primarily on net interest and dividend income. Net interest and dividend income is the difference between the interest income earned on interest-earning assets and the interest paid on interest-bearing liabilities. Interest-earning assets consist primarily of commercial real estate loans, commercial and industrial loans, residential real estate loans and securities. Interest-bearing liabilities consist primarily of certificates of deposit and money market account, demand deposit accounts and savings account deposits, borrowings from the FHLBB and securities sold under repurchase agreements. The consolidated results of operations also depend on the provision for loan losses, non-interest income, and non-interest expense. Non-interest expense includes salaries and employee benefits, occupancy expenses and other general and administrative expenses. Non-interest income includes service fees and charges, income on bank-owned life insurance, and gains (losses) on securities.

Critical Accounting Policies. Our accounting policies are disclosed in Note 1 to our consolidated financial statements. Given our current business strategy and asset/liability structure, the more critical policies are the allowance for loan losses and provision for loan losses, accounting for nonperforming loans, the realizability of deferred taxes and other-than-temporary impairment of securities. In addition to the informational disclosure in the notes to the consolidated financial statements, our policy on each of these accounting policies is described in detail in the applicable sections of "Management's Discussion and Analysis of Financial Condition and Results of Operations." Senior management has discussed the development and selection of these accounting policies and the related disclosures with the Audit Committee of our Board of Directors.

The process of evaluating the loan portfolio, classifying loans and determining the allowance and provision is described in detail in Part I under "Business - Lending Activities - Allowance for Loan Losses." This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change. Our methodology for assessing the allocation of the allowance consists of two key components, which are a specific allowance for impaired loans and a general allowance for the remainder of the portfolio. Measurement of impairment can be based on present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral, if the loan is collateral dependent. The allocation of the allowance is also reviewed by management based upon our evaluation of then-existing economic and business conditions affecting our key lending areas and other conditions, such as new loan products, credit quality trends (including trends in nonperforming loans expected to result from existing conditions), collateral values, loan volumes and concentrations, specific industry conditions within portfolio segments that existed as of the balance sheet date and the impact that such conditions were believed to have had on the collectability of the loan portfolio. Although management believes it has established and maintained the allowance for loan losses at adequate levels, if management's assumptions and judgments prove to be incorrect due to continued deterioration in economic, real estate and other conditions, and the allowance for loan losses is not adequate to absorb inherent losses, our earnings and capital could be significantly and adversely affected.

Our general policy regarding recognition of interest on loans is to discontinue the accrual of interest when principal or interest payments are delinquent 90 days or more, or earlier if collection of principal or interest is doubtful. Any unpaid amounts previously accrued on these loans are reversed from income. Subsequent cash receipts are applied to the outstanding principal balance or to interest income if, in the judgment of management, collection of the principal balance is not in question. Loans are returned to accrual status when they become current as to both principal and interest and when subsequent performance reduces the concern as to the collectability of principal and interest. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income over the estimated average lives of the related loans.

We must make certain estimates in determining income tax expense for financial statement purposes. These estimates occur in the calculation of the deferred tax assets and liabilities, which arise from the temporary differences between the tax basis and financial statement basis of our assets and liabilities. The carrying value of our net deferred tax asset is based on our historic taxable income for the two prior years as well as our belief that it

is more likely than not that we will generate sufficient future taxable income to realize these deferred tax assets. Judgments regarding future taxable income may change due to changes in market conditions, changes in tax laws or other factors which could result in a change in the assessment of the realization of the net deferred tax asset.

On a quarterly basis, we review securities with a decline in fair value below the amortized cost of the investment to determine whether the decline in fair value is temporary or other than temporary. Declines in the fair value of marketable equity securities below their cost that are deemed to be other than temporary based on the severity and duration of the impairment are reflected in earnings as realized losses. In estimating other than temporary impairment losses for securities, impairment is required to be recognized if (1) we intend to sell the security; (2) it is "more likely than not" that we will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For all impaired available for sale securities that we intend to sell, or more likely than not will be required to sell, the full amount of the other than temporary impairment is recognized through earnings. For other impaired debt securities, credit-related other than temporary impairment is recognized through earnings, while non-credit related other than temporary impairment is recognized in other comprehensive income, net of applicable taxes.

Average Balance Sheet and Analysis of Net Interest and Dividend Income

The following table sets forth information relating to our financial condition and net interest and dividend income for the years ended December 31, 2017, 2016 and 2015 and reflects the average yield on assets and average cost of liabilities for the years indicated. The yields and costs were derived by dividing income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the years shown. Average balances were derived from actual daily balances over the years indicated. Interest income includes fees earned from making changes in loan rates or terms, and fees earned when commercial real estate loans were prepaid or refinanced.

The interest earned on tax-exempt assets is adjusted to a tax-equivalent basis to recognize the income tax savings which facilitates comparison between taxable and tax-exempt assets.

		2017		For the Ye	For the Years Ended December 31, 2016	er 31,		2015	
	Average Balance	Interest	Avg Yield/ Cost	Average Balance	Interest	Avg Yield/ Cost	Average Balance	Interest	Avg Yield/ Cost
ASSETS:				O)	(Dollars in thousands)				
Loans(1)(2)	\$ 1,597,599	\$ 66,619	4.17 %	\$ 1,013,611	\$ 40,422	3.99 %	\$ 766,548	\$ 30,646	4.00 %
Securities(2)	302,246	7,636	2.53	326,011	7,811	2.40	472,616	11,832	2.50
Other investments - at cost Short-term investments(3)	17,715	6/8 120	3.83	15,207	550	3.62	16,509	396 18	2.40
Total interest-earning assets	1,936,804	75,053	3.88	1,395,381	48,898	3.50	1,267,740	42,892	3.38
ı otal non-interest-carnıng assets	138,241			93,011			18,938		
Total assets	\$ 2,075,045			\$ 1,488,992			\$ 1,346,678		
LIABILITIES AND EQUITY: Interest-bearing liabilities									
Interest-bearing checking accounts	\$ 86,069	330	0.38	\$ 42,408	147	0.35	\$ 34,351	79	0.23
Savings accounts Money market accounts	149,497 401,935	1,565	0.12 0.39	90,066 294,247	1,189	0.12	73,091	830	0.35
Time deposits	567,088	6,374	1.12	426,213	5,139	1.21	390,155	4,583	1.17
Total interest-bearing deposits Short form borrowings and long form debt	1,204,589	8,448	0.70	853,534	6,581	0.77	737,979	5,571	0.75
Interest-bearing liabilities	1,505,553	14,645	0.97	1,114,424	11,285	1.01	1,043,625	10,794	1.03
Non-interest-bearing deposits	305,701			193,953			145,519		
Other non-interest-bearing liabilities Total non-interest-bearing liabilities	320,149			16,543			18,098		
The second state of the second	000 300 1			1 224 620			000 1		
Total equity	1,823,702 249,343			1,324,920			1,207,242 139,436		
Total liabilities and equity	\$ 2,075,045			\$ 1,488,992			\$ 1,346,678		
Less: Tax-equivalent adjustment(2)		(1,014)							
Net interest and dividend income		\$ 59,394			\$ 37,313			\$ 31,682	
Net interest rate spread(4) Net interest margin(5)			3.12 %			2.49 %			2.35 %
Ratio of average interest-earning									
assets to average interest-bearing liabilities			128.64 %			125.21 %			121.47 %

Loans, including non-accrual loans, are net of deferred loan origination costs, and unadvanced funds and allowance for loan losses.

Securities income, loan income and net interest income are presented on a tax-equivalent basis using a tax rate of 35% for the 2017 period and 34% for the 2016 and 2015 periods. The tax-equivalent tax-equivalent net interest and dividend income to agree to the amount reported in the consolidated statements of net income. Short-term investments include federal funds sold.

Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

Net interest margin represents tax-equivalent net interest and dividend income as a percentage of average interest-earning assets. $\widehat{\mathcal{O}}\,\widehat{\mathbb{G}}$

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Rate/Volume Analysis. The following table shows how changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected our interest and dividend income and interest expense during the periods indicated. Information is provided in each category with respect to: (1) interest income changes attributable to changes in volume (changes in volume multiplied by prior rate); (2) interest income changes attributable to changes in rate (changes in rate multiplied by prior volume); and (3) the net change.

The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Ye	ar Ended De En		31, 2017 Con ember 31, 20		to Year	Yea			31, 2016 Con ember 31, 20	to Year
		Increase (Decrease) Due to						Increase (Decrease) Due to			
		olume	1	Rate		Net	v	olume	1	Rate	 Net
Interest-earning assets			(In th	ousands)					(In th	ousands)	
Loans (1)	\$	23,289	\$	2,908	\$	26,197	\$	9,877	\$	(101)	\$ 9,776
Investment securities (1)		(564)		389		(175)		(3,670)		(351)	(4,021)
Other investments - at cost		91		37		128		(31)		185	154
Short-term investments		(60)		65		5		42		55	 97
Total interest-earning assets		22,756		3,399		26,155		6,218		(212)	 6,006
Interest-bearing liabilities											
Interest-bearing checking accounts		151		32		183		18		50	68
Savings accounts		69		4		73		22		5	27
Money market accounts		435		(59)		376		204		155	359
Time deposits		1,699		(464)		1,235		424		132	556
Short-term borrowing and long-term debt		723		770		1,493		(765)		246	 (519)
Total interest-bearing liabilities		3,077		283		3,360		(97)		588	491
Change in net interest and dividend income	\$	19,679	\$	3,116	\$	22,795	\$	6,315	\$	(800)	\$ 5,515

⁽¹⁾ Securities and loan income and net interest income are presented on a tax-equivalent basis using a tax rate of 35% for the 2017 period and 34% for the 2016 period. The tax-equivalent adjustment is deducted from tax-equivalent net interest income to agree to the amount reported in the consolidated statements of net income.

Comparison of Financial Condition at December 31, 2017 and December 31, 2016

Total assets increased \$7.1 million, or 0.3%, to \$2.1 billion at December 31, 2016. Total loans increased by \$64.2 million, or 4.1%, to \$1.6 billion at December 31, 2017, primarily due to increases in residential real estate, commercial and industrial loans and commercial real estate loans. The increase in loans was partially offset by a \$43.1 million, or 61.4%, decrease in cash and cash equivalents, a \$12.3 million, or 3.9%, decrease in the securities portfolio, and a \$7.4 million, or 45.7% decrease in the net deferred tax asset. The decrease in cash and cash equivalents and securities from December 2016 was primarily driven by utilizing cash on hand and cash flows from securities pay downs to fund loan growth. The decrease in the net deferred tax asset from December 2016 was primarily driven by a \$4.0 million write-down due to the lower corporate income tax rate as a result of the enactment of the Tax Cuts and Jobs Act (the "Tax Act") on December 22, 2017.

Total loans increased by \$64.2 million, or 4.1%, to \$1.6 billion at December 31, 2017. The increase in total loans was primarily the result of increases in residential real estate loans, commercial and industrial loans and commercial real estate loans. Residential real estate and home equity loans increased \$36.2 million, or 5.9%, to \$650.4 million at December 31, 2017 from \$614.2 million at December 31, 2016. We purchased \$48.2 million in residential loans from a New England-based bank as a means of supplementing our loan growth.

Commercial and industrial loans increased \$16.2 million, or 7.3%, to \$238.5 million at December 31, 2017 from \$222.3 million at December 31, 2016. The growth in commercial and industrial loans was the result of new loan originations, which were partially offset by loan payments and payoffs. Commercial real estate loans increased \$11.9 million, or 1.7%, to \$732.6 million at December 31, 2017 from \$720.7 million at December 31, 2016.

Securities decreased \$12.3 million, or 3.9%, to \$304.0 million at December 31, 2017 from \$316.2 million at December 31, 2016. The securities portfolio is primarily comprised of mortgage-backed securities, which totaled \$198.3 million at December 31, 2017 and \$197.5 million at December 31, 2016, the majority of which were issued by government-sponsored enterprises such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. There were no privately issued mortgage-backed securities in the portfolio at December 31, 2017 and 2016.

Corporate bonds totaled \$56.1 million and \$50.3 million at December 31, 2017 and 2016, respectively. The securities portfolio includes investment-grade corporate bonds which help to diversify our securities portfolio while also increasing the average yield on the portfolio. Debt securities issued by government-sponsored enterprises were \$24.4 million at December 31, 2017 and \$42.0 million at December 31, 2016. Securities issued by government-sponsored enterprises include bonds issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. We also invest in municipal bonds primarily issued by cities and towns in Massachusetts that are rated as investment grade by Moody's, Standard & Poor's or Fitch, and the majority of which are also independently insured. Municipal bonds were \$3.2 million at December 31, 2017 and \$4.0 million at December 31, 2016. In addition, we have investments in FHLBB stock, common stock and mutual funds as allowed by the OCC. During the first quarter of 2016, the Company transferred its held-to-maturity portfolio of \$232.8 million to available-for-sale, and subsequently sold \$136.8 million in securities available-for-sale. As a result of this transfer, the Company has tainted their held-to-maturity portfolio and is prohibited from classifying future purchases as held-to-maturity for a period of at least two years.

Total deposits decreased \$12.0 million, or 0.8%, to \$1.5 billion at December 31, 2017, compared to December 31, 2016. Core deposits, which the Company defines as all deposits except time deposits, increased \$4.4 million, or 0.5%, from \$945.1 million, or 62.3% of total deposits, at December 31, 2016, to \$949.5 million, or 63.0% of total deposits, at December 31, 2017. Non-interest-bearing deposits increased \$7.9 million, or 2.6%, to \$311.9 million, money market accounts increased \$1.0 million, or 0.2%, to \$410.2 million, and interest-bearing checking accounts increased \$5.0 million, or 6.1%, to \$87.4 million, while savings accounts decreased \$9.4 million, or 6.3%, to \$140.1 million. Time deposits decreased \$16.4 million, or 2.9%, from \$572.9 million at December 31, 2016 to \$556.5 million at December 31, 2017. The decrease in time deposits is due to customers and brokered deposits seeking higher yields. We are focused on allowing high cost deposits to mature and be replaced with low-cost core deposits.

Short-term borrowings decreased \$27.7 million, or 16.1%, to \$144.7 million at December 31, 2017 from \$172.4 million at December 31, 2016. Short-term borrowings are made up of FHLBB advances with an original maturity of less than one year as well as customer repurchase agreements, which have an original maturity of one day. Short-term borrowings from the FHLBB were \$133.0 million and \$155.0 million at December 31, 2017 and 2016, respectively. Customer repurchase agreements decreased \$5.7 million to \$11.7 million at December 31, 2017 from \$17.4 million at December 31, 2016. A customer repurchase agreement is an agreement by us to sell to and repurchase from the customer an interest in specific securities issued by or guaranteed by the United States government or government-sponsored enterprises. This transaction settles immediately on a same day basis in immediately available funds. Interest paid is commensurate with other products of equal interest and credit risk.

Long-term debt consists of FHLBB advances. At December 31, 2017, long-term debt with the FHLBB increased \$40.0 million, or 32.1%, to \$164.8 million. This compares to \$124.8 million in FHLBB advances at December 31, 2016. During 2016, we prepaid \$42.5 million in FHLBB borrowings with a weighted average rate of 2.29% and incurred a prepayment expense of \$915,000. Offsetting these prepayments were \$63.3 million in FHLBB advances acquired from Chicopee.

At December 31, 2017 and 2016, we had interest rate swap contracts with a combined notional value of \$55.0 million and \$75.0 million, respectively. The swap contracts have durations ranging from five to six years. This hedge strategy converts the variable rate of interest on certain FHLB advances to fixed interest rates, thereby protecting us from floating interest rate variability. The interest rate swaps introduce potential future volatility in tangible book value and accumulated other comprehensive income ("AOCI"). During the first quarter of 2016, we terminated a forward-starting interest rate swap with a notional amount of \$32.5 million and incurred a termination fee of \$3.4 million. The termination fee is being amortized as a reclassification of other comprehensive income into interest expense over the terms of the previously hedged borrowing, which was six years for the swap terminated in 2016.

Shareholders' equity was \$247.3 million and \$238.4 million, which represented 11.9% and 11.5% of total assets at December 31, 2017 and December 31, 2016, respectively. The increase in shareholders' equity during the twelve months ended December 31, 2017 reflects net income of \$12.3 million, the exercise of stock options totaling \$5.5 million and \$2.2 million in other comprehensive income. These increases were offset by a decrease of \$9.2 million for the repurchase of shares of the Company's common stock during the year and the payment of regular cash dividends of \$3.6 million.

Comparison of Operating Results for Years Ended December 31, 2017 and 2016

General. Net income for the year ended December 31, 2017 was \$12.3 million, or \$0.41 per diluted share, compared to \$4.8 million, or \$0.24 per diluted share, for the same period in 2016.

Interest and Dividend Income. Total interest and dividend income increased \$25.4 million, or 52.3%, to \$74.0 million for the year ended December 31, 2017 compared to \$48.6 million for the same period in 2016.

The increase in interest and dividend income was primarily the result of an increase in the average interest-earning balance of our loan portfolio resulting from the acquisition of loans from Chicopee on October 21, 2016 as well as focusing on increasing organic loan growth. At December 31, 2017, the average balance of loans increased \$584.0 million, or 57.6%, to \$1.6 billion, while the average balance of securities decreased \$23.8 million, or 7.3%, to \$302.2 million. The balance of interest-earning assets increased \$541.4 million to \$1.9 billion for the year ended December 31, 2017, compared to \$1.4 billion for the same period in 2016. The average yield on interest-earning assets, on a tax-equivalent basis, increased 38 basis points to 3.88% for the year ended December 31, 2017 from 3.50% for the same period in 2016.

Interest income on loans increased \$25.5 million, or 63.4%, to \$65.7 million for the year ended December 31, 2017 from \$40.2 million for the year ended December 31, 2016. The tax-equivalent yield on loans increased 18 basis point from 3.99% for the year 2016 to 4.17% for the same period in 2017. The increase in interest income on loans for the year ended December 31, 2017 was due to the average balance of loans increasing \$584.0 million, or 57.6%, primarily resulting from the acquisition of Chicopee.

Interest income on securities decreased \$158,000, or 2.0%, to \$7.6 million for the year ended December 31, 2017 from \$7.7 million for the year ended December 31, 2016. While the tax-equivalent yield on securities increased 13 basis points from 2.40% for the year 2016 to 2.53% for the same period in 2017, the decrease in interest income on securities for the year ended December 31, 2017 was primarily due to the average balance of securities decreasing \$23.8 million, or 7.3%, as a result of reinvesting cash flows from securities pay downs and sales into loans.

Interest Expense. Interest expense for the year ended December 31, 2017 increased \$3.4 million, or 30.1%, to \$14.6 million from \$11.3 million for the comparable 2016 period. The average cost of interest-bearing liabilities decreased 4 basis points to 0.97% for the year ended December 31, 2017 from 1.01% in 2016. The change in the cost of interest-bearing liabilities was due to a decrease in the average cost of time deposits, offset by an increase in the average volume of time deposits, along with an increase in the balance of and cost of short-term borrowings and long-term debt. The average cost of time deposits decreased 9 basis points to 1.12% for the year ended December 31, 2017, from 1.21% for the year ended December 31, 2016. The average balance of time deposits increased \$140.9 million, or 33.1%, to \$567.1 million at December 31, 2017 from \$426.2 million for the comparable 2016 period. Interest expense on time deposits increased \$1.3 million, or 25.5%, to \$6.4 million for the year ended December 31, 2017 from \$5.1 million for the comparable 2016 period. In addition, the average balance of short-term borrowings and long-term debt increased \$40.1 million, or 15.4%, to \$301.0 million for the year ended December 31, 2017 from \$260.9 million for the year ended December 31, 2016. The average cost of short-term borrowings and long-term debt increased 26 basis points to 2.06% for the year ended December 31, 2017 from 1.80% for the year ended December 31, 2016, primarily resulting from the higher rate environment. This resulted in a \$1.5 million, or 31.9%, increase in interest expense on short-term borrowings and long-term debt to \$6.2 million for the year ended December 31, 2017.

Net Interest and Dividend Income. Net interest and dividend income increased \$22.1 million, or 59.2%, to \$59.4 million for the year ended December 31, 2017 as compared to \$37.3 million for same period in 2016. The net interest margin, on a tax-equivalent basis, increased 42 basis points, to 3.12% for the year ended December 31, 2017, from 2.70% for the year ended December 31, 2016. The increase in net interest income was primarily driven by an increase in the volume of and average yield on our average interest-earnings assets along with a decrease in the average cost of time deposits, which were all partially offset by an increase in the average volume of time deposits and short-term borrowings and long-term debt along with an increase in the cost of short-term borrowings and long-term debt.

Provision for Loan Losses. The provision for loan losses is reviewed by management based upon our evaluation of then-existing economic and business conditions affecting our key lending areas and other conditions, such as new loan products, credit quality trends (including trends in nonperforming loans expected to result from existing conditions), collateral values, loan volumes and concentrations, specific industry conditions within portfolio segments that existed as of the balance sheet date and the impact that such conditions were believed to have had on the collectability of the loan portfolio.

The amount that we provided for loan losses during the year ended December 31, 2017 was based upon the changes that occurred in the loan portfolio during that same period. The changes in the loan portfolio, described in detail below, include increases in the balances of residential real estate loans, commercial and industrial loans, and commercial real estate loans, along with an increase in net charge-offs compared to the same period in 2016. After evaluating these factors, we recorded a provision for loan losses of \$1.4 million for the year ended December 31, 2017, compared to \$575,000 for the same period in 2016. The allowance was \$10.8 million at December 31, 2017 and \$10.1 million at December 31, 2016, respectively. The allowance for loan losses as a percentage of total loans was 0.66% and 0.64% at December 31, 2017 and 2016, respectively. The allowance does not include the \$640.9 million in loans acquired from Chicopee that were recorded at fair value on October 21, 2016 and required no further allowance subsequent to the acquisition.

Residential real estate and home equity loans increased \$36.2 million, or 5.9%, to \$650.4 million at December 31, 2017, from \$614.2 million at December 31, 2016. Commercial and industrial loans increased \$16.2 million, or 7.3%, to \$238.5 million, from \$222.3 million at December 31, 2016. Commercial real estate loans increased \$11.9 million, or 1.7%, to \$732.6 million, from \$720.7 million at December 31, 2016. We consider residential real estate loans to contain less credit risk and market risk than commercial and industrial loans and commercial real estate.

Net charge-offs were \$597,000 for the year ended December 31, 2017. This comprised charge-offs of \$1.0 million for the year ended December 31, 2017, offset by recoveries of \$451,000. Net recoveries were \$653,000 for the year ended December 31, 2016. This comprised recoveries of \$1.1 million primarily on one commercial real estate loan previously charged-off in 2010, offset by charge-offs of \$486,000.

Although management believes it has established and maintained the allowance for loan losses at appropriate levels, future adjustments may be necessary if economic, real estate and other conditions differ substantially from the current operating environment.

Non-interest Income. Non-interest income increased \$2.5 million, or 42.4%, to \$8.5 million for the year ended December 31, 2017 compared to \$6.0 million for the same period in 2016.

The primary reason for the increase in non-interest income was due to an increase in service charges and fees, which increased \$2.2 million, or 52.8%, to \$6.4 million for the year ended December 31, 2017 from \$4.2 million for the year ended December 31, 2016. For the twelve months ended December 31, 2017, wealth management fees, which are included in service changes and fee income, were \$543,000, compared to \$172,000 for the same period in 2016. In addition, fees collected from insufficient funds, overdraft and card-based transactions increased \$1.9 million for the year ended December 31, 2017, both increases primarily due to the acquisition of Chicopee.

Pre-tax net realized gains on the sales of securities were \$52,000 and \$1.1 million for the years ended December 31, 2017 and 2016, respectively. The net gains for the year ended December 31, 2016 were primarily the result of management selling securities to fund loan growth and decrease the expected duration of the portfolio. For the year ended December 31, 2016, we also prepaid FHLBB advances and a repurchase agreement and incurred a prepayment penalty of \$915,000. Income from BOLI increased \$266,000, or 17.1%, to \$1.8 million and other income increased \$219,000 to \$227,000 for the year ended December 31, 2017 as a result of increased average balances from the prior year.

Non-interest Expense. Non-interest expense increased \$9.5 million, or 26.9%, to \$44.8 million for the year ended December 31, 2017, from \$35.3 million for the same period in 2016. The increase in non-interest expense for the year ended December 31, 2017 was primarily due to an \$8.0 million, or 46.3%, increase in salaries and benefits. In addition, occupancy expense increased \$1.2 million, or 45.9%, to \$3.8 million, data processing expense increased \$676,000, or 39.9%, to \$2.4 million, furniture and equipment expense increased \$449,000, or 41.4%, to \$1.5 million and other expenses increased \$2.0 million, or 42.1%, to \$6.7 million. These increases were partially offset by a decrease in merger related expenses of \$3.5 million, or 87.0%, and well as a \$96,000, or 13.4%, decrease in FDIC insurance expense. The increases for 2017 reflect the first full year of combined operations post-merger, which involve higher levels of expenses associated with operating a larger financial institution, including additional employees, increased costs for data processing, occupancy, and professional services.

Income Taxes. The provision for income taxes was \$9.4 million and \$2.6 million for the years ended December 31, 2017 and 2016, respectively. The effective tax rate was 43.4% for the year ended December 31, 2017 and 34.7% for the same period in 2016. The effective tax rate for 2017 was impacted by a \$4.0 million, one-time, non-cash deferred tax asset write-down due to the Tax Act. Excluding the one-time charge of \$4.0 million, the effective tax rate for the twelve months ended December 31, 2017 would have been 25.0%. The effective tax rate for 2016 was impacted by nondeductible merger expenses associated with the Chicopee merger, which resulted in an increase of 8.3% in the effective rate for the year ended December 31, 2016. Excluding the nondeductible merger expenses for the twelve months ended December 31, 2016, the effective tax rate was 26.4%.

Comparison of Operating Results for Years Ended December 31, 2016 and 2015

General. Net income for the year ended December 31, 2016 was \$4.8 million, or \$0.24 per diluted share, compared to \$5.7 million, or \$0.33 per diluted share, for the same period in 2015. Contributing to the lower net income for the year ended December 31, 2016 were \$4.1 million in pretax costs associated with the Chicopee acquisition.

Interest and Dividend Income. Total interest and dividend income increased \$6.1 million to \$48.6 million for the year ended December 31, 2016 compared to \$42.5 million for the same period in 2015.

The increase in interest and dividend income was primarily the result of an increase in the average interest-earning balance of our loan portfolio resulting from the acquisition of loans from Chicopee on October 21, 2016 as well as executing on our strategy to improve the balance sheet mix by decreasing securities while increasing loan growth. At December 31, 2016, the average balance of loans increased \$247.1 million to \$1.0 billion, while the average balance of securities decreased \$146.6 million to \$326.0 million. The balance of interest-earning assets increased \$127.6 million to \$1.4 billion for the year ended December 31, 2016, compared to \$1.3 billion for the same period in 2015. The average yield on interest-earning assets, on a tax-equivalent basis, increased 12 basis points to 3.50% for the year ended December 31, 2016 from 3.38% for the same period in 2015.

Interest income on loans increased \$9.7 million to \$40.2 million for the year ended December 31, 2016 from \$30.5 million for the year ended December 31, 2015. The tax-equivalent yield on loans decreased 1 basis point from 4.00% for the year 2015 to 3.99% for the same period in 2016. The increase in interest income on loans for the year ended December 31, 2016 was due to the average balance of loans increasing \$247.1 million primarily resulting from the acquisition of Chicopee.

Interest income on securities decreased \$3.8 million to \$7.7 million for the year ended December 31, 2016 from \$11.5 million for the year ended December 31, 2015. The tax-equivalent yield on securities decreased 10 basis points from 2.50% for the year 2015 to 2.40% for the same period in 2016. The decrease in interest income and tax-equivalent yield on securities for the year ended December 31, 2016 was primarily due to the average balance of securities decreasing \$146.6 million in executing our strategy to improve the balance sheet mix by reinvesting cash flows from securities sales and pay downs into loans.

Interest Expense. Interest expense for the year ended December 31, 2016 increased \$491,000 to \$11.3 million from \$10.8 million for the comparable 2015 period. The average cost of interest-bearing liabilities decreased 2 basis points to 1.01% for the year ended December 31, 2016 from 1.03% in 2015. The change in the cost of interest-bearing liabilities was due to an increase in the average volume of and rate on interest-bearing

deposits along with a decrease in the average balance of short-term borrowings and long-term debt which helped offset an increase in the average rate on the same. The average balance of interest-bearing deposits increased \$115.5 million to \$853.5 million at December 31, 2016 from \$738.0 million for the comparable 2015 period. Interest expense on interest-bearing deposits increased \$1.0 million to \$6.6 million for the year ended December 31, 2016 from \$5.6 million for the comparable 2015 period. The average volume of time deposits increased \$36.1 million to \$426.2 million while the average rate on time deposits increased 4 basis points to 1.21% for the year ended December 31, 2016, from 1.17%, resulting in a \$556,000 increase to interest expense. In addition, the average balance of short-term borrowings and long-term debt decreased \$44.8 million to \$260.9 million for the year ended December 31, 2016. Management prepaid \$42.5 million in FHLBB borrowings with a rate of 2.29% during the first quarter 2016. While the average cost of short-term borrowings and long-term debt increased 9 basis points to 1.80% for the year ended December 31, 2016 from 1.71% for the year ended December 31, 2015, primarily due to the conversion of variable rates of interest on certain FHLBB advances to fixed interest rates in conjunction with our interest rate swaps, the decrease in volume helped to reduce interest expense on short-term borrowings and long-term debt \$519,000 to \$4.7 million for the year ended December 31, 2016.

Net Interest and Dividend Income. Net interest and dividend income increased \$5.6 million to \$37.3 million for the year ended December 31, 2016 as compared to \$31.7 million for same period in 2015. The net interest margin, on a tax-equivalent basis, was 2.70% and 2.53% for the years ended December 31, 2016 and 2015, respectively. The increase in net interest income was primarily driven by an increase in the volume of our average interest-earnings assets, which was partially offset by an increase in the average volume of and cost of interest-bearing liabilities.

Provision for Loan Losses. The provision for loan losses is reviewed by management based upon our evaluation of then-existing economic and business conditions affecting our key lending areas and other conditions, such as new loan products, credit quality trends (including trends in nonperforming loans expected to result from existing conditions), collateral values, loan volumes and concentrations, specific industry conditions within portfolio segments that existed as of the balance sheet date and the impact that such conditions were believed to have had on the collectability of the loan portfolio.

The amount that we provided for loan losses during the year ended December 31, 2016 was based upon the changes that occurred in the loan portfolio during that same period. The changes in the loan portfolio, described in detail below, include increases in the balances of commercial real estate loans, residential real estate loans, commercial and industrial loans offset by net recoveries for the year ended December 31, 2016. After evaluating these factors, we recorded a provision for loan losses of \$575,000 for the year ended December 31, 2016, compared to \$1.3 million for the same period in 2015. The allowance was \$10.1 million at December 31, 2016 and \$8.8 million at December 31, 2015, respectively. The allowance for loan losses as a percentage of total loans was 0.64% and 1.08% at December 31, 2016 and 2015, respectively. The 2016 allowance does not include the \$640.9 million in loans acquired from Chicopee that were recorded at fair value on October 21, 2016 and required no further allowance subsequent to the acquisition.

Apart from the Chicopee acquisition, there was organic growth across our loan categories. Commercial real estate loans increased \$27.6 million to \$330.6 million at December 31, 2016 from \$303.0 million at December 31, 2015. Residential real estate and home equity loans increased \$63.0 million to \$361.1 million at December 31, 2016. Commercial and industrial loans increased \$10.5 million to \$178.8 million. We consider residential real estate loans to contain less credit risk and market risk than commercial and industrial loans and commercial real estate.

Net recoveries were \$653,000 for the year ended December 31, 2016. This comprised recoveries of \$1.1 million primarily on one commercial real estate loan previously charged-off in 2010, offset by charge-offs of \$486,000. Net charge-offs were \$383,000 for the year ended December 31, 2015. This comprised charge-offs of \$476,000 for the year ended December 31, 2015, offset by recoveries of \$93,000.

Although management believes it has established and maintained the allowance for loan losses at appropriate levels, future adjustments may be necessary if economic, real estate and other conditions differ substantially from the current operating environment.

Non-interest Income. Non-interest income increased \$1.1 million to \$6.0 million for the year ended December 31, 2016 compared to \$4.9 million for the same period in 2015.

The primary reason for the increase in non-interest income was due to an increase in service charges and fees, which increased \$1.1 million to \$4.2 million for the year ended December 31, 2016 from \$3.1 million for the year ended December 31, 2015. Fees collected from insufficient funds, overdraft and card-based transactions increased \$733,000 for the year ended December 31, 2016, primarily due to the acquisition of Chicopee.

Net gains on the sales of securities were \$1.1 million and \$1.5 million for the years ended December 31, 2016 and 2015, respectively. The net gains for the years ended December 31, 2016 and 2015 were primarily the result of management selling securities to fund loan growth and decrease the expected duration of the portfolio. For the years ended December 31, 2016 and 2015, we also prepaid FHLBB advances and a repurchase agreement and incurred prepayment expenses of \$915,000 and \$1.3 million, respectively. These FHLBB advances were in the amount of \$42.5 million with a weighted average rate of 2.29% in 2016 and \$29.0 million with a weighted average rate of 2.87% in 2015. The repurchase agreement prepaid in 2015 was in the amount of \$10.0 million with a rate of 2.65%.

Non-interest Expense. Non-interest expense increased \$7.9 million to \$35.3 million for the year ended December 31, 2016, from \$27.4 million for the same period in 2015. The increase in non-interest expense for the year ended December 31, 2016 was primarily due to \$4.1 million in merger expenses related to the acquisition of Chicopee as well as increases in cost for the integration and operation of the Chicopee branch network, which management expects the cost savings associated with these to be fully-phased in during the first half of 2017. Salaries and benefits increased \$2.2 million for the year ended December 31, 2016, mainly the result of the additional cost of staff expenses retained to assist through the core system conversion in December of 2016.

Income Taxes. The provision for income taxes was \$2.6 million and \$2.1 million for the years ended December 31, 2016 and 2015, respectively. The effective tax rate was 34.7% for the year ended December 31, 2016 and 27.1% for the same period in 2015. The effective tax rate for 2016 was impacted by nondeductible merger expenses associated with the Chicopee merger, which resulted in an increase of 8.3% in the effective rate for the year ended December 31, 2016.

Liquidity and Capital Resources

The term "liquidity" refers to our ability to generate adequate amounts of cash to fund loan originations, loan purchases, deposit withdrawals and operating expenses. Our primary sources of liquidity are deposits, scheduled amortization and prepayments of loan principal and mortgage-backed securities, maturities and calls of investment securities and funds provided by our operations. We also can borrow funds from the FHLBB based on eligible collateral of loans and securities. Outstanding borrowings from the FHLBB were \$297.8 million at December 31, 2017 and \$279.8 million at December 31, 2016. At December 31, 2017, we had \$109.4 million in available borrowing capacity with the FHLBB. We have the ability to increase our borrowing capacity with the FHLBB by pledging investment securities or loans. In addition, we have a \$4.0 million line of credit with BBN at an interest rate determined and reset by BBN on a daily basis. At December 31, 2017 and 2016, we did not have an outstanding balance under this line. As part of our contract with BBN, we are required to maintain a reserve balance of \$300,000 with BBN for our use of this line. In addition, we may enter into reverse repurchase agreements with approved broker-dealers. Reverse repurchase agreements are agreements that allow us to borrow money using our securities as collateral.

We also have outstanding at any time, a significant number of commitments to extend credit and provide financial guarantees to third parties. These arrangements are subject to strict credit control assessments. Guarantees specify limits to our obligations. Because many commitments and almost all guarantees expire without being funded in whole or in part, the contract amounts are not estimates of future cash flows. We are also obligated under agreements with the FHLBB to repay borrowed funds and are obligated under leases for certain of our branches and equipment. A summary of lease obligations, borrowings and credit commitments at December 31, 2017 follows:

	Within 1 Year	After 1 Year But Within 3 Years	After 3 Year But Within 5 Years	After 5 Years	Total
Lease Obligations		(1	Dollars in thousands)		
Operating lease obligations ⁽¹⁾	\$ 1,100	\$ 1,993	\$ 1,643	\$ 4,651	\$ 9,387
Borrowings and Debt					
Federal Home Loan Bank	197,652	89,640	9,759	735	297,786
Securities sold under agreements to repurchase	11,650	-	-	-	11,650
Total borrowings and debt	204,302	94,640	9,759	735	309,436
Credit Commitments					
Available lines of credit	167,743	-	-	61,693	229,436
Other loan commitments	57,058	22,139	2,053	2,183	83,433
Letters of credit	7,991	892		255	9,138
Total credit commitments	232,792	23,031	2,053	64,131	322,007
Other Obligations					
Vendor Contracts	2,962	5,923	5,923	6,417	21,225
Total Obligations	\$ 446,156	\$ 120,587	\$ 19,378	\$ 75,934	\$ 662,055

⁽¹⁾ Payments are for the lease of real property

Maturing investment securities are a relatively predictable source of funds. However, deposit flows, calls of securities and prepayments of loans and mortgage-backed securities are strongly influenced by interest rates, general and local economic conditions and competition in the marketplace. These factors reduce the predictability of the timing of these sources of funds.

Our primary investing activities are the origination of commercial real estate, commercial and industrial and residential real estate loans, and the purchase of mortgage-backed and other investment securities. During the year ended December 31, 2017, we originated loans of \$213.0 million, compared to \$180.9 million in 2016. Prior to the acquisition of Chicopee in 2016, we referred our residential real estate borrowers to a third-party mortgage company and substantially all of our residential real estate loans were underwritten, originated and serviced by a third-party mortgage company. Subsequent to the acquisition of Chicopee, we began to process and underwrite substantially all of our originations internally through our Loan Center. Residential real estate borrowers submit applications to us and the loan is closed in our name and is booked directly into our portfolio. Purchases of securities totaled \$67.2 million for the year ended December 31, 2017 and \$87.2 million for the year ended December 31, 2016. At December 31, 2017, we had loan commitments and letters of credit to borrowers of approximately \$92.6 million, and available home equity and unadvanced lines of credit of approximately \$229.4 million.

Deposit flows are affected by the level of interest rates, by the interest rates and products offered by competitors and by other factors. Time deposit accounts scheduled to mature within one year were \$300.5 million at

December 31, 2017. Based on our deposit retention experience and current pricing strategy, we anticipate that a significant portion of these certificates of deposit will remain on deposit. We monitor our liquidity position frequently and anticipate that it will have sufficient funds to meet our current funding commitments.

At December 31, 2017, Western New England Bancorp and the Bank exceeded each of the applicable regulatory capital requirements (See Note 12, *Regulatory Capital*, to our consolidated financial statements for further information on our regulatory requirements).

We do not anticipate any material capital expenditures during calendar year 2018, nor do we have any balloon or other payments due on any long-term obligations or any off-balance sheet items other than the commitments and unused lines of credit noted above.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, other than noted above and in Note 15, *Commitments and Contingencies*, to our consolidated financial statements, that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Management of Market Risk

As a financial institution, our primary market risk is interest rate risk since substantially all transactions are denominated in U.S. dollars with no direct foreign exchange or changes in commodity price exposure. Fluctuations in interest rates will affect both our level of income and expense on a large portion of our assets and liabilities. Fluctuations in interest rates will also affect the market value of all interest-earning assets.

The primary goal of our interest rate management strategy is to limit fluctuations in net interest income as interest rates vary up or down and control variations in the market value of assets, liabilities and net worth as interest rates vary. We seek to coordinate asset and liability decisions so that, under changing interest rate scenarios, net interest income will remain within an acceptable range.

To achieve the objectives of managing interest rate risk, the Asset and Liability Management Committee meets periodically to discuss and monitor the market interest rate environment relative to interest rates that are offered on our products. The Asset and Liability Management Committee presents quarterly reports to our Board of Directors at their regular meetings.

Our primary source of funds has been deposits, consisting primarily of time deposits, money market accounts, savings accounts, demand accounts and interest bearing checking accounts, which have shorter terms to maturity than the loan portfolio. Several strategies have been employed to manage the interest rate risk inherent in the asset/liability mix, including but not limited to:

- maintaining the diversity of our existing loan portfolio through a balanced approach of growing the
 residential mortgages, primarily by purchasing loans from New England-based banks as a means of
 supplementing our loan growth, and commercial loans and commercial real estate loan originations,
 which typically have variable rates and shorter terms than residential mortgages;
- emphasizing investments with an expected average duration of five years or less; and
- using interest rate swaps to manage the interest rate position of the balance sheet.

In 2017, cash flows from investment securities were used to fund increases the residential loan portfolio, which generated higher yields than investments in a low rate environment. However management has continued its emphasis on growing commercial loans has which have variable rates and shorter maturities than residential loans. Moreover, the actual amount of time before loans are repaid can be significantly affected by changes in market interest rates. Prepayment rates will also vary due to a number of other factors, including the regional economy in the area where the loans were originated, seasonal factors, demographic variables and the assumability of the loans.

However, the major factors affecting prepayment rates are prevailing interest rates, related financing opportunities and competition. We monitor interest rate sensitivity so that we can adjust our asset and liability mix in a timely manner and minimize the negative effects of changing rates.

Each of our sources of liquidity is vulnerable to various uncertainties beyond our control. Scheduled loan and security payments are a relatively stable source of funds, while loan and security prepayments and calls, and deposit flows vary widely in reaction to market conditions, primarily prevailing interest rates. Asset sales are influenced by pledging activities, general market interest rates and unforeseen market conditions. Our financial condition is affected by our ability to borrow at attractive rates, retain deposits at market rates and other market conditions. We consider our sources of liquidity to be adequate to meet expected funding needs and also to be responsive to changing interest rate markets.

Net Interest and Dividend Income Simulation. We use a simulation model to monitor net interest income at risk under different interest rate environments using a static balance sheet, in which balances remain constant and principal cash flows are reinvested into similar balance sheet categories. We measure sensitivity primarily by evaluating the impact of ramped interest rate changes on net interest income compared to modeled net interest income if rates remain unchanged. The changes in interest income and interest expense due to changes in interest rates reflect the repricing characteristics of our interest-earning assets and interest-bearing liabilities.

The table below sets forth as of December 31, 2017 the estimated changes in net interest and dividend income for the following 12 month period resulting from parallel rate movements up 200 basis points and down 100 basis points ramped over one year compared to rates remaining unchanged.

For the	Year Ending December 31,	2018
Changes in	Net Interest and	
Interest Rates	Dividend	
(Basis Points)	Income	% Change
	(Dollars in thousands)	
200	57,005	-4.93%
0	59,959	0.0%
-100	58,460	-2.50%

The repricing and/or new rates of assets and liabilities moved in tandem with market rates. However, in certain deposit products, the use of data from a historical analysis indicated that the rates on these products would move only a fraction of the rate change amount. Pertinent data from each loan account, deposit account and investment security was used to calculate future cash flows. The data included such items as maturity date, payment amount, next repricing date, repricing frequency, repricing index, repricing spread, caps and floors. Prepayment speed assumptions were based upon the difference between the account rate and the current market rate. We also evaluate changes interest rate sensitivity under various scenarios including but not limited to nonparallel shifts in the yield curve, variances in prepayment speeds and variances to correlations of instrument rates to market indexes.

The income simulation analysis was based upon a variety of assumptions. These assumptions include but are not limited to asset mix, prepayment speeds, the timing and level of interest rates, and the shape of the yield curve. As market conditions vary from the assumptions in the income simulation analysis, actual results will differ. As a result, the income simulation analysis does not serve as a forecast of net interest income, nor do the calculations represent any actions that management may undertake in response to changes in interest rates.

Recent Accounting Pronouncements

Refer to Note 1 to our consolidated financial statements for a summary of the recent accounting pronouncements.

Impact of Inflation and Changing Prices

Our consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than do the effects of inflation.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations-Management of Market Risk," for a discussion of quantitative and qualitative disclosures about market risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and the accompanying notes may be found on pages F-1 through F-53 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management, including our President and Chief Executive Officer and Executive Vice President and Chief Financial Officer has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that the disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act (i) is recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to our management including the Chief Executive Officer and Executive Vice President and Chief Financial Officer, as appropriate to allow timely discussion regarding required disclosure.

Management Report on Internal Control Over Financial Reporting

Our management, including our President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework* (2013). Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2017.

There have been no changes in our internal control over financial reporting identified in connection with the evaluation that occurred during our last fiscal quarter that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.



Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

To the Shareholders and Board of Directors of Western New England Bancorp, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Western New England Bancorp, Inc. and subsidiary (the "Company") internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Consolidated Financial Statements of the Company and our report dated March 15, 2018 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Boston, Massachusetts

Wolf + Company, P.C.

March 15, 2018

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following information included in the Proxy Statement is incorporated herein by reference: "Information About Our Board of Directors," "Information About Our Executive Officers," "Information About the Board of Directors and Corporate Governance," and "Section 16(a) Beneficial Ownership Reporting Compliance."

ITEM 11. EXECUTIVE COMPENSATION

The following information included in the Proxy Statement is incorporated herein by reference: "Compensation Committee Interlocks," "Compensation Discussion and Analysis," "Compensation Committee Report," and "Executive and Director Compensation Tables."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The following information included in the Proxy Statement is incorporated herein by reference: "Security Ownership of Certain Beneficial Owners and Management" and "Securities Authorized For Issuance Under Equity Compensation Plans."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The following information included in the Proxy Statement is incorporated herein by reference: "Transactions with Related Persons" and "Board of Directors Independence."

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following information included in the Proxy Statement is incorporated herein by reference: "Independent Registered Public Accounting Firm Fees and Services."

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

Reference is made to our consolidated financial statements and accompanying notes included in Item 8 of Part II hereof.

(a)(2) Financial Statement Schedules

Consolidated financial statement schedules have been omitted because the required information is not present, or not present in amounts sufficient to require submission of the schedules, or because the required information is provided in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

The exhibits required to be filed as part of this Annual Report on Form 10-K are listed in the Exhibit Index attached hereto and are incorporated herein by reference.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 15, 2018.

WESTERN NEW ENGLAND BANCORP, INC.

By: /s/ James C. Hagan
James C. Hagan
Chief Executive Officer and President
(Principal Executive Officer)

By: /s/ Guida R. Sajdak.
Guida R. Sajdak
Chief Financial Officer and Executive Vice
President (Principal Financial Officer and
Principal Accounting Officer)

POWER OF ATTORNEY

Each person whose individual signature appears below hereby authorizes and appoints James C. Hagan and Guida R. Sajdak, and each of them, with full power of substitution and resubstitution and full power to act without the other, as his or her true and lawful attorney-in-fact and agent to act in his or her name, place and stead and to execute in the name and on behalf of each person, individually and in each capacity stated below, and to file any and all amendments to this report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed by the following persons on behalf of the registrant and in the capacities indicated on March 15, 2018.

Name			
/s/ James C. Hagan James C. Hagan	Chief Executive Officer, President and Director (Principal Executive Officer)		
/s/ Guida R. Sajdak Guida R. Sajdak	Chief Financial Officer and Executive Vice President (Principal Financial Officer and Principal Accounting Officer)		
/s/ Donald A. Williams Donald A. Williams	Chairman of the Board		
/s/ William J. Wagner William J. Wagner	Vice-Chairman of the Board		
/s/ Laura Benoit Laura Benoit	Director		
/s/ Donna J. Damon Donna J. Damon	Director		
/s/ Gary G. Fitzgerald Gary G. Fitzgerald	Director		
/s/ William D. Masse William D. Masse	Director		
/s/ Lisa G. McMahon Lisa G. McMahon	Director		
/s/ Gregg F. Orlen Gregg F. Orlen	Director		
/s/ Paul C. Picknelly Paul C. Picknelly	Director		
/s/ Steven G. Richter Steven G. Richter	Director		

Name	Title	
/s/ Philip R. Smith Philip R. Smith	Director	
/s/ Kevin M. Sweeney Kevin M. Sweeney	Director	
/s/ Christos A. Tapases Christos A. Tapases	Director	

EXHIBIT INDEX

- 3.1 Restated Articles of Organization of Western New England Bancorp, Inc. (incorporated by reference to Exhibit 3.1 of the Form 8-K filed with the SEC on October 26, 2016).
- 3.3 Amended and Restated Bylaws of Western New England Bancorp, Inc. (incorporated by reference to Exhibit 3.1 of the Form 8-K filed with the SEC on February 2, 2017).
- 4.1 Form of Stock Certificate of Western New England Bancorp, Inc. (f/k/a Westfield Financial, Inc.) (incorporated by reference to Exhibit 4.1 of the Registration Statement on Form S-1 (No. 333-137024) filed with the SEC on August 31, 2006).
- 10.1* Form of Employee Stock Ownership Plan of Western New England Bancorp, Inc. (f/k/a Westfield Financial, Inc.) (incorporated by reference to Exhibit 10.1 of the Form 10-Q filed with the SEC on November 8, 2011).
- 10.2* Form of Director's Deferred Compensation Plan (incorporated by reference to Exhibit 10.7 of the Form 8-K filed with the SEC on December 22, 2005).
- 10.3* The 401(k) Plan adopted by Westfield Bank (incorporated herein by reference to Exhibit 4.1 of the Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 (No. 333-73132) filed with the SEC on April 28, 2006).
- 10.4* Amendment to the 401(k) Plan adopted by Westfield Bank (incorporated by reference to Exhibit 10.11 of the Form 8-K filed with the SEC on July 13, 2006).
- 10.5* Amended and Restated Benefit Restoration Plan of Western New England Bancorp, Inc. (f/k/a Westfield Financial, Inc.) (incorporated by reference to Exhibit 10.5 of the Form 8-K filed with the SEC on October 29, 2007).
- 10.6* Form of Amended and Restated Deferred Compensation Agreement with Donald A. Williams (incorporated by reference to Exhibit 10.10 of the Form 8-K filed with the SEC on December 22, 2005).
- 10.7* Amended and Restated Employment Agreement between James C. Hagan and Westfield Bank (incorporated by reference to Exhibit 10.9 of the Form 8-K filed with the SEC on January 5, 2009).
- 10.8* Amended and Restated Employment Agreement between James C. Hagan and Western New England Bancorp, Inc. (f/k/a Westfield Financial, Inc.) (incorporated by reference to Exhibit 10.12 of the Form 8-K filed with the SEC on January 5, 2009).
- 10.9 Agreement between Westfield Bank and Village Mortgage Company (incorporated by reference to Exhibit 10.17 of Amendment No. 1 of the Registration Statement No. 333-137024 on Form S-1 filed with the SEC on August 31, 2006).
- 10.10* Employment Agreement between Leo R. Sagan, Jr. and Westfield Bank (incorporated by reference to Exhibit 10.15 of the Form 8-K filed with the SEC on January 5, 2009).
- 10.11* Employment Agreement between Leo R. Sagan, Jr. and Western New England Bancorp, Inc. (f/k/a Westfield Financial, Inc.) (incorporated by reference to Exhibit 10.16 of the Form 8-K filed with the SEC on January 5, 2009).
- 10.12* Employment Agreement between Gerald P. Ciejka and Westfield Bank (incorporated by reference to Exhibit 10.17 of the Form 8-K filed with the SEC on January 5, 2009).
- 10.13* Employment Agreement between Gerald P. Ciejka and Western New England Bancorp, Inc. (f/k/a Westfield Financial, Inc.) (incorporated by reference to Exhibit 10.18 of the Form 8-K filed with the SEC on January 5, 2009).
- 10.14* Employment Agreement between Allen J. Miles, III and Westfield Bank (incorporated by reference to Exhibit 10.19 of the Form 8-K filed with the SEC on January 5, 2009).
- 10.15* Employment Agreement between Allen J. Miles, III and Western New England Bancorp, Inc. (f/k/a Westfield Financial, Inc.) (incorporated by reference to Exhibit 10.20 of the Form 8-K filed with the

- SEC on January 5, 2009).
- 10.16* Employment Agreement between William J. Wagner and Western New England Bancorp, Inc. (f/k/a Westfield Financial, Inc.) (incorporated by reference to Exhibit 10.2 of the Registration Statement on Form S-4 (No. 333-212221) filed with the SEC on June 24, 2016).
- 10.17* Employment Agreement between William J. Wagner and Westfield Bank (incorporated by reference to Exhibit 10.3 of the Registration Statement on Form S-4 (No. 333-212221) filed with the SEC on June 24, 2016).
- 10.18* Employment Agreement between Guida R. Sajdak and Western New England Bancorp (incorporated by reference to Exhibit 10.1 of the Form 8-K filed with the SEC on Feburary 8, 2018).
- 10.19* Employment Agreement between Guida R. Sajdak and Westfield Bank (incorporated by reference to Exhibit 10.2 of the Form 8-K filed with the SEC on February 8, 2018).
- 10.20* Employment Agreement between Louis Gorman, III and Western New England Bancorp (incorporated by reference to Exhibit 10.1 of the Form 8-K filed with the SEC on March 23, 2018).
- 10.21* Employment Agreement between Louis Gorman, III and Westfield Bank (incorporated by reference to Exhibit 10.2 of the Form 8-K filed with the SEC on March 23, 2018).
- 10.22* 2002 Stock Option Plan (incorporated by reference to Appendix B of the Schedule 14A filed with the SEC on May 24, 2002).
- 10.23* Amendment to the 2002 Stock Option Plan (incorporated by reference to Appendix A of the Schedule 14A filed with the SEC on April 25, 2003).
- 10.24* 2002 Recognition and Retention Plan (incorporated by reference to Appendix C of the Schedule 14A filed with the SEC on May 24, 2002).
- 10.25* Amendment to the 2002 Recognition and Retention Plan (incorporated by reference to Appendix B of the Schedule 14A filed with the SEC on April 25, 2003).
- 10.26* 2007 Stock Option Plan (incorporated by reference to Appendix A of the Schedule 14A filed with the SEC on June 18, 2007).
- 10.27* Amendment to the 2007 Stock Option Plan (incorporated by reference to Appendix B of the Schedule 14A filed with the SEC on April 14, 2008).
- 10.28* 2007 Recognition and Retention Plan (incorporated by reference to Appendix B of the Schedule 14A filed with the SEC on June 18, 2007).
- 10.29* Amendment to the 2007 Recognition and Retention Plan (incorporated by reference to Appendix C of the Schedule 14A filed with the SEC on April 14, 2008).
- 10.30* 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on May 19, 2014).
- 10.31* Chicopee Bancorp, Inc. 2007 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8 (No. 333-214261) filed with the SEC on October 26, 2016).
- 21.1 Subsidiaries of Western New England Bancorp, Inc.
- 23.1† Consent of Wolf & Company, P.C.
- 31.1† Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2† Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1[†] Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2† Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101** Financial statements from the annual report on Form 10-K of Western New England Bancorp, Inc. for the year ended December 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Net Income, (iii) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) Notes to Consolidated Financial Statements.

[†] Filed herewith.

^{*} Management contract or compensatory plan or arrangement.

^{**} Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SUBSIDIARIES OF THE REGISTRANT

Western New England Bancorp, Inc. Subsidiaries:

Name	Jurisdiction of Incorporation
Westfield Bank	United States (federally chartered savings
	bank)
WFD Securities, Inc.	Massachusetts

Westfield Bank Subsidiaries:

Name	Jurisdiction of Incorporation
Elm Street Securities Corporation	Massachusetts
WB Real Estate Holdings, LLC	Massachusetts
CSB Colts, Inc.	Massachusetts

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement Nos. 333-73132, 333-98903, 333-145857, 333-197928 and 333-214261 of our reports dated March 15, 2018, relating to our audits of the consolidated financial statements and internal control over financial reporting of Western New England Bancorp, Inc. and subsidiaries, which reports appear in this Annual Report on Form 10-K of Western New England Bancorp, Inc. for the year ended December 31, 2017.

Boston, Massachusetts

Wolf + Company, P.C.

March 15, 2018

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James C. Hagan, certify that:

- 1. I have reviewed this annual report on Form 10-K of Western New England Bancorp, Inc.;
- 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2018

/s/ James C. Hagan

James C. Hagan

Chief Executive Officer and President

(Principal Executive Officer)

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Guida R. Sajdak, certify that:

- 1. I have reviewed this annual report on Form 10-K of Western New England Bancorp, Inc.;
- 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (Western New England Bancorp's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2018

/s/ Guida R. Sajdak.

Guida R. Sajdak

Gliof Financial Officerous

Chief Financial Officer and Executive Vice President (Principal Financial and

Accounting Officer)

STATEMENT FURNISHED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350

The undersigned, James C. Hagan, is the Chief Executive Officer and President of Western New England Bancorp, Inc. ("Western New England Bancorp").

This statement is being furnished in connection with the filing by Western New England Bancorp of Western New England Bancorp's Annual Report on Form 10-K for the period ended December 31, 2017 (the "Report").

By execution of this statement, I certify that:

- A) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- B) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Western New England Bancorp as of the dates and for the periods covered by the Report.

This statement is authorized to be attached as an exhibit to the Report so that this statement will accompany the Report at such time as the Report is filed with the Securities and Exchange Commission, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to Western New England Bancorp, Inc. and will be retained by Western New England Bancorp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

March 15, 2018 Dated /s/ James C. Hagan
James C. Hagan
Chief Executive Officer and President
(Principal Executive Officer)

STATEMENT FURNISHED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350

The undersigned, Guida R. Sajdak, Chief Financial Officer and Executive Vice President of Western New England Bancorp, Inc. ("Western New England Bancorp").

This statement is being furnished in connection with the filing by Western New England Bancorp, Inc. of Western New England Bancorp, Inc.'s Annual Report on Form 10-K for the period ended December 31, 2017 (the "Report").

By execution of this statement, I certify that:

- A) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- B) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Western New England Bancorp as of the dates and for the periods covered by the Report.

This statement is authorized to be attached as an exhibit to the Report so that this statement will accompany the Report at such time as the Report is filed with the Securities and Exchange Commission, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to Western New England Bancorp, Inc. and will be retained by Western New England Bancorp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

March 15, 2018 Dated /s/ Guida R. Sajdak
Guida R. Sajdak
Chief Financial Officer and Executive Vice
President (Principal Financial and
Accounting Officer)



Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Western New England Bancorp, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying Consolidated Balance Sheets of Western New England Bancorp, Inc. and subsidiary (the "Company") as of December 31, 2017 and 2016, the related Consolidated Statements of Net Income, Comprehensive Income, Changes in Shareholders' Equity and Cash Flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 15, 2018 expressed an unqualified opinion.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2004.

Wolf + Company, P.C.

Boston, Massachusetts March 15, 2018

WESTERN NEW ENGLAND BANCORP, INC., AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

(Dollars in thousands, except snare data)	December 31, 2017	December 31, 2016
ASSETS		
CASH AND DUE FROM BANKS	\$ 21,607	\$ 23,297
FEDERAL FUNDS SOLD	322	4,388
INTEREST-BEARING DEPOSITS AND OTHER SHORT-TERM INVESTMENTS	5,203	42,549
CASH AND CASH EQUIVALENTS	27,132	70,234
SECURITIES AVAILABLE-FOR-SALE – AT FAIR VALUE	288,416	300,115
FEDERAL HOME LOAN BANK OF BOSTON AND OTHER RESTRICTED STOCK - AT COST	15,553	16,124
LOANS - Net of allowance for loan losses of \$10,831 and \$10,068 at December 31, 2017 and 2016, respectively	1,619,850	1,556,416
PREMISES AND EQUIPMENT, Net	23,500	20,885
ACCRUED INTEREST RECEIVABLE	5,946	5,782
BANK-OWNED LIFE INSURANCE	68,762	66,938
DEFERRED TAX ASSET, Net	8,784	16,159
GOODWILL	12,487	13,747
CORE DEPOSIT INTANGIBLE	4,063	4,438
OTHER REAL ESTATE OWNED	155	298
OTHER ASSETS	8,422	4,882
TOTAL ASSETS	\$ 2,083,070	\$ 2,076,018
LIABILITIES AND SHAREHOLDERS' EQUITY LIABILITIES: DEPOSITS:		
Non-interest-bearing	\$ 311,851	\$ 303,993
Interest-bearing	1,194,231	1,214,078
Total deposits	1,506,082	1,518,071
SHORT-TERM BORROWINGS	144,650	172,351
LONG-TERM DEBT	164,786	124,836
SECURITIES PENDING SETTLEMENT	304	455
OTHER LIABILITIES	19,967	21,909
TOTAL LIABILITIES	1,835,789	1,837,622
SHAREHOLDERS' EQUITY:		
Preferred stock - \$0.01 par value, 5,000,000 shares authorized, none outstanding at December 31, 2017 and December 31, 2016	-	-
Common stock - \$0.01 par value, 75,000,000 shares authorized, 30,487,309 shares issued and outstanding at December 31, 2017; 30,380,231 shares issued and outstanding at December 31, 2016	305	304
Additional paid-in capital	203,527	205,996
Unearned compensation - ESOP	(5,786)	(6,418)
Unearned compensation - Equity Incentive Plan	(791)	(536)
Retained earnings	62,578	51,711
Accumulated other comprehensive loss	(12,552)	(12,661)
Total shareholders' equity	247,281	238,396
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,083,070	\$ 2,076,018
See accompanying notes to consolidated financial statements		

See accompanying notes to consolidated financial statements.

WESTERN NEW ENGLAND BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF NET INCOME

(Dollars in thousands, except per share data)

(Year	s Ended December	r 31 ,
	2017	2016	2015
INTEREST AND DIVIDEND INCOME:			
Residential and commercial real estate loans	\$ 53,733	\$ 32,562	\$ 23,769
Commercial and industrial loans	11,587	7,431	6,594
Consumer loans	344	205	158
Debt securities, taxable	7,333	7,387	10,777
Debt securities, tax-exempt	104	168	602
Equity securities	140	180	162
Other investments	678	550	396
Federal funds sold, interest-bearing deposits and other short-term	120	115	1.0
investments	120	115	18
Total interest and dividend income	74,039	48,598	42,476
INTEREST EXPENSE:			
Deposits	8,448	6,581	5,571
Long-term debt	2,261	2,266	4,133
Short-term borrowings	3,936	2,438	1,090
Total interest expense	14,645	11,285	10,794
Net interest and dividend income	59,394	37,313	31,682
PROVISION FOR LOAN LOSSES	1,360	575	1,275
Net interest and dividend income after provision for loan losses	58,034	36,738	30,407
NOV NAMED DOZENICO NE GLOGO			
NON-INTEREST INCOME (LOSS):	c 200	4.101	2.122
Service charges and fees	6,389	4,181	3,132
Income from bank-owned life insurance	1,824	1,558	1,527
Loss on prepayment of borrowings Gain on sales of securities, net	52	(915)	(1,300)
Other income		1,139	1,506
	236	5.071	1.065
Total non-interest income	8,501	5,971	4,865
NON-INTEREST EXPENSE:			
Salaries and employees benefits	25,431	17,386	15,146
Occupancy	3,774	2,587	2,332
Furniture and equipment	1,533	1,084	984
Data processing	2,372	1,696	1,447
Professional fees	2,559	2,177	2,178
FDIC insurance assessment	620	716	800
Merger related expenses	526	4,051	-
Advertising	1,296	910	789
Other expenses	6,676	4,699	3,757
Total non-interest expense	44,787	35,306	27,433
INCOME BEFORE INCOME TAXES	21,748	7,403	7,839
INCOME TAX PROVISION	9,428	2,569	2,124
NET INCOME	\$ 12,320	\$ 4,834	\$ 5,715
EARNINGS PER COMMON SHARE:			
Basic earnings per share	\$ 0.41	\$ 0.25	\$ 0.33
Weighted average shares outstanding	29,858,984	19,707,948	17,497,620
Diluted earnings per share	\$ 0.41	\$ 0.24	\$ 0.33
Weighted average diluted shares outstanding	30,026,638	19,803,744	17,497,620

See accompanying notes to consolidated financial statements.

WESTERN NEW ENGLAND BANCORP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

	Years	Ended Decembe	er 31,
	2017	2016	2015
Net income	\$ 12,320	\$ 4,834	\$ 5,715
Other comprehensive income (loss):			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) on available-for-sale securities	557	(2,381)	(1,505)
Reclassification adjustment for net gains realized in income (1)	(52)	(1,139)	(1,506)
Amortization of net unrealized (gain) loss on held-to-maturity securities (2)	-	26	(527)
Net unrealized loss upon transfer of held-to-maturity to available for sale (3)		2,288	
Unrealized gains (losses) on securities	505	(1,206)	(3,538)
Tax effect	(22)	413	1,220
Net-of-tax amount	483	(793)	(2,318)
Cash flow hedges:			
Change in fair value of derivatives used for cash flow hedges	31	(1,126)	(3,337)
Reclassification adjustment for loss realized in interest expense (4)	970	619	519
Reclassification adjustment for termination fee realized in interest expense (5)	1,068	956	223
Unrealized gains (losses) on cash flow hedges	2,069	449	(2,595)
Tax effect	(305)	(152)	882
Net-of-tax amount	1,764	297	(1,713)
Defined benefit pension plan:			
Gains (losses) arising during the period	(663)	(1,906)	674
Amortization of defined benefit plans actuarial loss ⁽⁶⁾	124	109	125
Unrecognized actuarial gains (losses) defined benefit plan	(539)	(1,797)	799
Tax effect	527	610	(271)
Net-of-tax amount	(12)	(1,187)	528
Other comprehensive income (loss)	2,235	(1,683)	(3,503)
Comprehensive income	\$ 14,555	\$ 3,151	\$ 2,212

⁽¹⁾ Realized gains realized on available-for-sale securities are recognized as a component of non-interest income. The tax effects applicable to net realized gains were \$21,000, \$387,000 and \$517,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

See accompanying notes to consolidated financial statements.

⁽²⁾ Amortization of net unrealized gains and losses on held-to-maturity securities is recognized as a component of interest income on debt securities. Income tax effects associated with the reclassification adjustments were \$(9,000) and \$182,000 for the years ended December 31, 2016 and 2015, respectively.

⁽³⁾ Income tax effect associated with the reclassification adjustments upon transfer of held-to-maturity to available-for-sale was \$790,000 for the year ended December 31, 2016.

⁽⁴⁾ Loss realized in interest expense on derivative instruments is recognized as a component of interest expense on short-term debt. Income tax effects associated with the reclassification adjustment were \$396,000, \$210,000 and \$176,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

⁽⁵⁾ Loss realized in interest expense on derivative instruments is recognized as a component of interest expense on short-term debt. Income tax effects associated with the reclassification adjustment were \$436,000, \$325,000 and \$76,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

⁽⁶⁾ Amounts represent the reclassification of defined benefit plans amortization and have been recognized as a component of salaries and employee benefit expense. Income tax benefit associated with the reclassification adjustments were \$51,000, \$37,000 and \$43,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

WESTERN NEW ENGLAND BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Dollars in thousands, except share data)

•	Common	on Stock	k	ĺ				Unearned	ned			Accı	Accumulated		
				⋖	Additional Paid-in	Unearned Compensation	ned ation-	Compensation-	ation- ty	ď	Refeined	, m	Other		
•	Shares	Par	Par Value		r and-m Capital	ESOP	ation- P	Incentive Plan	ry e Plan	E	Earnings		Loss		Total
BALANCE AT DECEMBER 31, 2014	18,734,791	\$	187	\$	111,696	\$	(7,469)	\$	(62)	\$	45,699	\$	(7,475)	s	142,543
Comprehensive income (loss)	ı				ı		•		ı		5,715		(3,503)		2,212
Common stock held by ESOP committed to be released (76,888 shares)	ı				65		517		1		•		•		582
Share-based compensation - equity incentive plan	ı				1		•		131		•		'		131
Excess tax benefit from equity incentive plan	ı				2		•		1		1		1		2
Common stock repurchased	(515,604)		(5)	_	(3,901)		1		1		ı		1		(3,906)
Issuance of common stock in connection with equity incentive plan	48,560				348		1		(349)		1		1		1
Cash dividends declared and paid (\$0.12 per share)	Ī				-		1		ı		(2,098)		Ī		(2,098)
BALANCE AT DECEMBER 31, 2015	18,267,747	\$	183	\$	108,210	\$	(6,952)	\$	(313)	\$	49,316	\$	(10,978)	\$	139,466
Comprehensive income (loss)	ı				1		1		1		4,834		(1,683)		3,151
Common stock held by ESOP committed to be released (79,082 shares)	ı				96		534		1		•		ı		630
Share-based compensation - equity incentive plan	i				1		•		262		'		i		262
Excess tax benefit from equity incentive plan	ı				12		1		1		1		1		12
Acquisition of Chicopee Bancorp	12,469,334		125		98,386		1		1		1		1		98,511
Retirement of Chicopee Bancorp ESOP	(519,922)		(5)	_	(4,102)		•		1		•		1		(4,107)
Premium to equity for rollover of Chicopee Bancorp options	ı				2,864		•		1		•		'		2,864
Retirement of WNEB stock previously owned by Chicopee Bancorp	(30,000)				(236)		•		1		•		1		(236)
Common stock repurchased	(201,296)		(2)	_	(1,831)		1		1		•		ı		(1,833)
Issuance of common stock in connection with stock option exercises	331,628		(1		1,969		•		1		'		1		1,971
Issuance of common stock in connection with equity incentive plan	62,740				484		1		(485)		1		1		1
Excess tax benefits in connection with stock option exercises	ı				4		1		ı		1		1		44
Cash dividends declared and paid (\$0.12 per share)	i				1		•		1		(2,439)		i		(2,439)
BALANCE AT DECEMBER 31, 2016	30,380,231	s	304	\$	205,996	↔	(6,418)	↔	(536)	\$	51,711	↔	(12,661)	S	238,396
Adoption of ASU 2018-02 (see Note 13)	ı				ı		•		1		2,126		(2,126)		1
Comprehensive income	ı				1		•		1		12,320		2,235		14,555
Common stock held by ESOP committed to be released (93,679 shares)	ı				326		632		1		•		1		958
Share-based compensation - equity incentive plan	ı				1		•		649		•		'		649
Common stock repurchased	(903,813)		6)		(9,154)		•		•		•		•		(9,163)
Issuance of common stock in connection with stock option exercises	921,849		6		5,456		•		1		•		'		5,465
Issuance of common stock in connection with equity incentive plan	89,042		_		903		•		(904)		•		•		•
Cash dividends declared and paid (\$0.12 per share)	ı				'		1		1		(3,579)		'		(3,579)
BALANCE AT DECEMBER 31, 2017	30,487,309	\$	305	\$	203,527	\$	(5,786)	\$	(791)	\$	62,578	\$	(12,552)	8	247,281

See accompanying notes to consolidated financial statements

WESTERN NEW ENGLAND BANCORP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Dollars in thousand	ds)	_	., .	15 1 21		
	20	017	Years End	ed December 31, 2016		2015
OPERATING ACTIVITIES:		017		2010		2015
Net income	\$	12,320	\$	4,834	\$	5,715
Adjustments to reconcile net income to net cash provided by operating activities:	Ψ	12,020	Ψ	.,02 .	Ψ	5,715
Provision for loan losses		1,360		575		1,275
Depreciation and amortization of premises and equipment		1,965		1,429		1,315
Accretion of purchase accounting adjustments, net		(2,373)		(194)		-
Amortization of core deposit intangible		375		73		-
Net amortization of premiums and discounts on securities and mortgage loans		3,181		3,447		4,670
Net amortization of premiums on modified debt		-		60		383
Share-based compensation expense		649		262		131
ESOP expense		958		630		582
Excess tax benefits from equity incentive plan		-		(12)		(2)
Excess tax benefits in connection with stock option exercises		-		(144)		-
Net gains on sales of securities		(52)		(1,139)		(1,506)
Net gain on sales of other real estate owned		(9)		-		-
Loss on prepayment of borrowings				915		1,300
Deferred income tax expense (benefit)		7,342		274		(231)
Income from bank-owned life insurance		(1,824)		(1,558)		(1,527)
Net change in:		(164)		(464)		225
Accrued interest receivable Other assets		(164) (3,549)		(464)		335
Other liabilities		(1,318)		(1,564) (6,494)		(56) (308)
Net cash provided by operating activities		18,861		930		12,076
INVESTING ACTIVITIES:		10,001		930		12,070
Securities, held-to-maturity:						
Purchases		_		_		(2,620)
Proceeds from calls, maturities, and principal collections		_		6,836		39,372
Securities, available-for-sale:				0,030		37,372
Purchases		(67,246)		(87,246)		(141,074)
Proceeds from sales		22,453		136,829		134,437
Proceeds from calls, maturities, and principal collections		53,915		59,112		36,298
Purchase of residential mortgages		(48,205)		(108,448)		(90,743)
Loan originations and principal payments, net		(15,658)		1,196		(3,261)
Net cash acquired from acquisition of Chicopee Bancorp		-		23,808		-
Redemption (purchase) of Federal Home Loan Bank of Boston stock		571		3,126		(140)
Proceeds from sale of other real estate owned		410		-		-
Purchases of premises and equipment		(2,212)		(1,487)		(3,220)
Proceeds from sale of premises and equipment				20		44
Net cash (used in) provided by investing activities		(55,972)		33,746	-	(30,907)
FINANCING ACTIVITIES:						
Net (decrease) increase in deposits		(11,097)		72,270		66,145
Net change in short-term borrowings		(27,701)		38,944		34,410
Repayment of long-term debt		(21,185)		(89,933)		(80,950)
Proceeds from long-term debt		61,420		2,264		146
Cash dividends paid		(3,579)		(2,439)		(2,098)
Common stock repurchased		(9,314)		(1,378)		(3,906)
Issuance of common stock in connection with stock option exercises		5,465		1,971		-
Excess tax benefits from equity incentive plan		-		12		2
Excess tax benefits in connection with stock option exercises				144		
Net cash (used in) provided by financing activities		(5,991)		21,855		13,749
NET CHANGE IN CASH AND CASH EQUIVALENTS:		(43,102)		56,531		(5,082)
Beginning of year		70,234		13,703		18,785
End of year	\$	27,132	\$	70,234	\$	13,703
•						
Supplemental cashflow information:	ф		Ф	(000 817)	Ф	
Securities reclassified from held-to-maturity to available-for-sale	\$	(1.51)	\$	(232,817)	\$	-
Net change in due to broker for common stock repurchased		(151)		455		-
Loans transferred to other real estate owned		258		298		-
In connection with the purchase acquisition detailed in Note 1 to the audited consolidate	d financial s	statements:				
Fair value of non-cash assets acquired	\$	-	\$	674,529	\$	-
Goodwill and core deposit intangibles		-		18,258		-
Fair value of liabilities assumed		-		617,803		-
Value of common shares issued		-1-4-4		98,792		-
See the accompanying notes to consolidate	uea mancia	a statements	•			

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WESTERN NEW ENGLAND BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Basis of Presentation – Western New England Bancorp, Inc. ("Western New England Bancorp," "WNEB," the "Company," "we" or "us") is a Massachusetts-chartered stock holding company for Westfield Bank, a federally chartered stock savings bank (the "Bank").

The Bank's deposits are insured to the limits specified by the Federal Deposit Insurance Corporation ("FDIC"). The Bank operates 21 banking offices in western Massachusetts and northern Connecticut, and its primary sources of revenue are earnings on loans to small and middle-market businesses and to residential property homeowners and income from securities.

Wholly-Owned Subsidiaries and Acquisition - Elm Street Securities Corporation, WFD Securities, Inc. and CSB Colts, Inc., are Massachusetts-chartered securities corporations, formed for the primary purpose of holding qualified securities. WB Real Estate Holdings, LLC, is a Massachusetts-chartered limited liability company that holds real property acquired as security for debts previously contracted by the Bank.

On October 21, 2016, we acquired Chicopee Bancorp, Inc. ("Chicopee"), the holding company for Chicopee Savings Bank. The acquisition added eight full-service banking offices located in western Massachusetts. The primary purpose of the acquisition with Chicopee was to expand our presence in western Massachusetts and diversify our market area. The transaction qualified as a tax-free reorganization for federal income tax purposes. Merger consideration paid in the transaction to shareholders of Chicopee totaled \$98.8 million, consisting of 11,919,412 shares of Company common stock, net of shares of Chicopee already owned, and shares of Chicopee's ESOP liquidated to payoff the ESOP loan.

We accounted for the transaction using the acquisition method. Accordingly, we recorded acquisition expenses totaling \$526,000 and \$4.1 million (pre-tax) during 2017 and 2016, respectively. The acquisition method requires an acquirer to recognize the assets acquired and the liabilities assumed at fair value as of the acquisition date. Additionally, our results of operations include Chicopee's operating results from the date of acquisition.

Principles of Consolidation - The consolidated financial statements include the accounts of Western New England Bancorp, the Bank, CSB Colts, Inc., Elm Street Securities Corporation, WB Real Estate Holdings, LLC and WFD Securities, Inc. All material intercompany balances and transactions have been eliminated in consolidation.

Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses for each. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, other-than-temporary impairment of securities and the realizability of deferred tax assets.

Reclassifications – Amounts in the prior year financial statements are reclassified when necessary to conform to the current year presentation.

Significant Group Concentrations of Credit Risk – Most of the Company's lending activities are with customers located within the New England region of the country. The Company does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents - We define cash on hand, cash due from banks, federal funds sold and interest-bearing deposits having an original maturity of 90 days or less as cash and cash equivalents. We are required to maintain a

reserve balance with Bankers Bank Northeast ("BBN") as part of our coin and currency contract and line of credit with BBN. The required reserve amounted to \$425,000 at both December 31, 2017 and 2016.

Securities and Mortgage-Backed Securities - Debt securities, including mortgage-backed securities, which management has the positive intent and ability to hold until maturity are classified as held to maturity and are carried at amortized cost. Securities, including mortgage-backed securities, which have been identified as assets for which there is not a positive intent to hold to maturity are classified as available for sale and are carried at fair value with unrealized gains and losses, net of income taxes, reported as a separate component of comprehensive income (loss). We do not acquire securities and mortgage-backed securities for purposes of engaging in trading activities.

Realized gains and losses on sales of securities and mortgage-backed securities are computed using the specific identification method and are included in non-interest income on the trade date. The amortization of premiums and accretion of discounts is determined by using the level yield method to the maturity date.

Derivatives - We enter into interest rate swap agreements as part of our interest-rate risk management strategy for certain assets and liabilities and not for speculative purposes. Based on our intended use for interest rate swaps, these are hedging instruments subject to hedge accounting provisions. Cash flow hedges are recorded at fair value in other assets or liabilities within our balance sheets. Changes in the fair value of these cash flow hedges are initially recorded in accumulated other comprehensive income (loss) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any hedge ineffectiveness assessed as part of our quarterly analysis is recorded directly to earnings. We would discontinue hedge accounting if the derivative was not expected to be or ceased to be highly effective as a hedge, and record changes in fair value of the derivative in earnings.

Other-than-Temporary Impairment of Securities - On a quarterly basis, we review securities with a decline in fair value below the amortized cost of the investment to determine whether the decline in fair value is temporary or other-than-temporary. Declines in the fair value of marketable equity securities below their cost that are deemed to be other-than-temporary based on the severity and duration of the impairment are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses for securities, impairment is required to be recognized if (1) we intend to sell the security; (2) it is "more likely than not" that we will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For all impaired debt securities that we intend to sell, or more likely than not will be required to sell, the full amount of the other-than-temporary impairment is recognized through earnings. For all other impaired debt securities, credit-related other-than-temporary impairment is recognized through earnings, while non-credit related other-than-temporary impairment is recognized in other comprehensive income/loss, net of applicable taxes.

Fair Value Hierarchy - We group our assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets. Level 1 assets generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. Level 3 assets include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Transfers between levels are recognized at the end of a reporting period, if applicable.

Federal Home Loan Bank of Boston Stock - The Bank, as a member of the Federal Home Loan Bank of Boston ("FHLBB") system, is required to maintain an investment in capital stock of the FHLBB. Based on the redemption provisions of the FHLBB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLBB may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in the FHLBB stock. As of December 31, 2017, no impairment has been recognized.

Loans Held for Sale- Loans originated and intended for sale in the secondary market are carried at the lower of amortized cost or fair value, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses, if any, are recognized through a valuation allowance by charges to non-interest income. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold on the trade date and reported within non-interest income on the accompanying consolidated statements of net income.

Loans Receivable- Loans are recorded at the principal amount outstanding, adjusted for charge-offs, unearned premiums, discounts and deferred loan fees and costs. Interest on loans is calculated using the effective yield method on daily balances of the principal amount outstanding and is credited to income on the accrual basis to the extent it is deemed collectible. Our general policy is to discontinue the accrual of interest when principal or interest payments are delinquent 90 days or more based on the contractual terms of the loan, or earlier if the loan is considered impaired. Any unpaid amounts previously accrued on these loans are reversed from income. Subsequent cash receipts are applied to the outstanding principal balance or to interest income if, in the judgment of management, collection of the principal balance is not in question. Loans are returned to accrual status when they become current as to both principal and interest and when subsequent performance reduces the concern as to the collectability of principal and interest. Loan fees, discounts and premiums on purchased loans, and certain direct loan origination costs are deferred and the net fee or cost is recognized as an adjustment to interest income over the estimated average lives of the related loans.

Allowance for Loan Losses - The allowance for loan losses is established through provisions for loan losses charged to expense. Loans are charged-off against the allowance when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated components, as further described below.

General component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, commercial real estate, commercial and industrial, and consumer. Residential real estate loans include classes for residential and home equity. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: trends in delinquencies and nonperforming loans; trends in volume and terms of loans; internal credit ratings; effects of changes in risk selection; underwriting standards and other changes in lending policies, procedures and practices; and national and local economic trends and industry conditions. There were no changes in our policies or methodology pertaining to the general component of the allowance for loan losses during 2017.

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

Commercial real estate – Loans in this segment are primarily income-producing investment properties and owner occupied commercial properties throughout New England. The underlying cash flows generated by the properties or operations can be adversely impacted by a downturn in the economy due to increased vacancy rates or diminished cash flows, which in turn, would have an effect on the credit quality in this segment. Management obtains financial information annually and continually monitors the cash flows of these loans.

Residential real estate –All loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment. We require private mortgage insurance for all loans originated with a loan-to-value ratio greater than 80 percent and do not grant subprime loans.

Commercial and industrial loans – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, decreased consumer spending, changes in technology and government spending are examples of what will have an effect on the credit quality in this segment.

Consumer loans – Loans in this segment are both secured and unsecured and repayment is dependent on the credit quality of the individual borrower.

Allocated component

The allocated component relates to loans that are classified as impaired. Impaired loans are identified by analysis of loan performance, internal credit ratings and watch list loans that management believes are subject to a higher risk of loss. Impairment is measured on a loan by loan basis for commercial real estate and commercial and industrial loans 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. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, we do not separately identify individual consumer and residential real estate loans for impairment disclosures, unless such loans are nonperforming or subject to a troubled debt restructuring agreement.

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

We may periodically agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). All TDRs are classified as impaired.

While we use our best judgment and information available, the ultimate appropriateness of the allowance is dependent upon a variety of factors beyond our control, including the performance of our loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

<u>Unallocated component</u>

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

Loans Acquired with Deteriorated Credit Quality – Loans acquired in a transfer, including business combinations, where there is evidence of credit deterioration since origination and it is probable at the date of acquisition the Company will not collect all contractually required principal and interest payments, are accounted for under accounting guidance for purchased credit-impaired loans. This guidance provides that the excess of the cash flows initially expected to be collected over the fair value of the loans at the acquisition date (i.e., the accretable yield) is accreted into interest income over the estimated remaining life of the loans, provided that the timing and amount of future cash flows is reasonably estimated. The difference between the contractually required payments and the cash

flows expected to be collected at acquisition is referred to as the nonaccretable difference. Subsequent to acquisition, probable decreases in expected cash flows are recognized through a provision for loan losses, resulting in an increase to the allowance for loan losses. If the Company has probable and significant increases in cash flows expected to be collected, the Company will first reverse any previously established allowance for loan losses and then increase interest income as a prospective yield adjustment.

Bank-owned Life Insurance – Bank-owned life insurance policies are reflected on the consolidated balance sheets at cash surrender value. Changes in the net cash surrender value of the policies, as well as insurance proceeds received, are reflected in non-interest income on the consolidated statements of net income and are not subject to income taxes.

Transfers and Servicing 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 us, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) we do not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment – Land is carried at cost. Buildings, furniture and equipment are stated at cost, less accumulated depreciation and amortization, computed on the straight-line method over the estimated useful lives of the assets, or the expected lease term, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. The estimated useful lives of the assets are as follows:

	Years
Buildings	39
Leasehold Improvements	5-20
Furniture and Equipment	3-7

The cost of maintenance and repairs is charged to expense when incurred. Major expenditures for betterments are capitalized and depreciated.

Other Real Estate Owned - Other real estate owned ("OREO") represents property acquired through foreclosure or deeded to us in lieu of foreclosure. OREO is initially recorded at the estimated fair value of the real estate acquired, net of estimated selling costs, establishing a new cost basis. Initial write-downs are charged to the allowance for loan losses at the time the loan is transferred to OREO. Subsequent valuations are periodically performed by management and the carrying value is adjusted by a charge to expense to reflect any subsequent declines in the estimated fair value. Operating costs associated with OREO are expensed as incurred.

Servicing – The Company services mortgage loans for others. Mortgage servicing assets are recognized as separate assets at fair value when rights are acquired through purchase or retained through the sale of financial assets. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into service charges and fee 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 the amortized cost. Impairment is determined by stratifying rights by predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that the fair value is less than the capitalized amount for the stratum. Changes in the valuation allowance are reported in service charges and fee income.

Servicing fee income is recorded for fees earned for servicing loans, which is included in service charges and fee income. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned.

Impairment of Long-lived Assets – Long-lived assets, including premises and equipment and certain identifiable intangible assets that are held and used by the Company, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment is indicated by that review, the asset is written down to its estimated fair value through a charge to earnings.

Goodwill is measured as the excess of the cost of a business combination over the sum of the amounts assigned to identifiable intangible assets acquired less liabilities assumed. Goodwill is not amortized but rather assessed for impairment annually or more frequently if circumstances warrant.

Management has the option of first assessing qualitative factors, such as events and circumstances, to determine whether it is more likely than not, meaning a likelihood of more than 50%, the value of a reporting unit is less than its carrying amount. If, after considering all relevant events and circumstances, management determines it is not more likely than not the fair value of a reporting unit is less than its carrying amount, then performing an impairment test is unnecessary. For the year ended December 31, 2017, management determined that it was not more likely than not the fair value of the reporting unit (the consolidated Company, in our case) was less than its carrying amount. If management had determined otherwise, a fair value analysis would have been completed to determine the impairment and necessary write-down of goodwill.

Retirement Plans and Employee Benefits - We provide a defined benefit pension plan for eligible employees in conjunction with a third-party provider. The compensation cost of an employee's pension benefit is recognized on the projected unit credit method over the employee's approximate service period. The aggregate cost method is utilized for funding purposes. Employees are also eligible to participate in a 401(k) plan through a third-party provider. We make matching contributions to this plan at 50% of up to 6% of the employees' eligible compensation.

Share-based Compensation Plans – We measure and recognize compensation cost relating to share-based payment transactions based on the grant-date fair value of the equity instruments issued. Share-based compensation is recognized over the period the employee is required to provide services for the award. Reductions in compensation expense associated with forfeited options are estimated at the date of grant, and this estimated forfeiture rate is adjusted based on actual forfeiture experience. We use a binomial option-pricing model to determine the fair value of the stock options granted.

Employee Stock Ownership Plan – Compensation expense for the Employee Stock Ownership Plan ("ESOP") is recorded at an amount equal to the shares allocated by the ESOP multiplied by the average fair market value of the shares during the period. We recognize compensation expense ratably over the year based upon our estimate of the number of shares expected to be allocated by the ESOP. Unearned compensation applicable to the ESOP is reflected as a reduction of shareholders' equity in the consolidated balance sheets. The difference between the average fair market value and the cost of the shares allocated by the ESOP is recorded as an adjustment to additional paid-in capital.

Advertising Costs – Advertising costs are accounted for using the accrual basis of accounting.

Income Taxes - We use the asset and liability method for income tax accounting, whereby, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Accordingly, changes resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017 (the "Tax Act") have been recognized in the consolidated financial statements as of and for the year ended December 31, 2017 (see Note 13). A valuation allowance related to deferred tax assets is established when, in the judgment of management, it is more likely than not that all or a portion of such deferred tax assets will not be realized based on the available evidence including historical and projected taxable income. We do not have any uncertain tax positions at December 31, 2017 which require accrual or disclosure. We record interest and penalties as part of income tax expense. No interest or penalties were recorded during the years ended December 31, 2017, 2016, or 2015.

Earnings per Share - Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. If rights to dividends on unvested awards are non-forfeitable, these unvested awards are considered outstanding in the computation of basic earnings per share. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by us relate solely to stock options and are determined using the treasury stock method. Unallocated ESOP shares are not deemed outstanding for earnings per share calculations.

Earnings per common share have been computed based on the following:

	Years I	Ended Decembe	r 31,
	2017	2016	2015
	(In thousar	nds, except per sha	re data)
Net income applicable to common stock	\$ 12,320	\$ 4,834	\$ 5,715
Average number of common shares issued	30,755	20,659	18,509
Less: Average unallocated ESOP Shares	(849)	(935)	(1,011)
Less: Average unvested equity incentive plan shares	(47)	(16)	
Average number of common shares outstanding used to calculate basic earnings per common share	29,859	19,708	17,498
Effect of dilutive equity incentive plan	17	3	-
Effect of dilutive stock options	151	93	
Average number of common shares outstanding used	20.025	10.004	4= 400
to calculate diluted earnings per common share	30,027	19,804	17,498
Basic earnings per share	\$ 0.41	\$ 0.25	\$ 0.33
Diluted earnings per share	\$ 0.41	\$ 0.24	\$ 0.33
Antidilutive Shares (1)	-	-	-

(1) Shares outstanding but not included in the computation of earnings per share because they were antidilutive, meaning the exercise price of such options exceeded the market value of the Company's common stock.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income (loss).

The components of accumulated other comprehensive loss, included in shareholders' equity, are as follows:

	Decem	ber 31, 2017	Decem	ber 31, 2016
		(In thous	sands)	
Net unrealized losses on securities available-for-sale	\$	(5,358)	\$	(5,863)
Tax effect		1,316		2,024
Net-of-tax amount		(4,042)		(3,839)
Fair value of derivatives used for cash flow hedges		(2,152)		(3,152)
Termination fee on cancelled cash flow hedges		(3,664)		(4,733)
Total derivatives		(5,816)		(7,885)
Tax effect		1,635		2,681
Net-of-tax amount		(4,181)		(5,204)
Unrecognized actuarial loss on the defined benefit plan		(6,021)		(5,482)
Tax effect		1,692		1,864
Net-of-tax amount		(4,329)		(3,618)
Accumulated other comprehensive loss	\$	(12,552)	\$	(12,661)

The following table presents changes in accumulated other comprehensive loss for the years ended December 31, 2017 and 2016 by component:

	Se	curities	Dei	r <mark>ivatives</mark> (In	В	efined Senefit Sion Plan ds)	 oumulated Other prehensive Loss
Balance at December 31, 2015	\$	(3,046)	\$	(5,501)	\$	(2,431)	\$ (10,978)
Current-period other comprehensive (loss) income		(793)		297		(1,187)	 (1,683)
Balance at December 31, 2016	\$	(3,839)	\$	(5,204)	\$	(3,618)	\$ (12,661)
Balance at December 31, 2016	\$	(3,839)	\$	(5,204)	\$	(3,618)	\$ (12,661)
Adoption of ASU 2018-02 (see Note 13)		(686)		(741)		(699)	(2,126)
Current-period other comprehensive (loss) income		483		1,764		(12)	 2,235
Balance at December 31, 2017	\$	(4,042)	\$	(4,181)	\$	(4,329)	\$ (12,552)

With regard to the defined benefit plan, an actuarial loss of \$219,000 is expected to be recognized as a component of net periodic pension cost during the year ending December 31, 2018.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606). The amendments in this Update create Topic 606, Revenue from Contracts with Customers, and supersede the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. The core principle of Topic 606 is that an entity recognizes 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. This ASU is effective for annual reporting periods, including interim periods, beginning after December 15, 2017. We do not expect the application of this guidance to have a material impact on our consolidated financial statements other than expanded disclosures regarding non-interest income.

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 Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Targeted improvements to generally accepted accounting principles include the requirement for 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 and the elimination of the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect the application of this guidance to have a material impact on our consolidated financial statements due to the limited amount of marketable equity securities owned by the Company.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which supersedes the requirements in Topic 840, Leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendments in this Update is permitted for all entities. Management is currently evaluating the impact to the consolidated financial statements of adopting this Update but does not expect adoption to have a material impact on our consolidated financial statements. As of December 31, 2017, the Company had \$9.4 million of future lease payments outstanding on operating leases pertaining to banking premises.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting* (Topic 718). This Update was issued as part of the FASB's simplification initiative. The areas for simplification in this Update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted this Update during the twelve months ended December 31, 2017 which resulted in the recognition of \$821,000 in income tax benefit that would have previously been recognized in additional paid in capital.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU also requires enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. This ASU is effective for fiscal years beginning after December 15, 2019, and for interim periods within that fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is in the process of evaluating the standard. We have put together a project team that has begun to identify appropriate loan segments along with related historical losses for each segment and potential models that would be most appropriate for each individual segment. We have not quantified the effects of any models, but do expect the standard to significantly change the approach to calculating our allowance for loan losses.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments. This Update provides guidance on eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; separately identifiable cash flows and application of the predominance principle. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. We do not expect the application of this guidance to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other* (Topic 350): Simplifying the Test for Goodwill Impairment. The amendments in this Update eliminate Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The Update is effective for public business entities that are a SEC filers for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. As allowed by the Standard, the Company adopted this ASU during the year ended December 31, 2017 with no impacts on the consolidated financial statements.

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. This Update amends guidance on the amortization period of premiums on certain purchased callable debt securities. Specifically, the amendments shorten the amortization period of premiums on certain purchased callable debt securities to the earliest call date. The amendments affect all entities that hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest call date (that is, at a premium). The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We do not expect the application of this guidance to have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation—Stock Compensation* (Topic 718): Scope of Modification Accounting. The amendments in this Update provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. This Update is effective for all entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. As the Company does not modify share-based payment awards, the adoption of this ASU is not expected to have an impact on the consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities* (ASU 2017-12). The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. The Company plans to adopt ASU 2017-12 on January 1, 2018. ASU 2017-12 requires a modified retrospective transition method in which the Company will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. While the Company continues to assess all potential impacts of the standard, we do not expect the application of this guidance to have a material impact on our consolidated financial statements.

2. SECURITIES

Securities available-for-sale are summarized as follows:

				Decembe	r 31, 20	31, 2017			
	Aı	mortized Cost	Unre	ross ealized ains	Un	Gross realized Losses	Fa	ir Value	
				(In tho	usands)				
Available-for-sale securities:									
Government-sponsored mortgage-backed securities	\$	185,769	\$	10	\$	(3,778)	\$	182,001	
U.S. government guaranteed mortgage-backed									
securities		16,821		-		(567)		16,254	
Corporate bonds		56,084		352		(292)		56,144	
State and municipal bonds		3,222		36		(19)		3,239	
Government-sponsored enterprise obligations		25,151		-		(770)		24,381	
Mutual funds		6,727				(330)		6,397	
Total available-for-sale securities	\$	293,774	\$	398	\$	(5,756)	\$	288,416	

			Decembe	r 31, 20	16		
Aı	nortized Cost	Unre	ealized	Un	realized	Fa	ir Value
			(In tho	usands)			
\$	184,127	\$	33	\$	(4,024)	\$	180,136
	17,753		-		(403)		17,350
	50,255		265		(203)		50,317
	4,117		13		(122)		4,008
	43,140		-		(1,132)		42,008
	6,586		_		(290)		6,296
\$	305,978	\$	311	\$	(6,174)	\$	300,115
		\$ 184,127 17,753 50,255 4,117 43,140 6,586	Amortized University Cost Graph States Graph	Amortized Cost Gross Unrealized Gains \$ 184,127 \$ 33 17,753 - 50,255 265 4,117 13 43,140 - 6,586 -	Amortized Cost Unrealized Unrealized Gains (In thousands) \$ 184,127 \$ 33 \$ 17,753 - 50,255 265 4,117 13 43,140 - 6,586 -	Amortized Cost Unrealized Gains Unrealized Losses (In thousands) \$ 184,127 \$ 33 \$ (4,024) 17,753 - (403) 50,255 265 (203) 4,117 13 (122) 43,140 - (1,132) 6,586 - (290)	Amortized Cost Gross Unrealized Gains Gross Unrealized Unrealized Losses Fa (In thousands) \$ 184,127 \$ 33 \$ (4,024) \$ 17,753 - (403) \$ 50,255 265 (203) 4,117 13 (122) 43,140 - (1,132) 6,586 - (290)

Our repurchase agreements are collateralized by government-sponsored enterprise obligations and certain mortgage-backed securities (see Note 7).

The amortized cost and fair value of available-for-sale debt securities at December 31, 2017, by final maturity, are shown below. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations. Also, because mortgage-backed securities require periodic principal paydowns, they are not included in the maturity categories in the following maturity summary.

_	December	31, 201	7
	 ortized Cost	Fair	r Value
	(In thou	ısands)	
Available-for-sale securities:			
Debt securities:			
Due after one year through five years	\$ 33,083	\$	33,278
Due after five years through ten years	44,624		43,856
Due after ten years	6,750		6,630
Total securities	84,457		83,764
Mortgage-backed securities	202,590	-	198,255
Total	\$ 287,047	\$	282,019

Gross realized gains and losses on sales of securities for the years ended December 31, 2017, 2016 and 2015 are as follows:

		Year	r 31,			
	201	7	2	016	2	015
			(In the	ousands)		
Gross gains realized	\$	117	\$	1,976	\$	1,638
Gross losses realized		(65)		(837)		(132)
Net gain realized	\$	52	\$	1,139	\$	1,506

Proceeds from the sales of securities available-for-sale amounted to \$22.5 million, \$136.8 million and \$134.4 million for the years ended December 31, 2017, 2016 and 2015, respectively.

During the three months ended March 31, 2016, the Company transferred its held-to-maturity portfolio of \$232.8 million to available-for-sale. As a result of this transfer, the Company has tainted their held-to-maturity portfolio and is prohibited from classifying future purchases as held-to-maturity for a period of at least two years.

Information pertaining to securities with gross unrealized losses at December 31, 2017 and 2016, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	December 31, 2017										
	Le	ss Than 12	2 Months		Over 12	Mont	hs				
	Gr Unrea		l Fair Value		Gross realized Losses	Fa	ir Value				
			(In tho				in value				
Available-for-sale:											
Government-sponsored mortgage-backed securities	\$	613	\$ 68,538	\$	3,165	\$	111,595				
U.S. government guaranteed mortgage-backed securities		23	1,205		544		15,049				
Corporate bonds		292	26,016		-		-				
State and municipal bonds		-	-		19		1,581				
Government-sponsored enterprise obligations		-	-		770		24,381				
Mutual funds					330		6,397				
Total available-for-sale	\$	928	\$ 95,759	\$	4,828	\$	159,003				

			Decembe				
	L	ess Than 12	2 Months		2 Months		
	Unr	Gross Unrealized Fair			Fross realized		
	L	osses	Value	L (usands	osses	Fai	r Value
Available-for-sale:							
Government-sponsored mortgage-backed securities	\$	3,016	\$ 147,691	\$	1,008	\$	27,303
U.S. government guaranteed mortgage-backed securities		192	12,536		211		4,814
Corporate bonds		203	18,481		-		-
State and municipal bonds		95	1,507		27		305
Government-sponsored enterprise obligations		1,132	42,008		-		-
Mutual funds		79	3,429		211		2,867
Total available-for-sale	\$	4,717	\$ 225,652	\$	1,457	\$	35,289

				De	cember 3	1, 2017				
		Less Than T	Twelve Months				welve Months	Months		
	Number of Securities	Gross Amortized Unrealized Cost Basis Loss		Depreciation from Amortized Cost Basis (%)		Number of Securities	Amortized Cost Basis	Gross Unrealized Loss	Depreciation from Amortized Cost Basis (%)	
				(Do	llars in th	ousands)				
Government-sponsored mortgage-backed securities	21	\$ 69,151	\$ 613	0.9	%	53	\$ 114,760	\$ 3,165	2.8 %	
U.S. government guaranteed mortgage-backed securities	1	1,228	23	1.8		6	15,593	544	3.5	
Government-sponsored enterprise obligations	0	-	-	-		9	25,151	770	3.1	
Corporate bonds	9	26,308	292	1.1		0	-	-	-	
State and municipal bonds	0	-	-	-		3	1,600	19	1.2	
Mutual funds	0	-	-	-		3	6,727	330	4.9	
	:	\$ 96,687	\$ 928				\$ 163,831	\$ 4,828		

These unrealized losses are the result of changes in interest rates and not credit quality. Because we do not intend to sell the securities and it is more likely than not that we will not be required to sell the investments before recovery of their amortized cost bases, no declines are deemed to be other-than-temporary.

3. LOANS

December 31, 2016								
2017	2016							
(In thou	usands)							
2017 20 (In thousands) \$ 732,616 \$ 7 557,752 5 92,599 238,502 2 4,478 1,625,947 1,5								
\$ 732,616	\$ 720,741							
557,752	522,083							
92,599	92,083							
238,502	222,286							
4,478	4,424							
1,625,947	1,561,617							
4,734	4,867							
(10,831)	(10,068)							
\$ 1,619,850	\$ 1,556,416							
	\$ 732,616 \$ 732,616 \$ 557,752 92,599 238,502 4,478 1,625,947 4,734 (10,831)							

During 2017 and 2016, we purchased residential real estate loans aggregating \$48.2 million and \$108.4 million, respectively. These purchased loans are subject to underwriting standards that are consistent with our originated loans and we consider the risk attributes to be similar to originated loans.

We have transferred a portion of our originated commercial loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in our accompanying consolidated balance sheets. We share ratably with our participating lenders in any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. We continue to service the loans on behalf of the participating lenders and, as such, collect cash payments from the borrowers, remit payments (net of servicing fees) to participating lenders and disburse required escrow funds to relevant parties. At December 31, 2017 and 2016, we serviced commercial loans for participants aggregating \$32.6 million and \$42.6 million, respectively.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid balances of these loans totaled \$65.8 million and \$75.2 million at December 31, 2017 and 2016, respectively. Net service fee income of \$63,000, \$12,500 and \$4,000 was recorded for the years ended December 31, 2017, 2016 and 2015, respectively, and is included in service charges and fees on the consolidated statements of net income.

Residential real estate mortgages are originated by the Bank both for its portfolio and for sale into the secondary market. The Bank may sell its loans to institutional investors such as the Federal Home Loan Mortgage Corporation. Under loan sale and servicing agreements with the investor, the Bank generally continues to service the residential real estate mortgages. The Bank pays the investor an agreed upon rate on the loan, which is less than the interest rate received from the borrower. The Bank retains the difference as a fee for servicing the residential real estate mortgages. The Bank capitalizes mortgage servicing rights at their fair value upon sale of the related loans, amortizes the asset over the estimated life of the serviced loan, and periodically assesses the asset for impairment. The significant assumptions used by a third party to estimate the fair value of capitalized servicing rights at December 31, 2017, include weighted average prepayment speed for the portfolio using the Public Securities Association Standard Prepayment Model (203 PSA), weighted average internal rate of return (10.05%), weighted average servicing fee (0.25%), and net cost to service loans (\$59.39 per loan). The estimated fair value of capitalized servicing rights may vary significantly in subsequent periods primarily due to changing market interest rates, and their effect on prepayment speeds and discount rates.

A summary of the activity in the balances of mortgage servicing rights follows:

	Y	ears Ended I	December 3	1,
	201	17	20	16
		(In thou	sands)	
Balance at the beginning of year:	\$	465	\$	_
Capitalized mortgage servicing rights		-		502
Amortization		(113)		(37)
Balance at the end of year	\$	352	\$	465
Fair value at the end of year	\$	528	\$	628

An analysis of changes in the allowance for loan losses by segment for the years ended December 31, 2017, 2016 and 2015 is as follows:

					Con	nmercial						
		mercial		idential		and						
	Rea	l Estate	Rea	l Estate	Inc	lustrial	Con	sumer	Unal	ocated	1	Total
						(In thousa	ands)					
Balance at December 31, 2014	\$	3,705	\$	2,053	\$	2,174	\$	15	\$	1	\$	7,948
Provision		151		428		605		46		45		1,275
Charge-offs		-		(58)		(345)		(73)		-		(476)
Recoveries		-		8		51		34		-		93
Balance at December 31, 2015	\$	3,856	\$	2,431	\$	2,485	\$	22	\$	46	\$	8,840
Provision (credit)		(668)		579		575		135		(46)		575
Charge-offs		(170)		(157)		-		(159)		-		(486)
Recoveries		1,065		9		25		40		-		1,139
Balance at December 31, 2016	\$	4,083	\$	2,862	\$	3,085	\$	38	\$	-	\$	10,068
Provision (credit)		779		433		(144)		288		4		1,360
Charge-offs		(292)		(148)		(289)		(319)		-	((1,048)
Recoveries		142		164		81		64		<u> </u>		451
Balance at December 31, 2017	\$	4,712	\$	3,311	\$	2,733	\$	71	\$	4	\$	10,831

Further information pertaining to the allowance for loan losses by segment at December 31, 2017 and 2016 follows:

	 nmercial al Estate	sidential Real Estate	nmercial and dustrial (In thous		sumer	Unalle	ocated		Total
December 31, 2017			(III tilous	unus)					
Amount of allowance for impaired loans	\$ _	\$ _	\$ -	\$	_	\$	_	\$	_
Amount of allowance for non-impaired loans	4,712	3,311	2,733		71		4		10,831
Total allowance for loan losses	\$ 4,712	\$ 3,311	\$ 2,733	\$	71	\$	4	\$	10,831
Impaired loans	\$ 3,674	\$ 3,964	\$ 2,766	\$	120	\$	-	\$	10,524
Non-impaired loans	716,571	642,787	234,582		4,358		-	1,	598,298
Impaired loans acquired with deteriorated credit quality	 12,371	 3,600	 1,154						17,125
Total loans	\$ 732,616	\$ 650,351	\$ 238,502	\$	4,478	\$		\$1,	,625,947
December 31, 2016									
Amount of allowance for impaired loans	\$ -	\$ -	\$ -	\$	-	\$	=	\$	-
Amount of allowance for non-impaired loans	 4,083	2,862	 3,085		38		_		10,068
Total allowance for loan losses	\$ 4,083	\$ 2,862	\$ 3,085	\$	38	\$		\$	10,068
Impaired loans	\$ 3,335	\$ 452	\$ 3,042	\$	-	\$	-	\$	6,829
Non-impaired loans	701,766	609,107	217,972		4,424		-	1,	533,269
Impaired loans acquired with deteriorated credit quality	 15,640	4,607	 1,272						21,519
Total loans	\$ 720,741	\$ 614,166	\$ 222,286	\$	4,424	\$		\$1.	,561,617

The following is a summary of past due and nonaccrual loans by class at December 31, 2017 and 2016:

	Da	0 – 59 ys Past Due	60 – 89 Days Past Due		Greater than 90 Days Past Due		Total Past Due	Past Due 90 Days or More and Still Accruing		Non- Accrual Loans
						(In thou	sands)			
<u>December 31, 2017</u>										
Commercial real estate	\$	1,951	\$	144	\$	290	\$ 2,385	\$	-	\$ 2,959
Residential real estate:										
Residential		2,992		1,480		1,911	6,383		-	5,961
Home equity		635		-		48	683		-	696
Commercial and industrial		1,731		797		162	2,690		-	3,019
Consumer		65				41	106		_	120
Total	\$	7,374	\$	2,421	\$	2,452	\$ 12,247	\$	-	\$ 12,755
<u>December 31, 2016</u>										
Commercial real estate	\$	1,400	\$	1,338	\$	361	\$ 3,099	\$	-	\$ 4,452
Residential real estate:										
Residential		3,160		1,006		974	5,140		_	5,744
Home equity		347		46		-	393		_	120
Commercial and industrial		509		368		41	918		_	3,714
Consumer		92		43		8	143		-	27
Total	\$	5,508	\$	2,801	\$	1,384	\$ 9,693	\$		\$ 14,057

The following is a summary of impaired loans by class:

		At	Decem	ber 31, 20	17			Year l	Ended r 31, 20	17
	Recorded Investment		r		Related Allowance		Average Recorded Investment		Ir	nterest ncome ognized
					(In thou	sands)				
Impaired Loans: (1)										
Commercial real estate	\$	16,045	\$	18,773	\$	_	\$	18,215	\$	842
Residential real estate		6,816		7,298		-		6,630		45
Home equity		748		783				359		4
Commercial and industrial		3,920		9,215		-		4,388		237
Consumer		120		129				93		-
Total impaired loans	\$	27,649	\$	36,198	\$	_	\$	29,685	\$	1,128

⁽¹⁾ Includes loans acquired with deteriorated credit quality and performing troubled debt restructurings.

							Year Ended			
	At December 31, 2016						December 31, 2016			
	Recorded Investment		Unpaid Principal Balance		Related Allowance		Average Recorded Investment		Interest Income Recognized	
					(In thous	ands)				
Impaired Loans: (1)										
Commercial real estate	\$	18,975	\$	21,330	\$	-	\$	5,458	\$	191
Residential real estate		5,059		5,676		-		1,052		7
Commercial and industrial		4,314		11,049		-		3,504		40
Total impaired loans	\$	28,348	\$	38,055	\$	_	\$	10,014	\$	238

⁽¹⁾ Includes loans acquired with deteriorated credit quality and performing troubled debt restructurings.

No interest income was recognized for impaired loans on a cash-basis method during the years ended December 31, 2017 or 2016. Interest income recognized during the year ended December 31, 2017 related to performing purchased impaired loans and TDRs while activity during the year ended December 31, 2016 related to TDRs.

We may periodically agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). These concessions could include a reduction in the interest rate on the loan, payment extensions, postponement or forgiveness of principal, forbearance or other actions intended to maximize collection. All TDRs are classified as impaired.

When we modify loans in a TDR, we measure impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, or use the current fair value of the collateral, less selling costs for collateral dependent loans. If we determine that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through a specific allowance or a charge-off to the allowance. Nonperforming TDRs are shown as nonperforming loans.

The following table summarizes TDRs at the dates indicated:

	Year Ended December 31, 2017					Year Ended December 31, 2016					
	Number of Contracts	Recorded		Inves	ication	Number of Contracts	Pre- Modification Outstanding Recorded Investment (Dollars in thousands		Post- Modification Outstanding Recorded Investment		
Troubled Debt Restructurings:		(= ====================================		/			(=		/		
Commercial Real Estate	-	\$	-	\$	-	2	\$	1,946	\$	1,946	
Commercial and Industrial	1		112		112	3		2,899		2,899	
Residential					-	4		555		555	
Total	1	\$	112	\$	112	9	\$	5,400	\$	5,400	

During the year ended December 31, 2016, a substandard impaired loan relationship in the amount of \$4.6 million was designated a TDR. The Bank entered into a forbearance agreement which offered an interest only period. Due to the borrower continuing to experience declining sales, the interest only period was extended during the second quarter of 2016, resulting in the TDR classification. The loans are on non-accrual and are current. The loans are measured for impairment quarterly and appropriate reserves/charge offs have been taken. There were no significant loans modified during the year ended December 31, 2017.

During the years ended December 31, 2017 and 2016, no TDRs defaulted (defined as 30 days or more past due) within 12 months of restructuring. Upon our merger with Chicopee, we acquired 3 TDR loans totaling \$440,000 that subsequently defaulted within the year of restructuring.

As of December 31, 2017, we have not committed to lend any additional funds for loans that are classified as impaired. There were \$256,000 in charge-offs on TDRs during the year ended December 31, 2017. There were no charge-offs on TDRs during the year ended December 31, 2016.

Loans Acquired with Deteriorated Credit Quality

The following is a summary of loans acquired with evidence of credit deterioration from Chicopee as of December 31, 2017.

	Contractual Required Payments Receivable		Expected Collected				Accretable Yield		Loans Receivable	
			(In thousands)							
Balance at December 31, 2016	\$	37,437	\$ 29,040	\$	8,397	\$	7,521	\$	21,519	
Collections		(4,289)	(3,504)		(785)		(750)		(2,754)	
Dispositions		(3,786)	 (2,378)		(1,408)		(738)		(1,640)	
Balance at December 31, 2017	\$	29,362	\$ 23,158	\$	6,204	\$	6,033	\$	17,125	

Credit Quality Information

We use an eight-grade internal loan rating system for commercial real estate and commercial and industrial loans. Performing residential real estate, home equity and consumer loans are grouped with "Pass" rated loans. Nonperforming residential real estate, home equity and consumer loans are monitored individually for impairment and risk rated as "substandard."

Loans rated 1 – 4 are considered "Pass" or "Pass Watch" rated loans with acceptable risk.

Loans rated 5 are considered "Special Mention." These loans exhibit potential credit weaknesses or downward trends and are being closely monitored by us.

Loans rated 6 are considered "Substandard." Generally, a loan is considered substandard if the borrower exhibits a well-defined weakness that may be inadequately protected by the current net worth and cash flow capacity to pay the current debt.

Loans rated 7 are considered "Doubtful." Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable and that a partial loss of principal is likely.

Loans rated 8 are considered uncollectible and of such little value that their continuance as loans is not warranted.

On an annual basis, or more often if needed, we formally review the ratings on all commercial real estate and commercial and industrial loans. We engage an independent third party to review a significant portion of loans within these segments on at least an annual basis. We use the results of these reviews as part of our annual review process. In addition, management utilizes delinquency reports, the watch list and other loan reports to monitor credit quality in other segments. Construction loans are reported within commercial real estate loans and total \$84.4 million and \$88.9 million at December 31, 2017 and 2016, respectively.

The following table presents our loans by risk rating at December 31, 2017 and December 31, 2016:

	Commercial							
	Commercial	Residential	Home	and				
	Real Estate	1-4 family	Equity	Industrial	Consumer	Total		
<u>December 31, 2017</u>								
Loans rated 1 – 4	\$ 708,992	\$ 551,469	\$ 91,903	\$ 205,537	\$ 4,475	\$1,562,376		
Loans rated 5	15,098	-	-	24,565	-	39,663		
Loans rated 6	8,526	6,283	696	8,400	3	23,908		
Loans rated 7								
	\$ 732,616	\$ 557,752	\$ 92,599	\$ 238,502	\$ 4,478	\$1,625,947		
December 31, 2016								
Loans rated 1 – 4	\$ 698,164	\$ 516,339	\$ 91,964	\$ 197,296	\$ 4,397	\$1,508,160		
Loans rated 5	14,068	-	-	6,727	-	20,795		
Loans rated 6	6,604	5,744	119	15,379	27	27,873		
Loans rated 7	1,905			2,884		4,789		
	\$ 720,741	\$ 522,083	\$ 92,083	\$ 222,286	\$ 4,424	\$1,561,617		

4. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31,			
	2017		2016	
		(In thou	ısands)	
Land	\$	5,651	\$	5,651
Buildings		22,693		19,191
Leasehold improvements		2,220		2,220
Furniture and equipment		15,200		14,090
Total		45,764		41,152
Less: accumulated depreciation and				
amortization		(22,264)		(20,267)
Premises and equipment, net	\$	23,500	\$	20,885

Depreciation and amortization expense for the years ended December 31, 2017, 2016 and 2015 amounted to \$2.0 million, \$1.4 million and \$1.3 million, respectively. Estimates of the fair value of bank premises acquired based upon current information are still being evaluated by management and are not yet completed and may result in a change to the provisional fair values of bank premises acquired and goodwill upon completion.

5. GOODWILL AND OTHER INTANGIBLES

Goodwill

Goodwill for the year ended December 31, 2017 is summarized as follows:

		Ended er 31, 2017
	(In th	ousands)
Balance at December 31, 2016	\$	13,747
Current period adjustments		(1,260)
Balance at December 31, 2017	\$	12,487

At December 31, 2017 and 2016, the Company's goodwill related to the acquisition of Chicopee in 2016. Annually, or more frequently if events or changes in circumstances warrant such evaluation, the Company evaluates its goodwill for impairment. No goodwill impairment was recorded during the year ended December 31, 2017.

During the three months ended March 31, 2017, management completed their evaluation of premises and equipment acquired from Chicopee, which resulted in a \$2.4 million adjustment to the provisional fair values of bank premises acquired and a \$1.4 million reduction in goodwill. The remaining adjustments to goodwill of \$140,000 during the three months ended March 31, 2017 resulted from information obtain during the quarter about events and circumstances that existed as of the acquisition date.

Core Deposit Intangibles

In connection with the assumption of \$545.7 million of deposit liabilities from the Chicopee acquisition in October 2016, of which \$345.2 million were core deposits, the Bank recorded a core deposit intangible of \$4.5 million. The resulting core deposit intangible is amortized over twelve years using the straight-line method. Core deposit intangibles are summarized as follows:

		r Ended er 31, 2017
	(In th	ousands)
Core deposit intangible, net at December 31, 2016	\$	4,438
Accumulated amortization		(375)
Core deposit intangible, net at December 31, 2017	\$	4,063

Amortization expense was \$375,000 and \$73,000 for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017, future amortization of the core deposit intangible totals \$375,000 for each of the next five years and \$2.2 million thereafter.

6. DEPOSITS

Deposit accounts by type are summarized as follows:

	At December 31,				
	2017			2016	
	A	mount		Amount	
		(Dollars in	thousa	nds)	
Demand and interest-bearing:					
Interest-bearing accounts	\$	87,394	\$	82,406	
Demand deposits		311,851		303,993	
Savings:					
Regular accounts		140,081		149,455	
Money market accounts		410,223		409,274	
Time deposits		556,533		572,943	
Total deposits	\$	1,506,082	\$	1,518,071	

Time deposits of \$250,000 or more totaled \$140.0 million at December 31, 2017. Interest expense on time deposits of \$250,000 or more totaled \$1.4 million for the year ended December 31, 2017.

At December 31, 2017, the scheduled maturities of time deposits are as follows:

Years Ending December 31,		mount housands)
	`	,
2018	\$	300,531
2019		179,780
2020		34,000
2021		25,381
2022		16,841
	\$	556,533

Interest expense on deposits for the years ended December 31, 2017, 2016 and 2015 is summarized as follows:

Years Ended December 31,						
2017			2016		015	
		(In th	ousands)			
\$	179	\$	89	\$	79	
	1,565		1,201		830	
	6,374		5,144		4,583	
	330		147		79	
\$	8,448	\$	6,581	\$	5,571	
		\$ 179 1,565 6,374 330	2017 (In the \$179 \$1,565 6,374 330	2017 2016 (In thousands) \$ 179 \$ 89 1,565 1,201 6,374 5,144 330 147	(In thousands) \$ 179	

Cash paid for interest on deposits totaled \$8.4 million, \$6.6 million and \$5.6 million for years ended December 31, 2017, 2016 and 2015, respectively.

7. SHORT-TERM BORROWINGS

FHLBB Advances – We have an "Ideal Way" line of credit with the FHLBB for \$9.5 million for the years ended December 31, 2017 and 2016. Interest on this line of credit is payable at a rate determined and reset by the FHLBB on a daily basis. The outstanding principal is due daily but the portion not repaid will be automatically renewed. At December 31, 2017 and 2016, there were no advances outstanding under this line.

FHLBB advances, including line of credit advances, with an original maturity of less than one year, amounted to \$133.0 million and \$155.0 million at December 31, 2017 and 2016, respectively, at a weighted average rate of 1.58% and 0.78%, respectively.

FHLBB advances are collateralized by a blanket lien on our residential real estate loans and eligible commercial real estate loans.

BBN Advances – We have a \$4.0 million line of credit with BBN at an interest rate determined and reset by BBN on a daily basis. There were no advances outstanding under this line at December 31, 2017 and 2016. As part of our contract with BBN, we are required to maintain a reserve balance of \$300,000 with BBN for our use of this line.

PNC Advances – We have a \$50.0 million line of credit with PNC Bank at an interest rate determined and reset by PNC on a daily basis. There were no advances outstanding under the line at December 31, 2017 and 2016.

Customer Repurchase Agreements – The following table summarizes information regarding repurchase agreements:

	At or for the years ended December 31,				
	2017 2016			2016	
	(Dollars in thousands)				
Balance outstanding at end of year	\$	11,650	\$	17,351	
Maximum amount outstanding during year		30,880		50,124	
Average amount outstanding during year	18,418 28,13			28,130	
Weighted average interest rate at end of year	0.10% 0.14			0.14%	
Amortized cost of collateral pledged at end of year	63,193 80,100			80,106	
Fair value of collateral pledged at end of year	65,157 82,218			82,218	

Our repurchase agreements are collateralized by government-sponsored enterprise obligations with a fair value of \$6.7 million and \$24.6 million, and certain mortgage-backed securities with a fair value of \$58.4 million and \$57.6 million, at December 31, 2017 and 2016, respectively. The weighted average interest rate on the pledged collateral was 3.45% and 2.62% at December 31, 2017 and 2016, respectively. The securities collateralizing repurchase agreements are

subject to fluctuations in fair value. We monitor the fair value of the collateral on a periodic basis, and would pledge additional collateral if necessary based on changes in fair value of collateral or the balances of the repurchase agreements.

Cash paid for interest on short-term borrowings totaled \$3.9 million, \$2.4 million and \$1.1 million for years ended December 31, 2017, 2016 and 2015, respectively.

8. LONG-TERM DEBT

FHLBB Advances – The following advances are collateralized by a blanket lien on our residential real estate loans and certain eligible commercial real estate loans.

_	Amount		Weighted Average Rate		
	2017	2016	2017	2016	
	(In thousa	ands)			
Fixed-rate advances maturing:					
2017	\$ -	\$ 15,298	- %	2.7 %	
2018	54,652	28,789	2.0	1.9	
2019	49,105	31,288	2.0	2.1	
2020	40,535	16,782	1.9	1.7	
2021	4,434	5,039	1.0	1.2	
2022	5,325	4,804	1.4	1.9	
2024	735	836	2.6	2.6	
	154,786	102,836	1.9	2.0	
Variable-rate advances maturing:	_				
2018	10,000	22,000	1.4	2.1	
_	-		-	-	
Total advances	\$ 164,786	\$ 124,836	1.9 %	2.0 %	

Cash paid for interest on long-term debt totaled \$2.3 million, \$2.3 million, and \$4.1 million for years ended December 31, 2017, 2016 and 2015, respectively.

During 2016, we prepaid FHLBB borrowings in the amount of \$42.5 million with a weighted average rate of 2.29% and incurred a prepayment penalty of \$915,000.

9. STOCK PLANS AND EMPLOYEE STOCK OWNERSHIP PLAN

Stock Options – Under the terms of the Chicopee merger agreement dated October 21, 2016, each option to purchase shares of Chicopee common stock issued by Chicopee and outstanding at the effective time of the merger pursuant to the Chicopee 2007 Equity Incentive Plan fully vested and converted into an option to purchase shares of WNEB common stock on the same terms and conditions as were applicable before the merger, except (1) the number of shares of WNEB common stock subject to the new option was adjusted to be equal to the product of the number of shares of Chicopee common stock subject to the existing option and the exchange ratio (rounding fractional shares to the nearest whole share) and (2) the exercise price per share of WNEB common stock under the new option was adjusted to be equal to the exercise price per share of Chicopee common stock of the existing option divided by the exchange ratio (rounded to the nearest whole cent).

A summary of the status of our stock options at December 31, 2017 is presented below:

	Shares	Weighted Average Exercise Price		Weighted Average Remaining Contractual Term (in years)	Int	gregate trinsic Value ousands)
Outstanding at December 31, 2016	1,178,899	\$	6.01	1.98	\$	3,930
Exercised	(921,849)		5.93	0.91		3,675
Outstanding at December 31, 2017	257,050	\$	6.31	4.41	\$	1,175
Exercisable at December 31, 2017	257,050	\$	6.31	4.41	\$	1,175

Cash received for options exercised during the years ended December 31, 2017 and 2016 was \$5.5 million and \$2.0 million, respectively.

Restricted Stock Awards – In May 2014, our shareholders approved a new stock-based compensation plan under which up to 516,000 shares of our common stock were reserved for grants of stock awards, including stock options and restricted stock, which may be granted to any officer, key employee or non-employee director of WNEB. Authorized but unissued shares are issued to awardees upon vesting of such awards. Any shares not issued because vesting requirements are not met will again be available for issuance under the plans.

In January 2015, 48,560 shares were granted under this plan and vest ratably over five years. The fair market value of shares awarded, based on the market price at the date of grant, was recorded as unearned compensation and is being amortized over the applicable vesting period.

In 2016, the Compensation Committee (the "Committee") approved the long-term incentive program (the "LTI Plan"). The LTI Plan provides a periodic award that is both performance and retention based in that it is designed to recognize the executive's responsibilities, reward demonstrated performance and leadership and to retain such executives. The objective of the LTI Plan is to align compensation for the named executive officers and directors over a multi-year period directly with the interests of our shareholders by motivating and rewarding creation and preservation of long-term financial strength, shareholder value and relative shareholder return.

The LTI Plan includes eligible officers of the Company who are nominated by the Company's Chief Executive Officer and approved by the Committee. The LTI Plan is triggered by the Company's achievement of satisfactory safety and soundness results from its most recent regulatory examination and additional performance metric as determined upon issuance. Stock grants made through the 2016 LTI Plan will be a combination of 50% time-vested restricted stock and 50% performance-based restricted stock.

In May 2016, 62,740 shares were granted under the LTI Plan. Of this total, 36,543 shares are retention-based, with 10,352 vesting in one year and 26,191 vesting ratably over a three year period. The remaining 26,197 shares granted are performance based and are subject to the achievement of the 2016 LTI performance metric before vesting is realized after a three year period. Performance shares will be earned based upon how the Company performs

relative to threshold and target absolute goals (i.e. Company-specific, not relative to a peer index) over the three-year performance period. As a result of the Tax Cuts and Jobs Act of 2017, the return on equity performance metrics were adjusted to incorporate the impact and benefits of the corporate tax rate reductions thereunder. The original and adjusted threshold and target metrics under the 2016 Plan are as follows:

Return on E	quity Metrics
Threshold	Target

Original metrics	5.85%	6.32%
Adjusted metrics	6.38%	6.79%

Participants will be able to earn between 50% (for threshold performance) and 100% (for target performance) for the performance shares but will not earn additional shares if performance exceeds target performance.

In May 2017, 89,042 shares were granted under the LTI Plan. Of this total, 55,159 shares are retention-based, with 21,276 vesting in one year and 33,883 vesting ratably over a three year period. The remaining 33,883 shares granted are performance based and are subject to the achievement of the 2017 LTI performance metric before vesting is realized after a three year period. For the performance shares, the primary performance metric for 2017 awards is return on equity. Performance shares will be earned based upon how the Company performs relative to threshold, target and maximum absolute goals (i.e. Company-specific, not relative to a peer index) on an annual performance period, but will be distributed at the end of the three year period. As a result of the Tax Cuts and Jobs Act of 2017, the return on equity performance metrics were adjusted to incorporate the impact and benefits of the corporate tax rate reductions thereunder.

The original and adjusted threshold, target and maximum metrics under the 2017 Plan are as follows:

	Return on Equity Metrics							
Performance Period Ending	Original Threshold	Adjusted Threshold	Original Target	Adjusted Target	Original Maximum	Adjusted Maximum		
December 31, 2017	6.00%	6.00%	6.60%	6.60%	7.30%	7.30%		
December 31, 2018	6.30%	6.87%	7.00%	7.63%	7.60%	8.28%		
December 31, 2019	6.50%	7.09%	7.20%	7.85%	7.90%	8.61%		

Participants will be able to earn between 50% (for threshold performance), 100% (for target performance) and 150% (for maximum performance).

The fair market value of shares awarded, based on the market price at the date of grant, is recorded as unearned compensation and amortized over the applicable vesting period. Shares granted under performance-based conditions are monitored on a quarterly basis in order to compare actual results to the performance metric established, with any necessary adjustments being recognized through share-based compensation expense and unearned compensation. At December 31, 2017, an additional 315,658 shares were available for future grants under this plan.

A summary of the status of unvested restricted stock awards at December 31, 2017 is presented below:

	Shares	Weighted Average Grant Date Fair Value		
Balance at December 31, 2016	91,371	\$ 7.51		
Shares granted	89,042	10.15		
Shares vested	(41,580)	8.24		
Balance at December 31, 2017	138,833	\$ 8.98		

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The aggregate fair value of restricted stock vested during 2017 was \$432,000. We recorded total expense for restricted stock awards of \$649,000, \$262,000 and \$131,000 for the years ended December 31, 2017, 2016, and 2015, respectively. Tax benefits related to equity incentive plan expense were \$42,000, \$89,000 and \$44,000 for the years ended December 31, 2017, 2016 and 2015, respectively. Unrecognized compensation cost for stock awards was \$798,000 at December 31, 2017 with a remaining term of 1.7 years.

Employee Stock Ownership Plan - We established an ESOP for the benefit of each employee that has reached the age of 21 and has completed at least 1,000 hours of service in the previous 12-month period. In January 2002, as part of the initial stock conversion, we provided a loan to the ESOP Trust which was used to purchase 8%, or 1,305,359 shares, of the common stock sold in the initial public offering.

In January 2007, as part of the second-step stock conversion, we provided an additional loan to the ESOP Trust which was used to purchase 4.0%, or 736,000 shares, of the 18,400,000 shares of common stock sold in the offering. The 2002 and 2007 loans bear interest equal to 8.0% and provide for annual payments of interest and principal.

At December 31, 2017, the remaining principal balances are payable as follows:

Years Ending		
December 31,	Amou	<u>ınt</u>
(In thous	ands)	
2018	\$	447
2019		447
2020		447
2021		447
2022		447
Thereafter		4,900
	\$	7,135

We have committed to make contributions to the ESOP sufficient to support the debt service of the loans. The loans are secured by the shares purchased, which are held in a suspense account for allocation among the participants as the loans are paid. Total compensation expense applicable to the ESOP amounted to \$958,000, \$630,000 and \$582,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

Shares held by the ESOP include the following at December 31, 2017 and 2016:

	2017	2016
Allocated	899,969	832,308
Committed to be allocated	93,679	79,082
Unallocated	791,102	884,781
Total	1,784,750	1,796,171

Cash dividends declared and received on allocated shares are allocated to participants and charged to retained earnings. Cash dividends declared and received on unallocated shares are held in suspense and are applied to repay the outstanding debt of the ESOP. The fair value of unallocated shares was \$8.6 million and \$8.5 million at December 31, 2017 and 2016, respectively. ESOP shares are considered outstanding for earnings per share calculations when they are committed to be allocated. Unallocated ESOP shares are excluded from earnings per share calculations. The cost of unearned shares to be allocated to ESOP participants for future services not yet performed is reflected as a reduction of shareholders' equity.

10. RETIREMENT PLANS AND EMPLOYEE BENEFITS

Pension Plan - We provide a defined benefit pension plan for eligible employees (the "Plan"). Employees must work a minimum of 1,000 hours per year to be eligible for the Plan. Eligible employees become vested in the Plan after five years of service. The Plan assets are currently invested in various pooled separate investment accounts offered by Principal Life Insurance Company, a division of Principal Financial Group, who is the Custodian of the Plan (the "Custodian"). The Plan is administered by an officer of Westfield Bank (the "Plan Administrator"). On September 30, 2016, we effected a soft freeze on the Plan and therefore no new participants will be included in the Plan after such effective date.

The following table provides information for the Plan at or for the years ended December 31:

	Years Ended December 31,			
	2017	2016	2015	
		(In thousands)		
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 25,819	\$ 22,458	\$ 23,634	
Service cost	1,139	1,130	1,234	
Interest	1,002	959	902	
Actuarial (gain) loss	1,987	1,846	(2,040)	
Benefits paid	(602)	(574)	(1,272)	
Benefit obligation at end of year	29,345	25,819	22,458	
Change in plan assets:				
Fair value of plan assets at beginning of year	16,498	15,233	15,947	
Actual return (loss) on plan assets	2,519	1,039	(242)	
Employer contribution	800	800	800	
Benefits paid	(602)	(574)	(1,272)	
Fair value of plan assets at end of year	19,215	16,498	15,233	
Funded status and accrued benefit at end of year	\$ (10,130)	\$ (9,321)	\$ (7,225)	
Accumulated benefit obligation at end of year	\$ 21,930	\$ 19,027	\$ 16,885	

The following actuarial assumptions were used in determining the pension benefit obligation:

	December 31,		
	2017	2016	
Discount rate	3.60 %	4.15 %	
Rate of compensation increase	4.00	4.00	

Net pension cost includes the following components for the years ended December 31:

	2017	2016	2015
		(In thousands)	
Service cost	\$ 1,139	\$ 1,130	\$ 1,234
Interest cost	1,002	959	902
Expected return on assets	(1,194)	(1,097)	(1,134)
Amortization of actuarial loss	124	102	118
Net periodic pension cost	\$ 1,071	\$ 1,094	\$ 1,120

The following actuarial assumptions were used in determining the service costs for the years ended December 31:

	2017	2016	2015
Discount rate	4.15 %	4.35 %	4.00 %
Expected return on plan assets	7.50	7.50	7.50
Rate of compensation increase	4.00	4.00	4.00

The following is a summary of the Plan's investments for the years ended December 31:

	2017		2016		
		(In thou	usands)		
Pooled separate investment accounts:					
Fixed income	\$	10,355	\$	9,308	
Large U.S. equity		5,080		4,346	
International equity		2,518		1,730	
Small/mid U.S. equity		877		782	
Balanced/asset allocation	385			332	
	\$	19,215	\$	16,498	

Pooled separate accounts are valued at the NAV of units held by the Plan at year end. The NAV is used as a practical expedient to estimate fair value. This practical expedient would not be used if it was determined to be probable that the funds will sell the underlying investments for an amount different from the reported NAV. Participant transactions (purchases and sales) may occur daily. The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table summarizes the investments for which fair value is measured using NAV per share as a practical expedient for the years ended December 31, 2017 and 2016. There are no pertinent redemption restrictions for these investments; the redemption notice period is applicable only to the Plan.

	Redemption Frequency (i				
	Fair V	Value	Unfunded Commitments	Currently Eligible)	Redemption Notice Period
			(Dollars in th	ousands)	
December 31, 2017	\$	19,215	n/a	Daily	1 day
December 31, 2016	\$	16,498	n/a	Daily	1 day

The defined benefit plan offers a mixture of fixed income, equity and real assets as the underlying investment structure for its retirement structure for the pension plan. The target allocation mix for the pension plan for 2017 was an equity-based investment deployment of 50% of total portfolio assets based on advice received from an external advisory firm with confirmation by the Bank's Investment Committee. The remainder of the portfolio is allocated to fixed income at 50% of total assets. The investment objective is to diversify investments across a spectrum of investment types to limit risks from large market swings and to provide anticipated stabilized investment returns. Trustees of the Plan select investment managers for the portfolio and a second investment advisory firm is retained to provide allocation analysis. The overall investment objective is to diversify equity investments across a spectrum of types, small cap, large cap and international, along with investment styles such as growth and value.

We estimate that the benefits to be paid from the pension plan for years ended December 31 are as follows:

<u>Year</u>	Benefit Payments to Participants				
	(In thousands)				
2018	\$ 1,189				
2019	883				
2020	1,131				
2021	1,268				
2022	1,667				
In aggregate for $2023 - 2027$	14,592				

We have not yet determined the amount of the contribution we expect to make to the plan during the fiscal year ending December 31, 2018.

401(k) - Employees are eligible to participate in a 401(k) plan. We make a matching contribution of 50% with respect to the first 6% of each participant's annual earnings contributed to the plan. Our contributions to the plan were \$370,000, \$242,000 and \$224,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

11. DERIVATIVES AND HEDGING ACTIVITIES

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of our assets and liabilities and the use of derivative financial instruments. Specifically, we entered into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are used to manage differences in the amount, timing, and duration of our known or expected cash receipts and our known or expected cash payments principally related to certain variable rate borrowings.

Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of our derivative financial instruments designated as hedging instruments as well as our classification on the balance sheet as of December 31, 2017.

<u>December 31, 2017</u> Asset Derivatives				Liability Derivatives			
	Balance Sheet		_	Balance Sheet			
	Location	Fair Va	<u>alue</u>	Location	Fai	r Value	
			(In thou	sands)			
Interest rate swaps	Other Assets	\$	-	Other Liabilities	\$	2,152	
Total derivatives designated as hedging instruments		\$	-		\$	2,152	
December 31, 2016	Asset Derivatives			Liability Derivatives		ves	
	Balance Sheet			Balance Sheet			
	Location	Fair Va	alue	Location	Fai	r Value	
			(In thou	sands)			
Interest rate swaps	Other Assets	\$	_	Other Liabilities	\$	3,152	
Total derivatives designated as hedging instruments		\$	-		\$	3,152	

At December 31, 2017 and 2016, all derivatives were designated as hedging instruments.

Cash Flow Hedges of Interest Rate Risk

Our objectives in using interest rate derivatives are to add stability to interest income and expense and to manage our exposure to interest rate movements. To accomplish this objective, we enter into interest rate swaps as part of our interest rate risk management strategy. These interest rate swaps are designated as cash flow hedges and involve the receipt of variable rate amounts from a counterparty in exchange for our making fixed payments.

The following table presents information about our cash flow hedges at December 31, 2017 and 2016:

December 31, 2017	Notional	Weighted Average	Weighted Ave	rage Rate	Estimated Fair
	Amount	Maturity	Receive	Pay	Value
	(In thousands)	(In years)			(In thousands)
Interest rate swaps on FHLBB					
borrowings	\$ 55,000	3.3	1.64%	2.93%	\$ (2,152)
Total cash flow hedges	\$ 55,000	3.3			\$ (2,152)

December 31, 2016	Notional	Weighted Average	Weighted Ave	erage Rate	Estimated Fair
	Amount	Maturity	Received	Paid	Value
	(In thousands)	(In years)			(In thousands)
Interest rate swaps on FHLBB					
borrowings	\$ 75,000	3.4	0.92%	2.46%	\$ (3,152)
Total cash flow hedges	\$ 75,000	3.4			\$ (3,152)

During 2016, we terminated a forward-starting interest rate swap with a notional amount of \$32.5 million and incurred a termination fee of \$3.4 million. During 2015, we terminated forward-starting interest rate swaps with a notional amount of \$47.5 million and incurred a termination fee of \$2.4 million. The termination fees are being amortized as a reclassification of other comprehensive income into interest expense over the terms of the previously hedged borrowings, which were six and five years for the swaps terminated in 2016 and 2015, respectively.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings), net of tax, and subsequently reclassified to earnings when the hedged transaction affects earnings. The ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. We assess the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transactions. We did not recognize any hedge ineffectiveness in earnings in 2017 or 2016.

We are hedging our exposure to the variability in future cash flows for forecasted borrowings over a maximum period of six years (excluding forecasted payment of variable interest on existing financial instruments).

The table below presents the pre-tax net loss of our cash flow hedges for the periods indicated.

Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)

	Years Ended December 31,								
	201	7	2	016	2015				
			(In t	housands)					
Interest rate swaps	\$	31	\$	(1,126)	\$	(3,337)			

Amounts reported in accumulated other comprehensive loss related to these derivatives are reclassified to interest expense as interest payments are made on our designated rate sensitive liabilities. During the years ended December 31, 2017, 2016 and 2015, we reclassified \$2.0 million, \$1.6 million and \$742,000 into interest expense, respectively. During the next 12 months, we estimate that \$1.7 million will be reclassified as an increase in interest expense. During the years ended December 31, 2017, 2016 and 2015, no gains or losses were reclassified from accumulated other comprehensive loss into income for ineffectiveness on cash flow hedges.

Credit-risk-related Contingent Features

By using derivative financial instruments, we expose the Company to credit risk. Credit risk is the risk of failure by the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. When the fair value of a derivative is negative, we owe the counterparty and, therefore, it does not possess credit risk. The credit risk in derivative instruments is mitigated by entering into transactions with highly-rated counterparties that we believe to be creditworthy and by limiting the amount of exposure to each counterparty.

We have agreements with our derivative counterparties that contain a provision where if we default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations. We also have agreements with certain of our derivative counterparties that contain a provision where if we fail to maintain our status as well capitalized, then the counterparty could terminate the derivative positions and we would be required to settle our obligations under the agreements. Certain of our agreements with our derivative counterparties contain provisions where if a formal administrative action by a federal or state regulatory agency occurs that materially changes our creditworthiness in an adverse manner, we may be required to fully collateralize our obligations under the derivative instrument.

At December 31, 2017 and 2016, we had a net liability position of \$2.2 million and \$3.2 million with our counterparties, respectively. As of December 31, 2017, we had minimum collateral posting thresholds with certain of our derivative counterparties and had mortgage-backed securities with a fair value of \$3.1 million posted as collateral against our obligations under these agreements. If we had breached any of these provisions at December 31, 2017, we could have been required to settle our obligations under the agreements at the termination value.

12. REGULATORY CAPITAL

The Company 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 our consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of 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 savings and loan holding companies.

Effective January 1, 2015, federal banking regulations changed with regard to minimum capital requirements for community banking institutions. The regulations require a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5%, a minimum ratio of Tier 1 capital to risk-weighted assets of 6% and a minimum leverage ratio of 4% for all banking organizations. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital, Tier 1 capital or Total capital in an amount greater than 2.5%

of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses. The capital conservation buffer and certain new deductions from and adjustments to regulatory capital are being phased in over several years. The required minimum conservation buffer is 1.25% as of December 31, 2017 and will increase to 1.875% on January 1, 2018 and 2.50% on January 1, 2019. Management believes that the Company's capital levels will remain characterized as "well-capitalized" throughout the phase in periods. Western New England Bancorp's and the Bank's capital ratios as of December 31, 2017 and 2016 are set forth in the following table.

As of December 31, 2017, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum total risk-based, Tier 1 risk based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

		<u>Act</u>	_					y Purpose	_	Co	Minimum Tapitalized Urrective Act	nder Pron ion Provis	npt ions
	<u> </u>	<u>Amount</u>		Ratio		-	Amount	<u>Ratio</u>		<u> </u>	<u>Amount</u>	Ratio	<u> </u>
December 31, 2017						((Dollars in the	nousanas)					
Total Capital (to Risk Weighted Assets):													
Consolidated	\$	255,605		15.53	%	\$	131,711	8.00	%		N/A	N/A	
Bank	Ψ	245,380		14.94	, 0	Ψ	131,367	8.00	, 0	\$		10.00	%
Tier 1 Capital (to Risk Weighted Assets):		2.0,000					101,007	0.00		Ψ	10.,200	10.00	, 0
Consolidated		244,774	1	14.87			98,783	6.00			N/A	N/A	
Bank		234,549		14.28			98,525	6.00			131,367	8.00	
Common Equity Tier 1 Capital (to Risk Weighted Assets):		- ,					,-				- ,		
Consolidated		244,774	1	14.87			74,087	4.50			N/A	N/A	
Bank		234,549	1	14.28			73,894	4.50			106,735	6.50	
Tier 1 Leverage Ratio (to Adjusted Average Assets):		,					,				,		
Consolidated		244,774	1	11.84			82,702	4.00			N/A	N/A	
Bank		234,549	1	11.36			82,584	4.00			103,230	5.00	
December 31, 2016													
Total Capital (to Risk Weighted Assets):													
Consolidated	\$	245,389	1	15.10	%	\$	130,037	8.00	%		N/A	N/A	
Bank		237,626	1	14.64			129,879	8.00		\$	162,349	10.00	%
Tier 1 Capital (to Risk Weighted Assets):													
Consolidated		235,261	1	14.47			97,528	6.00			N/A	N/A	
Bank		227,498	1	14.01			97,409	6.00			129,879	8.00	
Common Equity Tier 1 Capital (to Risk Weighted Assets):													
Consolidated		235,261	1	14.47			73,146	4.50			N/A	N/A	
Bank		227,498	1	14.01			73,057	4.50			105,527	6.50	
Tier 1 Leverage Ratio (to Adjusted Average Assets):													
Consolidated		235,261	1	12.19			77,187	4.00			N/A	N/A	
Bank		227,498	1	11.86			76,745	4.00			95,931	5.00	

The following is a reconciliation of our GAAP capital to regulatory Tier 1, Common Equity Tier 1 and total capital:

	December 31,			
	2017			2016
		(In thous	sands)	
Consolidated GAAP capital	\$	247,281	\$	238,396
Net unrealized losses on available-for-sale securities, net of tax		4,042		3,839
Unrealized loss on defined benefit pension plan, net of tax		4,329		3,618
Accumulated net loss on cash flow hedges, net of tax		4,181		5,204
Unrealized loss on certain available-for-sale equity securities		(236)		(191)
Disallowed deferred tax assets		-		(155)
Goodwill		(12,487)		(13,747)
Intangible assets, net of associated deferred tax liabilities		(2,336)		(1,599)
Additional tier 1 capital deductions		-		(104)
Tier 1 and Common Equity Tier 1 capital		244,774		235,261
Allowance for loan losses and unfunded loan commitments		10,831		10,128
Total regulatory capital	\$	255,605	\$	245,389

On March 13, 2014, the Board of Directors authorized the commencement of our current stock repurchase program, authorizing the repurchase of up to 1,970,000 shares, or 10% of our outstanding shares of common stock. On June 24, 2015, the Board of Directors announced a renewal of the repurchase program under which the Company may purchase up to 711,733 shares of its outstanding common stock, to be affected via a combination of Rule 10b5-1 plans and discretionary share repurchases. This plan began July 24, 2015 and as of January 31, 2017 the repurchase program was completed. On January 31, 2017, the Board of Directors authorized an additional stock repurchase program under which the Company may purchase up to 3,047,000 shares, or 10%, of its outstanding common stock, to be affected via a combination of Rule 10b5-1 plans and discretionary share repurchases. As of December 31, 2017, there were 2,440,609 shares remaining to be purchased.

We are subject to dividend restrictions imposed by various regulators, including a limitation on the total of all dividends that the Bank may pay to the Company in any calendar year, to an amount that shall not exceed the Bank's net income for the current year, plus its net income retained for the two previous years, without regulatory approval. At December 31, 2017 and 2016, the Bank had no retained earnings available for payment of dividends without prior regulatory approval. In addition, the Bank may not declare or pay dividends on, and we may not repurchase, any of our shares of common stock if the effect thereof would cause shareholders' equity to be reduced below applicable regulatory capital maintenance requirements or if such declaration, payment or repurchase would otherwise violate regulatory requirements. The Bank will be prohibited from paying cash dividends to the Company to the extent that any such payment would reduce the Bank's capital below required capital levels. Accordingly, \$131.4 million and \$129.9 million of our equity in the net assets of the Bank was restricted at December 31, 2017 and 2016, respectively.

The only funds available for the payment of dividends on our capital stock will be cash and cash equivalents held by us, dividends paid from the Bank to us, and borrowings.

13. INCOME TAXES

Income taxes consist of the following:

	Years Ended December 31,					
	2017	2016	2015			
		(In thousands)				
Current tax provision:						
Federal	\$ 1,505	\$ 1,925	\$ 2,036			
State	581	370	319			
Total	2,086	2,295	2,355			
Deferred tax (benefit) provision:						
Federal	7,613	262	(203)			
State	702	10	(82)			
Change in valuation reserve	(973)	2	54			
Total	7,342	274	(231)			
Total	\$ 9,428	\$ 2,569	\$ 2,124			

The reasons for the differences between the statutory federal income tax rate and the effective rates are summarized below:

	Years Ended December 31,					
	2017	2016	2015			
Statutory federal income tax rate	35.0 %	34.0 %	34.0 %			
Increase (decrease) resulting from:						
State taxes, net of federal tax benefit	3.2	3.4	1.6			
Tax exempt income	(2.8)	(2.6)	(3.2)			
Bank-owned life insurance (BOLI)	(2.9)	(7.2)	(6.6)			
Nondeductible merger expenses	0.1	8.3	-			
Change in valuation reserve	(4.5)	-	0.7			
Option exercise tax benefit	(3.2)	-	-			
Effect of tax rate change	18.4	-	-			
Other, net	-	(1.2)	0.6			
Effective tax rate	43.3 %	34.7 %	27.1 %			

Cash paid for income taxes for the years ended December 31, 2017, 2016 and 2015 was \$5.6 million, \$2.6 million and \$2.4 million, respectively.

The tax effects of each item that gives rise to deferred taxes are as follows:

	December 31,		
	2017	2016	
	(In thous	sands)	
Deferred tax assets:			
Allowance for loan losses	\$ 3,045	\$ 4,021	
Net unrealized loss on derivative and hedging activity	1,635	2,681	
Employee benefit and share-based compensation plans	2,184	3,220	
Defined benefit plan	1,692	1,864	
Net unrealized loss on securities available for sale	1,316	2,024	
Other-than-temporary impairment write-down	91	129	
Purchased mortgage servicing rights	344	562	
Purchase accounting adjustments, net	-	1,824	
Net operating loss and tax credit carryforwards	-	1,320	
Other	996_	787	
Gross deferred tax assets	11,303	18,432	
Valuation reserve		(973)	
Gross deferred tax assets, net of valuation reserve	11,303	17,459	
Deferred tax liabilities:			
Deferred loan fees	(1,226)	(1,268)	
Hedge termination payments	(1,030)	-	
Purchase accounting adjustments, net	(234)	-	
Other	(29)	(32)	
	(2,519)	(1,300)	
Net deferred tax asset	\$ 8,784	\$ 16,159	

The federal income tax reserve for loan losses at the Bank's base year is \$9.4 million. If any portion of the reserve is used for purposes other than to absorb loan losses, approximately 150% of the amount actually used, limited to the amount of the reserve, would be subject to taxation in the fiscal year in which used. As the Bank intends to use the reserve solely to absorb loan losses, a deferred tax liability of \$2.6 million has not been provided.

We do not have any uncertain tax positions at December 31, 2017 or 2016 which require accrual or disclosure. We record interest and penalties as part of income tax expense. No interest was recorded for the years ended December 31, 2017 and 2016, and no penalties were recorded for the years ended December 31, 2017, 2016 and 2015.

Our income tax returns are subject to review and examination by federal and state tax authorities. We are currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended December 31, 2014 through 2017. The years open to examination by state taxing authorities vary by jurisdiction; however, no years prior to 2014 are open.

The Company had net operating loss carryforwards brought over in the Chicopee merger of \$3.5 million, which was used during the year ended December 31, 2017.

As a result of the Tax Act, the Company recorded \$4.0 million in additional income tax expense which includes a tax benefit of \$2.1 million relating to the impact of the rate change on deferred tax items originally recorded through other comprehensive income (net unrealized losses on securities available for sale, change in fair value of derivatives used for cash flow hedges and actuarial losses on the defined benefit pension plan). This accounting treatment effectively stranded \$2.1 million of deferred tax items in accumulated other comprehensive income ("AOCI"). In February 2018, the FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income* (Topic 220), which allows for a reclassification from AOCI to retained earnings to eliminate the stranded tax effects resulting from the Tax Act. As permitted, the Company early adopted the ASU and recorded a \$2.1 million reclassification to 2017 beginning retained earnings from accumulated other comprehensive loss.

14. TRANSACTIONS WITH DIRECTORS AND EXECUTIVE OFFICERS

We have had, and expect to have in the future, loans with our directors and executive officers. Such loans, in our opinion, do not include more than the normal risk of collectability or other unfavorable features. Following is a summary of activity for such loans:

	Years Ended December 31,				
	2017		2	016	
		(In tho	usands)		
Balance at beginning of year	\$	1,475	\$	1,038	
Principal distributions		1,034		554	
Repayments of principal		(878)		(156)	
Change in related party status		-		39	
Balance at end of year	\$	1,631	\$	1,475	

15. COMMITMENTS AND CONTINGENCIES

In the normal course of business, various commitments and contingent liabilities are outstanding, such as standby letters of credit and commitments to extend credit with off-balance-sheet risk that are not reflected in the consolidated financial statements. Financial instruments with off-balance-sheet risk involve elements of credit, interest rate, liquidity and market risk.

We do not anticipate any significant losses as a result of these transactions. The following summarizes these financial instruments and other commitments and contingent liabilities at their contract amounts:

	December 31,				
	2017			2016	
		(In thou	sands)		
Commitments to extend credit:					
Unused lines of credit	\$	229,436	\$	217,193	
Loan commitments		40,878		41,285	
Existing construction loan agreements		42,555		35,702	
Standby letters of credit		9,138		7,090	

We use the same credit policies in making commitments and conditional obligations as for on balance sheet instruments.

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. Since some commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

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

At December 31, 2017, outstanding commitments to extend credit totaled \$322.0 million, with \$47.4 million in fixed rate commitments with interest rates ranging from 1.49% to 18.00% and \$274.6 million in variable rate commitments. At December 31, 2016, outstanding commitments to extend credit totaled \$301.3 million, with \$40.0 million in fixed rate commitments with interest rates ranging from 1.99% to 18.00% and \$261.3 million in variable rate commitments.

We also have risk participation agreements ("RPAs") with another financial institution. The RPAs are a guarantee to share credit risk associated with an interest rate swap on participation loans in the event of counterparty default. As such, we accept a portion of the credit risk in order to participate in the loans and we receive a one-time fee. The interest rate swap is collateralized (generally by real estate or business assets) by us and the third party, which limits the credit risk associated with the RPAs. Per the terms of the RPAs, we must pledge collateral equal to our exposure for the interest rate swap. We monitor overall collateral as part of our off-balance sheet liability analysis, and at December 31, 2017, believe sufficient collateral is available to cover potential swap losses. At December 31, 2017, we had one RPA with a fair value of \$529,000. The remaining term of this RPA at December 31, 2017, which corresponds to the term of the underlying swaps, was 10 years. In addition, we had an RPA with a net fair value of \$144,000 and a remaining term of 20 years at December 31, 2017. Also at December 31, 2017 we had one RPA with a negative fair value of (\$292,000) which had a 20 year term remaining. Under these agreements we guarantee a percentage of the amount in the event of a default. The maximum potential future payment guaranteed by us cannot be readily estimated, but is dependent upon the fair value of the interest rate swaps and the probability of a default event. If an event of default on all contracts had occurred at December 31, 2017, we would have been required to make payments of approximately \$366,000.

In the ordinary course of business, we are party to various legal proceedings, none of which, in our opinion, will have a material effect on our consolidated financial position or results of operations.

We lease facilities and certain equipment under cancelable and non-cancelable leases expiring in various years through the year 2047. Certain of the leases provide for renewal periods for up to forty years at our discretion. Rent expense under operating leases was \$1,106,000, \$798,000, and \$677,000 for the years ended December 31, 2017, 2016, and 2015, respectively.

Aggregate future minimum rental payments under the terms of non-cancelable operating leases at December 31, 2017, are as follows:

Years Ending December 31,		mount nousands)
	(111 ti	iousanus)
2018	\$	1,100
2019		1,038
2020		946
2021		880
2022		763
Thereafter		4,651
	\$	9,378

Investment Commitments

The Bank is a limited partner in a Small Business Investment Company ("SBIC") and committed to contribute capital of \$3.0 million to the limited partnerships. The SBIC currently has a book value of \$947,000 at December 31, 2017 and is included in other assets.

Employment and change of control agreements

We have entered into employment and change of control agreements with certain senior officers. The initial term of the employment agreements is for three years subject to separate one-year extensions as approved by the Board of Directors at the end of each applicable fiscal year. Each employment agreement provides for minimum annual salaries, discretionary cash bonuses and other fringe benefits as well as severance benefits upon certain terminations

of employment that are not for cause. The change of control agreements expire one year following a notice of non-extension and only provide for severance benefits upon certain terminations of employment that are not for cause and that are related to a change of control of the Company or the Bank.

16. CONCENTRATIONS OF CREDIT RISK

Most of our loans consist of residential and commercial real estate loans located in western Massachusetts. As of December 31, 2017 and 2016, our residential and commercial related real estate loans represented 85.1% and 85.5% of total loans, respectively. Our policy for collateral requires that the amount of the loan may not exceed 100% and 85% of the appraised value of the property for residential and commercial real estate, respectively, at the date the loan is granted. For residential loans, in cases where the loan exceeds 80%, private mortgage insurance is typically obtained for that portion of the loan in excess of 80% of the appraised value of the property.

17. FAIR VALUE OF ASSETS AND LIABLITIES

Determination of Fair Value

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

Methods and assumptions for valuing our financial instruments are set forth below. Estimated fair values are calculated based on the value without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications or estimated transaction cost.

Cash and cash equivalents - The carrying amounts of cash and short-term instruments approximate fair values based on the short-term nature of the assets. The carrying amounts of interest-bearing deposits in banks maturing within ninety days approximate their fair values. Fair values of other interest-bearing deposits are estimated using discounted cash flow analyses based on current market rates for similar types of deposits.

Securities and mortgage-backed securities - The securities measured at fair value in Level 1 are based on quoted market prices in an active exchange market. These securities include marketable equity securities. All other securities are measured at fair value in Level 2 and are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data. These securities include government-sponsored enterprise obligations, state and municipal obligations, residential mortgage-backed securities guaranteed and sponsored by the U.S. government or an agency thereof. Fair value measurements are obtained from a third-party pricing service and are not adjusted by management.

Federal Home Loan Bank and other restricted stock - These investments are carried at cost which is their estimated redemption value.

Loans receivable - For adjustable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans (e.g., commercial real estate and investment property mortgage loans, commercial and industrial loans and residential real estate) are estimated using discounted cash flow analyses, using market interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Accrued interest - The carrying amounts of accrued interest approximate fair value.

Deposit liabilities - The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term borrowings and long-term debt - The fair values of our debt instruments are estimated using discounted cash flow analyses based on the current incremental borrowing rates in the market for similar types of borrowing arrangements.

Interest rate swaps - The valuation of our interest rate swaps is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. We have determined that the majority of the inputs used to value our interest rate derivatives fall within Level 2 of the fair value hierarchy.

Commitments to extend credit - The stated value of commitments to extend credit approximates fair value as the current interest rates for similar commitments do not differ significantly. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. Such differences are not considered significant.

December 31 2017

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:		(In thou	ısands)	_
Government-sponsored mortgage-backed securities	\$ -	\$ 182,001	\$ -	\$ 182,001
U.S. government guaranteed mortgage-backed securities	-	16,254	-	16,254
Corporate bonds	-	56,144	-	56,144
State and municipal bonds	-	3,239	-	3,239
Government-sponsored enterprise obligations	-	24,381	-	24,381
Mutual funds	6,397	-	-	6,397
Total assets	\$ 6,397	\$ 282,019	\$ -	\$ 288,416
Liabilities:				
Interest rate swaps	<u> </u>	\$ 2,152	\$ -	\$ 2,152
		December	31, 2016	
	Level 1	December Level 2	231, 2016 Level 3	Total
Assets:	Level 1		Level 3	Total
Assets: Government-sponsored mortgage-backed securities	Level 1	Level 2	Level 3	Total \$ 180,136
		Level 2 (In thou	Level 3 sands)	
Government-sponsored mortgage-backed securities		Level 2 (In thou \$ 180,136	Level 3 sands)	\$ 180,136
Government-sponsored mortgage-backed securities U.S. government guaranteed mortgage-backed securities		Level 2 (In thou \$ 180,136 17,350	Level 3 sands)	\$ 180,136 17,350
Government-sponsored mortgage-backed securities U.S. government guaranteed mortgage-backed securities Corporate bonds		Level 2 (In thou \$ 180,136 17,350 50,317	Level 3 sands)	\$ 180,136 17,350 50,317
Government-sponsored mortgage-backed securities U.S. government guaranteed mortgage-backed securities Corporate bonds State and municipal bonds		Level 2 (In thou \$ 180,136 17,350 50,317 4,008	Level 3 sands)	\$ 180,136 17,350 50,317 4,008
Government-sponsored mortgage-backed securities U.S. government guaranteed mortgage-backed securities Corporate bonds State and municipal bonds Government-sponsored enterprise obligations	\$ - - -	Level 2 (In thou \$ 180,136 17,350 50,317 4,008	Level 3 sands)	\$ 180,136 17,350 50,317 4,008 42,008
Government-sponsored mortgage-backed securities U.S. government guaranteed mortgage-backed securities Corporate bonds State and municipal bonds Government-sponsored enterprise obligations Mutual funds	\$ - - - - 6,296	Level 2	Level 3 sands)	\$ 180,136 17,350 50,317 4,008 42,008 6,296

There were no transfers to or from Level 1 and 2 for assets measured at fair value on a recurring basis during the years ended December 31, 2017 and 2016.

Assets Measured at Fair Value on a Non-recurring Basis

We may also be required, from time to time, to measure certain other financial assets at fair value on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. The following table summarizes the fair value hierarchy used to determine the carrying values of the related assets as of December 31, 2017 and 2016.

		At December 31, 20	Year Ended December 31, 2017		
	Level 1	Level 2	Level 3	Tot Loss	
		(In thousands)	_	(In thou	sands)
Impaired Loans	\$ -	\$ -	\$ 1,495	\$	256
		At December 31, 20	16	Year E December	
				Tot	al
	Level 1	Level 2	Level 3	Loss	ses
		(In thousands)		(In thou	sands)
Impaired Loans	\$ -	\$ -	\$ 2,143	\$	230

The amount of impaired loans represents the carrying value, and net of the related write-down or valuation allowance of impaired loans for which adjustments are based on the estimated fair value of the underlying collateral. The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on real estate appraisals performed by independent licensed or certified appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Management will discount appraisals as deemed necessary based on the date of the appraisal and new information deemed relevant to the valuation. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. The resulting losses were recognized in earnings through the provision for loan losses.

There were no liabilities measured at fair value on a non-recurring basis at December 31, 2017 and 2016.

Summary of Fair Values of Financial Instruments

The estimated fair values of our financial instruments are as follows:

	December 31, 2017							
	Carrying Value	Fair Value						
		Level 1	Level 2	Level 3	Total			
			(In thousands)					
Assets:								
Cash and cash equivalents	\$ 27,132	\$ 27,132	\$ -	\$ -	\$ 27,132			
Securities available-for-sale	288,416	6,397	282,019	-	288,416			
Federal Home Loan Bank of Boston and								
other restricted stock	15,553	-	-	15,553	15,553			
Loans - net	1,619,850	-	-	1,581,929	1,581,929			
Accrued interest receivable	5,946	_	-	5,946	5,946			
Mortgage servicing rights	352	-	528	-	528			
Liabilities:								
Deposits	1,506,082	-	-	1,503,311	1,503,311			
Short-term borrowings	144,650	-	144,650	-	144,650			
Long-term debt	164,786	_	164,016	_	164,016			
Accrued interest payable	441	_	-	441	441			
Derivative liabilities	2,152	-	2,152	-	2,152			

	December 51, 2010							
	Carrying Value	Fair Value						
		Level 1	Level 2	Level 3	Total			
			(In thousands)					
Assets:								
Cash and cash equivalents	\$ 70,234	\$ 70,234	\$ -	\$ -	\$ 70,234			
Securities available-for-sale	300,115	6,296	293,819	_	300,115			
Federal Home Loan Bank of Boston and								
other restricted stock	16,124	-	-	16,124	16,124			
Loans - net	1,556,416	-	-	1,525,274	1,525,274			
Accrued interest receivable	5,782	-	-	5,782	5,782			
Mortgage servicing rights	465	-	628	-	628			
Liabilities:								
Deposits	1,518,071	-	-	1,521,580	1,521,580			
Short-term borrowings	172,351	-	172,351	-	172,351			
Long-term debt	124,836	-	125,183	_	125,183			
Accrued interest payable	409	_	-	409	409			
Derivative liabilities	3,152	-	3,152	-	3,152			

December 31 2016

Limitations - Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time our entire holdings of a particular financial instrument. Where quoted market prices are not available, 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. Changes in assumptions could significantly affect the estimates.

18. SEGMENT INFORMATION

We have one reportable segment, "Community Banking." All of our activities are interrelated, and each activity is dependent and assessed based on how each of the activities supports the others. For example, commercial lending is dependent upon the ability of the Bank to fund itself with retail deposits and other borrowings and to manage interest rate and credit risk. This situation is also similar for consumer and residential mortgage lending. Accordingly, all significant operating decisions are based upon our analysis as one operating segment or unit.

We operate only in the U.S. domestic market, primarily in western Massachusetts and northern Connecticut. For the years ended December 31, 2017, 2016 and 2015, there is no customer that accounted for more than 10% of our revenue.

19. CONDENSED PARENT COMPANY FINANCIAL STATEMENTS

The condensed balance sheets of the parent company are as follows:

	December 31,						
		2017	2016				
		(In thou	sands)				
ASSETS:							
Cash equivalents	\$	120	\$	972			
Investment in subsidiaries		237,056		230,633			
ESOP loan receivable		7,135		7,866			
Other assets		10,529		7,468			
TOTAL ASSETS		254,840		246,939			
LIABILITIES:		<u> </u>					
ESOP loan payable		7,135		7,866			
Other liabilities		424		677			
EQUITY		247,281		238,396			
TOTAL LIABILITIES AND EQUITY	\$	254,840	\$	246,939			

The condensed statements of income for the parent company are as follows:

1 1 7	Years Ended December 31,						
	2017		2016		2	2015	
			(In th	ousands)			
INCOME:							
Dividends from subsidiaries	\$	8,561	\$	3,499	\$	6,557	
Interest income from securities		-		32		20	
ESOP loan interest income		629		670		706	
Gain on sales of securities, net		-		451		-	
Other income		4					
Total income		9,194		4,652		7,283	
OPERATING EXPENSE:							
Salaries and employee benefits		1,646		926		743	
ESOP interest		629		670		706	
Other expenses		298		507		556	
Total operating expense		2,573		2,103		2,005	
INCOME BEFORE EQUITY IN UNDISTRIBUTED							
INCOME OF SUBSIDIARIES AND INCOME TAXES		6,621		2,549		5,278	
EQUITY IN UNDISTRIBUTED INCOME OF							
SUBSIDIARIES		4,188		1,955		90	
NET INCOME BEFORE TAXES		10,809		4,504		5,368	
INCOME TAX BENEFIT		(1,511)		(330)		(347)	
NET INCOME	\$	12,320	\$	4,834	\$	5,715	

The condensed statements of cash flows of the parent company are as follows:

	Years Ended December 31,					
	2017		2016			015
			(In the	ousands)		
OPERATING ACTIVITIES:						
Net income	\$	12,320	\$	4,834	\$	5,715
Equity in undistributed income of subsidiaries		(4,188)		(1,955)		(90)
Gain on sales of securities, net		-		(451)		-
Change in other liabilities		(833)		(597)		(409)
Change in other assets		(2,330)		(271)		(52)
Other, net		1,607		1,049		713
Net cash provided by operating activities		6,576		2,609		5,877
INVESTING ACTIVITIES:						
Purchase of securities		(106)		(116)		(125)
Sales of securities		106		116		125
Net cash provided by investing activities						
FINANCING ACTIVITIES:						
Cash dividends paid		(3,579)		(2,439)		(2,098)
Common stock repurchased		(9,314)		(1,378)		(3,906)
Excess tax benefit from share-based compensation		=		156		2
Issuance of common stock in connection with stock option						
exercises		5,465		1,971		
Net cash used in financing activities		(7,428)		(1,690)		(6,002)
NET CHANGE IN CASH AND						
CASH EQUIVALENTS		(852)		919		(125)
CASH AND CASH EQUIVALENTS						
Beginning of year		972		53		178
End of year	\$	120	\$	972	\$	53
Supplemental cashflow information:						
Net change in cash due to broker for common stock repurchased	\$	(151)	\$	455	\$	-

20. SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables present a summary of our quarterly financial information for the periods indicated. The year to date totals may differ slightly due to rounding.

				201	17			
	First Quarter		Second Quarter Third Quarter			Fourth Quarter		
			(Dollars in thousands, except per share an			re amounts)		
Interest and dividend income	\$	17,957	\$	18,327	\$	18,516	\$	19,239
Interest expense		3,454		3,584		3,720		3,887
Net interest and dividend income		14,503		14,743		14,796		15,352
Provision for loan losses		350		350		200		510
Gain (loss) on disposal of other real estate owned		-		-		67		(58)
Gain (loss) on sales of securities, net		(64)		46		70		-
Swap fee income		116		-		111		-
Other non-interest income		1,965		2,029		2,164		2,055
Non-interest expense		10,970		11,296		11,156		11,364
Income before income taxes		5,250		5,172		5,852		5,475
Income tax provision (1)		147		1,416		2,037		5,828
Net income (loss)	\$	5,103	\$	3,756	\$	3,815	\$	(353)
Basic earnings per share	\$	0.17	\$	0.13	\$	0.13	\$	(0.01)
Diluted earnings per share	\$	0.17	\$	0.13	\$	0.13	\$	(0.01)
				201	16			
	Firet	Quarter	Second	201		Juarter	Fourth	Ouerter
	First	Quarter		l Quarter_	Third Q		Fourth	n Quarter
Interest and dividend income	First (Quarter 10,961		l Quarter thousands, ex	Third Q	re amounts)		16,106
Interest and dividend income Interest expense			(Dollars in	l Quarter_	Third C		Fourth	
		10,961	(Dollars in	thousands, ex	Third C	re amounts)		16,106
Interest expense Net interest and dividend income		10,961 2,718 8,243	(Dollars in	Housands, ex. 10,554 2,552 8,002	Third C	10,977 2,649 8,328		16,106 3,366 12,740
Interest expense Net interest and dividend income Provision (credit) for loan losses		10,961 2,718	(Dollars in	thousands, ex 10,554 2,552	Third C	re amounts) 10,977 2,649		16,106 3,366
Interest expense Net interest and dividend income Provision (credit) for loan losses Loss on prepayment of borrowings		10,961 2,718 8,243 (600) (915)	(Dollars in	Houarter thousands, ex. 10,554 2,552 8,002 625	Third C	re amounts) 10,977 2,649 8,328 375		16,106 3,366 12,740 175
Interest expense Net interest and dividend income Provision (credit) for loan losses Loss on prepayment of borrowings Gain (loss) on sales of securities, net		10,961 2,718 8,243 (600) (915) 685	(Dollars in	Houarter thousands, ex- 10,554 2,552 8,002 625	Third C	re amounts) 10,977 2,649 8,328 375		16,106 3,366 12,740 175
Interest expense Net interest and dividend income Provision (credit) for loan losses Loss on prepayment of borrowings		10,961 2,718 8,243 (600) (915)	(Dollars in	Number Quarter	Third C	re amounts) 10,977 2,649 8,328 375		16,106 3,366 12,740 175
Interest expense Net interest and dividend income Provision (credit) for loan losses Loss on prepayment of borrowings Gain (loss) on sales of securities, net		10,961 2,718 8,243 (600) (915) 685	(Dollars in	Houarter thousands, ex- 10,554 2,552 8,002 625	Third C	re amounts) 10,977 2,649 8,328 375		16,106 3,366 12,740 175
Interest expense Net interest and dividend income Provision (credit) for loan losses Loss on prepayment of borrowings Gain (loss) on sales of securities, net Other non-interest income		10,961 2,718 8,243 (600) (915) 685 1,245	(Dollars in	Note Represented the second of the second	Third C	re amounts) 10,977 2,649 8,328 375 1 1,322		16,106 3,366 12,740 175 455 1,918
Interest expense Net interest and dividend income Provision (credit) for loan losses Loss on prepayment of borrowings Gain (loss) on sales of securities, net Other non-interest income Non-interest expense (2)		10,961 2,718 8,243 (600) (915) 685 1,245 7,072	(Dollars in	November 10,554	Third C	re amounts) 10,977 2,649 8,328 375 1 1,322 8,225		16,106 3,366 12,740 175 455 1,918 12,011
Interest expense Net interest and dividend income Provision (credit) for loan losses Loss on prepayment of borrowings Gain (loss) on sales of securities, net Other non-interest income Non-interest expense (2) Income before income taxes		10,961 2,718 8,243 (600) (915) 685 1,245 7,072 2,786	(Dollars in	November 10,554	Third C	re amounts) 10,977 2,649 8,328 375 1 1,322 8,225 1,051		16,106 3,366 12,740 175 455 1,918 12,011 2,927
Interest expense Net interest and dividend income Provision (credit) for loan losses Loss on prepayment of borrowings Gain (loss) on sales of securities, net Other non-interest income Non-interest expense (2) Income before income taxes Income tax provision	\$	10,961 2,718 8,243 (600) (915) 685 1,245 7,072 2,786 822	(Dollars in	November 10,554	Third Cocept per sha	re amounts) 10,977 2,649 8,328 375 1 1,322 8,225 1,051 423	\$	16,106 3,366 12,740 175 455 1,918 12,011 2,927 1,074
Interest expense Net interest and dividend income Provision (credit) for loan losses Loss on prepayment of borrowings Gain (loss) on sales of securities, net Other non-interest income Non-interest expense (2) Income before income taxes Income tax provision	\$	10,961 2,718 8,243 (600) (915) 685 1,245 7,072 2,786 822	(Dollars in	November 10,554	Third Cocept per sha	re amounts) 10,977 2,649 8,328 375 1 1,322 8,225 1,051 423	\$	16,106 3,366 12,740 175 455 1,918 12,011 2,927 1,074

⁽¹⁾ Increase in the quarter ended December 31, 2017 is due to the enactment of the Tax Act on December 22, 2017.

⁽²⁾ Increase in the quarter ended December 31, 2016 is due to the acquisition of Chicopee on October 21, 2016.

2017 Board of Directors

Laura Benoit Treasurer & Co-Owner Bay State Fuel Oil, Inc. President, Buddy Realty, LLC

Donna J. Damon President and Owner New England Concrete Cutting, Inc.

Gary G. Fitzgerald Managing Principal Downey, Sweeney, Fitzgerald & Co., P.C.

James C. Hagan President Chief Executive Officer

William D. Masse President Granfield, Bugbee & Masse Insurance Agency

Lisa G. McMahon Director, Advancement and Stewardship Westfield State University

Gregg F. Orlen Owner/Operator Gregg Orlen Custom Homebuilders

Paul C. Picknelly President Monarch Enterprises, LLC

Steven G. Richter Chief Science Officer Avista Pharma Solutions

Philip R. Smith, Esq. Partner Bacon Wilson, P.C.

Kevin M. Sweeney Professor of Practice Corporate Finance Worcester Polytechnic Institute

Christos A. Tapases Principal Corbin and Tapases, P.C.

William J. Wagner Vice Chairman and Chief Business Development Officer

Donald A. Williams Chairman of the Board



Board:

Back (I to r): William D. Masse, Kevin M. Sweeney, Lisa G. McMahon, Gregg F. Orlen, James C. Hagan, Gary G. Fitzgerald, William J. Wagner, Steven G. Richter, Paul C. Picknelly, Philip R. Smith Front (I to r): Christos A. Tapases, Donna J. Damon, Laura Benoit, Donald A. Williams





Westfield Bank Senior Leadership Team: (left to right) Louis O. Gorman III; Deborah J. McCarthy; Leo R. Sagan, Jr.; Darlene Libiszewski; Guida Sajdak; James C. Hagan; William J. Wagner; Cidalia Inacio; Kevin C. O'Connor; Allen J. Miles; and Gerald P. Ciejka

2017 Officers

Executive Officers

James C. Hagan President Chief Executive Officer

Gerald P. Ciejka Senior Vice President General Counsel/ HR Director

Allen J. Miles Executive Vice President Senior Lender

Kevin C. O'Connor Executive Vice President Chief Banking Officer

Guida Sajdak Executive Vice President Chief Financial Officer

Commercial Lending

William J. Wagner Chief Business Development Officer

Richard Hanchett Senior Vice President Commercial Lending Team Leader

Trenton Taylor Senior Vice President Commercial Lending Team Leader Clifford Bordeaux Vice President Commercial Lending

Thomas Cebula Vice President Commercial Lending

Bernard Donnelly Vice President Commercial Lending

Michael Harrington Vice President Commercial Lending

Brittney Kelleher Vice President Commercial Lending

Michael Oleksak Vice President Commercial Lending

Wayne Webster Vice President Commercial Lending

Sharon Czarnecki Assistant Vice President Commercial Loan Division CRA Officer

Christopher Fager Assistant Vice President Commercial Lending

Compliance & Risk Management

Leo R. Sagan, Jr. Senior Vice President Chief Risk Officer

Nadia Baral Vice President Director of Compliance

Linda Swartz
Vice President
Security and Fraud
Investigations
Information Security
Officer

Credit Administration

Louis O. Gorman III Senior Vice President Chief Credit Officer

Elizabeth Maroney Senior Vice President Loan Administration

Mark W. Baran Vice President Credit Administration

William Judd Vice President Credit Administration

Sarah Medeiros Vice President Credit Administration Diane C. Miemiec Vice President Loan Administration

Elizabeth Beaudry Assistant Vice President Loan Administration

Edward Modzelewski Assistant Vice President Collections Manager

Financial Division

Meghan Hibner Vice President Controller

Bryan Cowan Vice President Finance

Jessica Bray Assistant Vice President Assistant Controller

Carole Hinkley Assistant Vice President Investment Officer

Human Resources

Susan Aldrich Vice President Human Resource Manager

Retail Banking, Wealth Management & Cash Management

Cidalia Inacio Senior Vice President Retail Banking Wealth Management

Denise Begley Vice President Retail Banking Operations

Laurie Davison Vice President Regional Manager

Maria Desmarais Vice President Investment Advisor Representative

Lauri Lavell Vice President Cash Management

Kelly Pignatare Vice President Regional Manager Michael Vogel Vice President Cash Management

Gloria Faria Assistant Vice President Branch Manager

Anne Faunce Assistant Vice President Branch Manager

Madeline Lopez Assistant Vice President Branch Manager

Mary Anne Ludtke Assistant Vice President Branch Manager

Stephanie Morales Assistant Vice President Branch Manager

Jaime Smith Assistant Vice President Branch Manager

Judith St. Pierre Assistant Vice President Retirement Services Manager

Sales Administration & Marketing

Daniel Marini Vice President Sales Administration & Marketing

Catherine Jocelyn Vice President Marketing Manager

Andrew Feldman, Jr. Assistant Vice President Sales Administration

Retail Lending

Marline Charette-Strange First Vice President Retail Lending Operations Manager

Matthew Manganelli Vice President Retail Lending Sales Manager

Richard Zabielski Vice President Processing & Underwriting Manager

Irene Alves Assistant Vice President Processor & Closing Supervisor

Michael Laga Assistant Vice President Retail Lending

Operations & Information Systems

Darlene Libiszewski Senior Vice President Chief Information Officer

Deborah J. McCarthy Senior Vice President Deposit Operations

Rebecca Rooke Vice President Deposit Operations

Clerk & Secretary of the Corporation

Theresa Szlosek Administrative Officer





Corporate Information

Executive Offices

Western New England Bancorp, Inc. 141 Elm Street, Westfield, MA 01085 413.568.1911 www.westfieldbank.com

Annual Meeting

The annual meeting will take place on Tuesday, May 15, 2018, at 10:00 a.m. at the Sheraton Springfield Monarch Place Hotel, One Monarch Place, Springfield, MA 01144.

Independent Auditors

Wolf & Company, P.C. 1500 Main Street, Springfield, MA 01115

Counsel

Hogan Lovells US LLP Columbia Square 555 Thirteenth Street, NW, Washington, DC 20004 202.637.5600

Transfer Agent and Registrar

Computershare Shareholder Services P.O. Box 505000, Louisville, KY 40233

Shareholder Relations

Western New England Bancorp, Inc., shareholders and the public are encouraged to contact us with any questions or comments. Questions pertaining to the material presented in this report and requests for a copy of the Annual Report on Form 10-K filed with the Securities and Exchange Commission should be directed to:

Meghan Hibner Investor Relations Officer Western New England Bancorp, Inc. 141 Elm Street, Westfield, MA 01085 413.568.1911

Common Stock Listing

Western New England Bancorp, Inc., common stock is listed on the NASDAQ Stock Exchange and is traded under the symbol "WNEB."

