BROOKLINE BANCORP INC
Form 10-K
February 28, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, for the Fiscal Year Ended December 31, 2018,
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934,
for the transition period from N/A to .
Commission File Number: 0-23695
BROOKLINE BANCORP, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation of organization)	04-3402944 (I.R.S. Employer Identification No.)
131 Clarendon Street, Boston, Massachusetts (Address of principal executive offices)	02116 (Zip Code)

(617) 425-4600
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value of $0.01 per share	Nasdaq Global Select Market

Securities registered pursuant to Section 12 (g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1934. YES o NO x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act of 1934. YES o NO x
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 requirement for the past 90 days. YES x NO o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. o
Indicate by check mark whether the registrant (1) has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES x NO o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or 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.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller Reporting Company	o
		Emerging growth company	o

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. o

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES o NO x

As of June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of common stock held by nonaffiliates, based upon the closing price per share of the registrant's common stock as reported on NASDAQ, was approximately $1.5 billion.

As of February 28, 2019, there were 85,177,172 and 79,766,511 shares of the registrant's common stock, par value $0.01 per share, issued and outstanding, respectively.

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K that are not historical facts may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties. These statements, which are based on certain assumptions and describe Brookline Bancorp, Inc.'s (the "Company's") future plans, strategies and expectations, can generally be identified by the use of the words "may," "will," "should," "could," "would," "plan," "potential," "estimate," "project," "believe," "intend," "anticipate," "expect," "target" and similar expressions. These statements include, among others, statements regarding the Company's intent, belief or expectations with respect to economic conditions, trends affecting the Company's financial condition or results of operations, and the Company's exposure to market, liquidity, interest-rate and credit risk. Forward-looking statements are based on the current assumptions underlying the statements and other information with respect to the beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions of management and the financial condition, results of operations, future performance and business are only expectations of future results. Although the Company believes that the expectations reflected in the Company's forward-looking statements are reasonable, the Company's actual results could differ materially from those projected in the forward-looking statements as a result of, among other factors, adverse conditions in the capital and debt markets; changes in interest rates; competitive pressures from other financial institutions; the effects of weakness in general economic conditions on a national basis or in the local markets in which the Company operates, including changes which adversely affect borrowers' ability to service and repay their loans and leases; changes in the value of securities and other assets in the Company's investment portfolio; changes in loan and lease default and charge-off rates; the adequacy of allowances for loan and lease losses; decreases in deposit levels that necessitate increases in borrowing to fund loans and investments; operational risks including, but not limited to, cybersecurity and natural disaster; changes in government regulation; the risk that goodwill and intangibles recorded in the Company's financial statements will become impaired; and changes in assumptions used in making such forward-looking statements, as well as the other risks and uncertainties detailed in Item 1A, "Risk Factors." Forward-looking statements speak only as of the date on which they are made. The Company does not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made.

PART I

Item 1. Business

General

Brookline Bancorp, Inc. (the "Company"), a Delaware corporation, operates as a multi-bank holding company for Brookline Bank and its subsidiaries, Bank Rhode Island ("BankRI") and its subsidiaries, First Ipswich Bank ("First Ipswich") and its subsidiaries, and Brookline Securities Corp.

On March 1, 2018, the Company completed the acquisition (the "Transaction") of First Commons Bank, N.A. ("First Commons Bank"). First Commons Bank was merged with and into Brookline Bank. First Commons Bank had two branch locations in Newton Centre and Wellesley, Massachusetts. These branch locations were closed on June 1, 2018 and consolidated into Brookline Bank’s existing branch locations in Newton Centre and Wellesley. The Transaction included $262.3 million in loans and $273.7 million in deposits at fair value. The Transaction qualified as a tax-free reorganization for federal income tax purposes. The total Transaction consideration was $56.0 million. For each share of First Commons Bank common stock, First Commons Bank stockholders received the right to receive 1.089 shares of the Company’s common stock with cash in lieu of fractional shares, options, and warrants, resulting in a total cash consideration payment of $851 thousand and an increase in the Company’s outstanding shares of 3,481,477 shares.

Brookline Bank, which includes its wholly-owned subsidiaries, BBS Investment Corp., Longwood Securities Corp., and its 84.07% owned subsidiary, Eastern Funding LLC ("Eastern Funding"), operates 25 full-service banking offices in the greater Boston metropolitan area with two additional lending offices. Brookline Bank was established as a savings bank in 1871 under the name Brookline Savings Bank. The Company was organized in November 1997 for the purpose of acquiring all of the capital stock of Brookline Savings Bank on completion of the reorganization of Brookline Savings Bank from a mutual savings bank into a mutual holding company structure and partial public offering. In 2002, the Company became fully public. In January 2003, Brookline Savings Bank changed its name to Brookline Bank.

BankRI is headquartered in Providence, Rhode Island. BankRI, which includes its wholly-owned subsidiaries, Acorn Insurance Agency, BRI Realty Corp., Macrolease Corporation ("Macrolease"), and BRI Investment Corp. and its wholly-owned subsidiary, BRI MSC Corp., operates 20 full-service banking offices in the greater Providence, Rhode Island area.

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First Ipswich is headquartered in Ipswich, Massachusetts. First Ipswich, which includes its wholly-owned subsidiaries, First Ipswich Insurance Agency and First Ipswich Securities II Corp., operates six full-service banking offices on the north shore of eastern Massachusetts. In June 2012, the First National Bank of Ipswich changed its name to First Ipswich Bank.

As a commercially-focused financial institution with 51 full-service banking offices throughout greater Boston, the north shore of Massachusetts, and Rhode Island, the Company, through Brookline Bank, BankRI and First Ipswich (individually and collectively, the "Banks"), offers a wide range of commercial, business and retail banking services, including a full complement of cash management products, on-line banking services, consumer and residential loans and investment services, designed to meet the financial needs of small- to mid-sized businesses and individuals throughout central New England. Specialty lending activities including equipment financing are focused primarily in the New York and New Jersey metropolitan area.

The Company focuses its business efforts on profitably growing its commercial lending businesses, both organically and through acquisitions. The Company's customer focus, multi-bank structure, and risk management are integral to its organic growth strategy and serve to differentiate the Company from its competitors. As full-service financial institutions, the Banks and their subsidiaries focus on the continued addition of well-qualified customers, the deepening of long-term banking relationships through a full complement of products and excellent customer service, and strong risk management. The Company's multi-bank structure retains the local-bank orientation while relieving local bank management of the responsibility for most back-office functions, which are consolidated at the holding company level. Branding and decision-making, including credit decisions and pricing, remain largely local in order to better meet the needs of bank customers and further motivate the Banks' commercial, business and retail bankers.

The Company, has, from time to time, acquired other business lines or financial institutions that it believes share the Company's relationship and customer service orientations and provide access to complementary markets, customers, products and services. The Company expanded its geographic footprint with the acquisitions of First Ipswich in February 2011 and BankRI in January 2012.

The Company's headquarters and executive management are located at 131 Clarendon Street, Boston, Massachusetts 02116 and its telephone number is 617-425-4600.

The loan and lease portfolio grew $572.8 million, or 10.0%, to $6.3 billion as of December 31, 2018 from $5.7 billion as of December 31, 2017. The Company's commercial loan portfolios, which are comprised of commercial real estate loans and commercial loans and leases, continued to exhibit growth. The Company's commercial loan portfolios, which totaled $5.1 billion, or 81.2% of total loans and leases, as of December 31, 2018, increased $420.8 million, or 9.0%, from $4.7 billion, or 82.0% of total loans and leases, as of December 31, 2017.

Total deposits increased $582.7 million, or 12.0%, to $5.5 billion as of December 31, 2018 from $4.9 billion as of December 31, 2017. Core deposits, which include demand checking, NOW, money market and savings accounts, remained consistent at $3.7 billion as of December 31, 2018 and December 31, 2017. The Company's core deposits were 67.2% of total deposits as of December 31, 2018, a decrease from 75.2% as of December 31, 2017.

Throughout 2018, the Company added $4.8 million to its allowance for loan and lease losses and experienced net charge-offs of $4.7 million to bring the balance to $58.7 million as of December 31, 2018. The ratio of the allowance for loan and lease losses to total loans and leases was 0.93% as of December 31, 2018 compared to 1.02% as of December 31, 2017. Excluding the loans acquired from BankRI, First Ipswich and First Commons Bank, the ratio of the allowance for loan and lease losses related to originated loans and leases was 0.96% as of December 31, 2018 and 1.05% as of December 31, 2017 respectively. Nonperforming assets as of December 31, 2018 were $28.1 million, down from $31.7 million at the end of 2017. Nonperforming assets were 0.38% and 0.47% of total assets as of December 31, 2018 and December 31, 2017, respectively. The Company's credit quality compares favorably to its peers, and remains a top priority within the Company.

Net interest income increased $24.5 million, or 11.0%, to $247.7 million in 2018 compared to $223.2 million in 2017. The net interest margin increased 4 basis points to 3.61% in 2018 from 3.57% in 2017. Net income for 2018 increased $32.5 million, or 64.4%, to $83.1 million from $50.5 million for 2017. Basic and fully diluted earnings per common share ("EPS") increased to $1.04 for 2018 from $0.68 for 2017.

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Competition

The Company provides banking alternatives in the greater Boston, Massachusetts, and Providence, Rhode Island, metropolitan marketplaces, each of which is dominated by several large national banking institutions. Based on total deposits at June 30, 2018, the Company ranks sixteenth in deposit market share among bank holding companies in the Massachusetts market area and fifth in deposit market share among bank holding companies in the Rhode Island market area. The Company faces considerable competition in its market area for all aspects of banking and related service activities. Competition from both bank and non-bank organizations is expected to continue with the Company facing strong competition in generating loans and attracting deposits.

In addition to other commercial banks, the Company's main competition for generating loans includes savings banks, credit unions, mortgage banking companies, insurance companies, and other financial services companies. Competitive factors considered for loan generation include product offerings, interest rates, terms offered, services provided and geographic locations. Lending services for the Company are concentrated in the greater Boston, Massachusetts, and Providence, Rhode Island, metropolitan areas, eastern Massachusetts, southern New Hampshire, and other Rhode Island areas, while the Company's equipment financing activities are primarily concentrated in the greater New York and New Jersey metropolitan markets.

The Company's primary competitors for attracting deposits are savings banks, commercial banks, credit unions, and other non-depository institutions such as securities and brokerage firms and insurance companies. Competitive factors considered in attracting and retaining deposits include product offerings and rate of return, convenient branch locations and automated teller machines and online access to accounts. Deposit customers are generally in communities where banking offices are located.

Market Area and Credit Risk Concentration

As of December 31, 2018, the Company, through its Banks, operated 51 full-service banking offices in greater Boston, Massachusetts, and greater Providence, Rhode Island. The Banks' deposits are gathered from the general public primarily in the communities in which the banking offices are located. The deposit market in Massachusetts and Rhode Island is highly concentrated in several banks. Based on June 30, 2018 Federal Deposit Insurance Corporation ("FDIC") statistics, the five largest banks in Massachusetts have an aggregate market share of approximately 65%, and the three largest banks in Rhode Island have an aggregate deposit market share of approximately 75%. The Banks' lending activities are concentrated primarily in the greater Boston, Massachusetts, and Providence, Rhode Island, metropolitan areas, eastern Massachusetts, southern New Hampshire and other Rhode Island areas. In addition, the Company, through its subsidiaries of Brookline Bank and BankRI, conducts equipment financing activities in the greater New York and New Jersey metropolitan area and elsewhere in the United States.

Commercial real estate loans. Multi-family and commercial real estate mortgage loans typically generate higher yields, but also involve greater credit risk. In addition, many of the Banks' borrowers have more than one multi-family or commercial real estate loan outstanding. The Banks manage this credit risk by prudent underwriting with conservative debt service coverage and LTV ratios at origination; lending to seasoned real estate owners/managers; frequently with personal guarantees of repayment; using reasonable appraisal practices; cross-collateralizing loans to one borrower when deemed prudent; and limiting the amount and types of construction lending. As of December 31, 2018, the largest commercial real estate relationship in the Company’s portfolio was $47.7 million.

Commercial loans and equipment leasing. Brookline Bank and First Ipswich originate commercial loans and leases for working capital and other business-related purposes, and concentrate such lending to companies located primarily in Massachusetts, and, in the case of Eastern Funding, in New York and New Jersey. BankRI originates commercial loans and lines of credit for various business-related purposes, for businesses located primarily in Rhode Island, and engages in equipment financing through its wholly-owned subsidiary, Macrolease, in New York and New Jersey. Because commercial loans are typically made on the basis of the borrower's ability to repay from the cash flow of the business, the availability of funds for the repayment of commercial and industrial loans may be significantly dependent on the success of the business itself. Further, the collateral securing the loans may be difficult to value, may fluctuate in value based on the success of the business and may deteriorate over time. For this reason, these loans and leases involve greater credit risk. Loans and leases originated by Eastern Funding generally earn higher yields because the borrowers are typically small businesses with limited capital such as laundries, dry cleaners, fitness centers, convenience stores and tow truck operators. The Macrolease equipment financing portfolio is comprised of small- to medium-sized businesses such as fitness centers, restaurants and other commercial equipment. The Banks manage the credit risk inherent in commercial lending by requiring strong debt service coverage ratios; limiting loan-to-value ratios; securing personal guarantees from borrowers; and limiting industry concentrations, franchisee concentrations and the duration of loan maturities. As of December 31, 2018, the largest commercial relationship in the Company's portfolio was $34.1 million.

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Consumer loans. Retail customers of Brookline Bank and First Ipswich typically live and work in the Boston metropolitan area and eastern Massachusetts, are financially active and value personalized service and easy branch access. Retail customers of BankRI typically live and work throughout Rhode Island and value easy branch access, personalized service, and knowledge of local communities. The Banks' consumer loan portfolios, which include residential mortgage loans, home equity loans and lines of credit, and other consumer loans, cater to the borrowing needs of this customer base. Credit risk in these portfolios is managed by limiting loan-to-value ratios at loan origination and by requiring borrowers to demonstrate strong credit histories. As of December 31, 2018, the largest consumer relationship in the Company’s portfolio was $14.7 million.

Economic Conditions and Governmental Policies

Repayment of multi-family and commercial real estate loans are generally dependent on the properties generating sufficient income to cover operating expenses and debt service. Repayment of commercial loans and equipment financing loans and leases generally are dependent on the demand for the borrowers' products or services and the ability of borrowers to compete and operate on a profitable basis. Repayment of residential mortgage loans, home equity loans and indirect automobile loans generally are dependent on the financial well-being of the borrowers and their capacity to service their debt levels. The asset quality of the Company's loan and lease portfolio, therefore, is greatly affected by the economy.

Economic activity in the United States has shown continuous improvement since the latter half of 2009 after slowing significantly as a result of the 2008 financial crisis. According to the Department of Labor, the national unemployment rate peaked at 10.0% in October 2009. In December 2018, the unemployment rate was 3.9% nationally, down from 4.1% at the end of 2017.

The Company's primary geographic footprints are the Boston, Massachusetts, and Providence, Rhode Island, metropolitan areas. According to the Bureau of Labor Statistics, the largest employment sectors in Massachusetts are, in order: education and health services; business and professional services; and trade, transportation and utilities, a sector that includes wholesale and retail trade. According to the Bureau of Labor Statistics, the largest employment sectors in Rhode Island are, in order: education and health services; trade, transportation and utilities, and business and professional services. The unemployment rate in Massachusetts decreased to 3.3% in December 2018 from 3.5% in December 2017, slightly lower than the national average. The unemployment rate in Rhode Island decreased to 3.9% in December 2018 from 4.4% in December 2017, equal to the national average.

Should there be any setback in the economy or increase in the unemployment rates in the Boston, Massachusetts, or Providence, Rhode Island, metropolitan areas, the resulting negative consequences could affect occupancy rates in the properties financed by the Company and cause certain individual and business borrowers to be unable to service their debt obligations.

The earnings and business of the Company are affected by external influences such as general economic conditions and the policies of governmental authorities, including the Board of Governors of the Federal Reserve System (the "FRB"). The FRB regulates the supply of money and bank credit to influence general economic conditions throughout the United States of America. The instruments of monetary policy employed by the FRB affect interest rates earned on investment securities and loans and interest rates paid on deposits and borrowed funds. The rate-setting actions of the Federal Open Market Committee of the FRB have a significant effect on the Company's operating results and the level of growth in its loans and leases and deposits.

Personnel

As of December 31, 2018, the Company had 749 full-time employees and 42 part-time employees. The employees are not represented by a collective bargaining unit and the Company considers its relationship with its employees to be good.

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Access to Information

As a public company, Brookline Bancorp, Inc. is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith, files reports, proxy and information statements and other information with the Securities and Exchange Commission (the “SEC”). The Company makes available on or through its internet website, www.brooklinebancorp.com, without charge, its annual reports on Form 10-K, proxy, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. The Company’s reports filed with, or furnished to, the SEC are also available at the SEC’s website at www.sec.gov. Press releases are also maintained on the Company’s website. Additional information for Brookline Bank, BankRI and First Ipswich can be found at www.brooklinebank.com, www.bankri.com and www.firstipswich.com, respectively. Information on the Company’s and any subsidiary's website is not incorporated by reference into this document and should not be considered part of this Report.

The Company’s common stock is traded on the Nasdaq Global Select Market℠ under the symbol “BRKL.”

Supervision and Regulation

The following discussion addresses elements of the regulatory framework applicable to bank holding companies and their subsidiaries. This regulatory framework is intended primarily for the protection of the safety and soundness of depository institutions, the federal deposit insurance system, and depositors, rather than for the protection of shareholders of a bank holding company such as the Company.

As a bank holding company, the Company is subject to regulation, supervision and examination by the FRB under the Bank Holding Company Act of 1956, as amended (the “BHCA”), and by the Massachusetts Commissioner of Banks (the "Commissioner") under Massachusetts General Laws Chapter 167A. The FRB is also the primary federal regulator of the Banks. In addition, Brookline Bank and First Ipswich are subject to regulation, supervision and examination by the MDOB, and BankRI is subject to regulation, supervision and examination by the Banking Division of the Rhode Island Department of Business Regulation (the “RIBD”).

The following is a summary of certain aspects of various statutes and regulations applicable to the Company and its subsidiaries. This summary is not a comprehensive analysis of all applicable law, and is qualified by reference to the full text of the statutes and regulations referenced below.

Regulation of the Company

The Company is subject to regulation, supervision and examination by the FRB, which has the authority, among other things, to order bank holding companies to cease and desist from unsafe or unsound banking practices; to assess civil money penalties; and to order termination of non-banking activities or termination of ownership and control of a non-banking subsidiary by a bank holding company.

Source of Strength

Under the BHCA, as amended by the Dodd-Frank Act, the Company is required to serve as a source of financial strength for the Banks in the event of the financial distress of the Banks. This provision of the Dodd-Frank Act codifies the longstanding policy of the FRB. This support may be required at times when the bank holding company may not have the resources to provide the additional financial support required by its subsidiary banks. In the event of a bank holding company’s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a bank subsidiary will be assumed by the bankruptcy trustee and entitled to priority of payment.

Acquisitions and Activities

The BHCA prohibits a bank holding company, without prior approval of the FRB, from acquiring all or substantially all the assets of a bank, acquiring control of a bank, merging or consolidating with another bank holding company, or acquiring direct or indirect ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, the acquiring bank holding company would control more than 5% of any class of the voting shares of such other bank or bank holding company. Further, as a Massachusetts bank holding company, the Company generally must obtain the prior approval of the Massachusetts Board of Bank Incorporation to acquire ownership or control of more than 5% of any voting stock in any other banking institution, acquire substantially all the assets of a bank, or merge with another bank holding company. However, there is an exemption from this approval requirement in certain cases in which the banking institution to be acquired, simultaneously with the acquisition, merges with a banking institution subsidiary of the Company in a transaction approved by the Commissioner.

The BHCA also prohibits a bank holding company from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to its subsidiary banks. However, a bank holding company may engage in and may own shares of companies engaged in certain activities that the FRB has determined to be so closely related to banking or managing and controlling banks as to be a proper incident thereto.

Limitations on Acquisitions of Company Common Stock

The Change in Bank Control Act prohibits a person or group of persons from acquiring "control" of a bank holding company unless the FRB has been notified and has not objected to the transaction. Under a rebuttable presumption established by the FRB, the acquisition of 10% or more of a class of voting securities of a bank holding company, such as the Company, with a class of securities registered under Section 12 of the Exchange Act, would, under the circumstances set forth in the presumption, constitute the acquisition of control of a bank holding company. In addition, the BHCA prohibits any company from acquiring control of a bank or bank holding company without first having obtained the approval of the FRB. Pursuant to the BHCA, a company is deemed to have control of a bank or bank holding company in a number of ways including: if the company owns, controls or holds with power to vote 25% or more of a class of voting securities of the bank or bank holding company; controls in any manner the election of a majority of directors or trustees of the bank or bank holding company; or the FRB has determined, after notice and opportunity for hearing, that the company has the power to exercise a controlling influence over the management or policies of the bank or bank holding company.

Regulation of the Banks

Brookline Bank and First Ipswich are subject to regulation, supervision and examination by the MDOB and the FRB. BankRI is subject to regulation, supervision and examination by the RIBD and the FRB. The enforcement powers available to federal and state banking regulators include, among other things, the ability to issue cease and desist or removal orders to terminate insurance of deposits; to assess civil money penalties; to issue directives to increase capital; to place the bank into receivership; and to initiate injunctive actions against banking organizations and institution-affiliated parties.

Deposit Insurance

Deposit obligations of the Banks are insured by the FDIC's Deposit Insurance Fund up to $250,000 per separately insured depositor for deposits held in the same right and capacity. Additionally, Brookline Bank is a member bank of the Depositors Insurance Fund ("DIF"). The DIF is a private, industry-sponsored insurance fund that insures all deposits above FDIC limits for Massachusetts-chartered savings banks. Brookline Bank is also insured by the DIF, and as such, Brookline Bank offers 100% insurance on all deposits as a result of a combination of insurance from the FDIC and the DIF. Additionally, Brookline Bank is required to file reports with the DIF.

The Federal Deposit Insurance Act (the "FDIA"), as amended by the Federal Deposit Insurance Reform Act and the Dodd-Frank Act, requires the FDIC to take steps as may be necessary to cause the ratio of deposit insurance reserves to estimated insured deposits - the designated reserve ratio - to reach 1.35% by September 30, 2020, and it mandates that the reserve ratio designated by the FDIC for any year may not be less than 1.35%. Further, the Dodd-Frank Act required that, in setting assessments, the FDIC offset the effect of the increase in the minimum reserve ratio from 1.15% to 1.35% on banks with less than $10 billion in assets.

To satisfy these requirements, in 2016, the FDIC's Board of Directors approved a final rule to increase the reserve ratio to the statutorily required minimum ratio of 1.35% of estimated insured deposits. The final rule imposes on large banks a surcharge of 4.5 basis points of their assessment base, after making certain adjustments. Large banks, which are generally banks with $10 billion or more in assets, will pay quarterly surcharges in addition to their regular risk-based assessments. Overall regular risk-based assessment rates will decline once the reserve ratio reaches 1.15%. Small banks, such as the Banks, will receive credits to offset the portion of their assessments that help to raise the reserve ratio from 1.15% to 1.35%. After the reserve ratio reaches 1.38%, the FDIC will automatically apply a small bank's credits to reduce its regular assessment up to the entire amount of the assessment for each period when the ration is at or above 1.38%.

Deposit premiums are based on assets. To determine its deposit insurance premium, the Bank computes the base amount of its average consolidated assets less its average tangible equity (defined as the amount of Tier 1 capital) and the applicable assessment rate. In 2016, the FDIC's Board of Directors adopted a final rule that changed the manner in which deposit insurance assessment rates are calculated for established small banks, generally those banks with less than $10 billion of assets that have been insured for at least five years. The rule utilizes the CAMELS rating system, which is a supervisory rating system designed to take into account and reflect all financial and operational risks or bank may face, including capital adequacy, asset

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quality, management capability, earnings, liquidity and sensitivity to market risk. Under the final rule, each of seven financial ratios and a weighted average of CAMELS component ratings will be multiplied by a corresponding pricing multiplier. The sum of these products will be added to a uniform amount, with the resulting sum being an institution's initial base assessment rate (subject to minimum or maximum assessment rates based on a bank's CAMELS composite rating). This method takes into account various measures, including an institution's leverage ratio, brokered deposit ratio, one year asset growth, the ratio of net income before taxes to total assets and considerations related to asset quality. Assessments for established small banks with a CAMELS rating of 1 or 2 range from 1.5 to 16 basis points, after adjustments, while assessments for established small banks with a CAMELS rating of 3 range from 3 to 30 basis points. Assessment rates for established small banks with a CAMELS composite rating of 4 or 5 range from 11 to 30 basis points, after adjustments.

The FDIC has the authority to adjust the assessment rates at any time. In addition, 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. For 2018, the FDIC and DIF insurance assessment costs for the Company totaled $2.7 million.

Cross-Guarantee

Similar to the source of strength doctrine discussed above in "Regulation of the Company-Source of Strength," under the cross-guarantee provisions of the FDIA, the FDIC can hold any FDIC-insured depository institution liable for any loss suffered or anticipated by the FDIC in connection with (i) the "default" of a commonly controlled FDIC-insured depository institution; or (ii) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution "in danger of default."

Acquisitions and Branching

The Banks must seek prior approval from the FRB to acquire another bank or establish a new branch office. Brookline Bank and First Ipswich must also seek prior approval from the MDOB to acquire another bank or establish a new branch office and BankRI must also seek prior approval from the RIBD to acquire another bank or establish a new branch office. Well capitalized and well managed banks may acquire other banks in any state, subject to certain deposit concentration limits and other conditions, pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended by the Dodd-Frank Act. In addition, the Dodd-Frank Act authorizes a state-chartered bank to establish new branches on an interstate basis to the same extent a bank chartered by the host state may establish branches.

Activities and Investments of Insured State-Chartered Banks

Section 24 of the FDIA generally limits the types of equity investments that FDIC-insured state-chartered member banks, such as the Banks, may make and the kinds of activities in which such banks may engage, as a principal, to those that are permissible for national banks. Further, the Gramm-Leach-Bliley Act of 1999 (the "GLBA") permits state banks, to the extent permitted under state law, to engage through "financial subsidiaries" in certain activities which are permissible for subsidiaries of a financial holding company. In order to form a financial subsidiary, a state-chartered bank must be well capitalized, and must comply with certain capital deduction, risk management and affiliate transaction rules, among other requirements. In addition, the Federal Reserve Act provides that state member banks are subject to the same restrictions with respect to purchasing, selling, underwriting, and holding of investment securities as national banks.

Brokered Deposits

Section 29 of the FDIA and federal regulations generally limit the ability of an insured depository institution to accept, renew or roll over any brokered deposit unless the institution's capital category is "well capitalized" or, with regulatory approval, "adequately capitalized." Depository institutions that have brokered deposits in excess of 10% of total assets will be subject to increased FDIC deposit insurance premium assessments. Additionally, depository institutions considered "adequately capitalized" that need regulatory approval to accept, renew or roll over any brokered deposits are subject to additional restrictions on the interest rate they may pay on deposits. As of December 31, 2018, none of the Banks had brokered deposits in excess of 10% of total deposits.

Section 202 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Growth Act"), which was enacted on May 24, 2018, amends Section 29 of the FDIA to exempt a capped amount of reciprocal deposits from treatment as brokered deposits for certain insured depository institutions. Specifically, the Growth Act provides that reciprocal deposits received by an agent depository institution that places deposits (other than those obtained by or though a deposit broker) with a deposit placement network are not considered to be funds obtained by or though a deposit broker to the extent the total amount of such reciprocal deposits does not exceed the lesser of $5 billion or 20% of the depository institution's total liabilities.

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However, a depository institution that is less than well capitalized may not accept or roll over such excluded reciprocal deposits at a rate of interest that is significantly higher than the prevailing rate in its market area or a national rate cap established by the FDIC.

The Community Reinvestment Act

The Community Reinvestment Act ("CRA") requires the FRB to evaluate each of the Banks with regard to their performance in helping to meet the credit needs of the communities each of the Banks serve, including low and moderate-income neighborhoods, consistent with safe and sound banking operations, and to take this record into consideration when evaluating certain applications. The FRB's CRA regulations are generally based upon objective criteria of the performance of institutions under three key assessment tests: (i) a lending test, to evaluate the institution's record of making loans in its service areas; (ii) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and (iii) a service test, to evaluate the institution's delivery of services through its branches, ATMs, and other offices. Failure of an institution to receive at least a "Satisfactory" rating could inhibit the Banks or the Company from undertaking certain activities, including engaging in activities permitted as a financial holding company under GLBA and acquisitions of other financial institutions. Each Bank has achieved a rating of "Satisfactory" on its most recent CRA examination. Both Massachusetts and Rhode Island have adopted specific community reinvestment requirements which are substantially similar to those of the FRB.

Lending Restrictions

Federal law limits a bank's authority to extend credit to its directors, executive officers and persons or companies that own, control or have power to vote more than 10% of any class of securities of a bank or an affiliate of a bank, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. Also, the terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the bank's capital. The Dodd-Frank Act explicitly provides that an extension of credit to an insider includes credit exposure arising from a derivatives transaction, repurchase agreement, reverse repurchase agreement, securities lending transaction or securities borrowing transaction. Additionally, the Dodd-Frank Act requires that asset sale transactions with insiders must be on market terms, and if the transaction represents more than 10% of the capital and surplus of the bank, be approved by a majority of the disinterested directors of the bank.

Capital Adequacy and Safety and Soundness

Regulatory Capital Requirements

The FRB has issued risk-based and leverage capital rules applicable to U.S. banking organizations such as the Company and the Banks. These rules are intended to reflect the relationship between the banking organization's capital and the degree of risk associated with its operations based on transactions recorded on-balance sheet as well as off-balance sheet items. The FRB may from time to time require that a banking organization maintain capital above the minimum levels discussed below, due to the banking organization's financial condition or actual or anticipated growth.

The capital adequacy rules define qualifying capital instruments and specify minimum amounts of capital as a percentage of assets that banking organizations are required to maintain. Common equity Tier 1 capital generally includes common stock and related surplus, retained earnings and, in certain cases and subject to certain limitations, minority interest in consolidated subsidiaries, less goodwill, other non-qualifying intangible assets and certain other deductions. Tier 1 capital for banks and bank holding companies generally consists of the sum of common equity Tier 1 elements, non-cumulative perpetual preferred stock, and related surplus in certain cases and subject to limitations, minority interests in consolidated subsidiaries that do not qualify as common equity Tier 1 capital, less certain deductions. Tier 2 capital generally consists of hybrid capital instruments, perpetual debt and mandatory convertible debt securities, cumulative perpetual preferred stock, term subordinated debt and intermediate-term preferred stock, and, subject to limitations, allowances for loan losses. The sum of Tier 1 and Tier 2 capital less certain required deductions represents qualifying total risk-based capital. Prior to the effectiveness of certain provisions of the

Dodd-Frank Act, bank holding companies were permitted to include trust preferred securities and cumulative perpetual preferred stock in Tier 1 capital, subject to limitations. However, the FRB's capital rule applicable to bank holding companies permanently grandfathers nonqualifying capital instruments, including trust preferred securities, issued before May 19, 2010 by depository institution holding companies with less than $15 billion in total assets as of December 31, 2009, subject to a limit of 25% of Tier 1 capital. In addition, under rules that became effective January 1, 2015, accumulated other comprehensive income (positive or negative) must be reflected in Tier 1 capital; however, the Company was permitted to make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. The Company has made this election.

Under the capital rules, risk-based capital ratios are calculated by dividing common equity Tier 1, Tier 1, and total risk capital, respectively, by risk-weighted assets. Assets and off-balance sheet credit equivalents are assigned to one of several categories of risk-weights, based primarily on relative risk. Under the FRB's rules, the Company and the Banks are each required to maintain a minimum common equity Tier 1 capital ratio requirement of 4.5%, a minimum Tier 1 capital ratio requirement of 6%, a minimum total capital requirement of 8% and a minimum leverage ratio requirement of 4%. Additionally subject to a transition schedule, these rules require an institution to establish a capital conservation buffer of common equity Tier 1 capital in an amount above the minimum risk-based capital requirements for "adequately capitalized" institutions of more than 2.5% of total risk weighted assets, or face restrictions on the ability to pay dividends, pay discretionary bonuses, and to engaged in share repurchases. The capital conservation buffer was fully phased in as of January 1, 2019.

A bank holding company, such as the Company, is considered "well capitalized" if the bank holding company (i) has a total risk based capital ratio of at least 10%, (ii) has a Tier 1 risk-based capital ratio of at least 6%, and (iii) is not subject to any written agreement order, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. In addition, under the FRB's prompt corrective action rules, a state member bank is considered “well capitalized” if it (i) has a total risk-based capital ratio of 10.0% or greater; (ii) a Tier 1 risk-based capital ratio of 8.0% or greater; (iii) a common Tier 1 equity ratio of at least 6.5% or greater, (iv) a leverage capital ratio of 5.0% or greater; and (v) is not subject to any written agreement, order, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. The FRB also considers: (i) concentrations of credit risk; (ii) interest rate risk; and (iii) risks from non-traditional activities, as well as an institution’s ability to manage those risks. When determining the adequacy of an institution’s capital, this evaluation is a part of the institution’s regular safety and soundness examination. Each of the Banks is currently considered well-capitalized under all regulatory definitions.

Generally, a bank, upon receiving notice that it is not adequately capitalized (i.e., that it is “undercapitalized”), becomes subject to the prompt corrective action provisions of Section 38 of FDIA that, for example, (i) restrict payment of capital distributions and management fees, (ii) require that its federal bank regulator monitor the condition of the institution and its efforts to restore its capital, (iii) require submission of a capital restoration plan, (iv) restrict the growth of the institution’s assets and (v) require prior regulatory approval of certain expansion proposals. A bank that is required to submit a capital restoration plan must concurrently submit a performance guarantee by each company that controls the bank. A bank that is “critically undercapitalized” (i.e., has a ratio of tangible equity to total assets that is equal to or less than 2.0%) will be subject to further restrictions, and generally will be placed in conservatorship or receivership within 90 days.

The Banks are considered “well capitalized” under the FRB's prompt corrective action rules and the Company is considered “well capitalized” under the FRB's rules applicable to bank holding companies.

Section 201 of the Growth Act directs the federal bank regulatory agencies to establish a community bank leverage ratio of tangible capital to average total consolidated assets of not less than 8% or more than 10%. The legislation provides that a qualifying community bank, which the legislation defines as a depository institution or depository institution holding company with total consolidated assets of less than $10 billion, that exceeds the community bank leverage ratio shall be considered to have met the generally applicable leverage capital requirements and the generally applicable risk-based capital requirements. In addition, a depository institution that exceeds the community bank leverage ratio will be regarded as having met the capital ratio requirements that are required in order to be considered well capitalized under Section 38 of the FDIA. The federal banking agencies may exclude institutions from availing themselves of this relief based on the institution's risk profile, taking into account off-balance sheet exposures, trading assets and liabilities, total notional derivatives exposures, and such other factors as the federal banking agencies determine appropriate. The federal banking agencies have proposed a community bank leverage ratio of 9%, which means that qualifying institutions with a community bank leverage ratio exceeding 9% would be eligible for the relief provided by Section 201 of the Growth Act. The federal banking agencies have also proposed excluding from this relief institutions with levels of off-balance sheet exposures, trading assets and liabilities, mortgage services assets and deferred tax assets exceeding certain levels as well as all advanced approaches banking organizations.

Safety and Soundness Standards

The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general,

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these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the federal banking agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order restricting asset growth, requiring an institution to increase its ratio of tangible equity to assets or directing other actions of the types to which an undercapitalized institution is subject under the "prompt corrective action" provisions of FDIA. See "Regulatory Capital Requirements" above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Dividend Restrictions

The Company is a legal entity separate and distinct from the Banks. The revenue of the Company (on a parent company only basis) is derived primarily from dividends paid to it by the Banks. The right of the Company, and consequently the right of shareholders of the Company, to participate in any distribution of the assets or earnings of the Banks through the payment of such dividends or otherwise is subject to the prior claims of creditors of the Banks (including depositors), except to the extent that certain claims of the Company in a creditor capacity may be recognized.

Restrictions on Bank Holding Company Dividends

The FRB has authority to prohibit bank holding companies from paying dividends if such payment is deemed to be an unsafe or unsound practice. The FRB has indicated generally that it may be an unsafe or unsound practice for bank holding companies to pay dividends unless the bank holding company's net income for the prior year is sufficient to fund the dividends and the expected rate of earnings retention is consistent with the organization's capital needs, asset quality and overall financial condition. Further, under the Federal Reserve's capital rules, the Company's ability to pay dividends will be restricted if it does not maintain the required capital conservation buffer. See "Capital Adequacy and Safety and Soundness-Regulatory Capital Requirements" above.

Restrictions on Bank Dividends

The FRB has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law also prohibits the payment of dividends by a bank that will result in the bank failing to meet its applicable capital requirements on a pro forma basis. In addition, a state bank that is a member of the Federal Reserve System may not declare or pay a dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of the bank's net income (as reportable in its Reports of Condition and Income) during the current calendar year and the retained net income of the prior two calendar years, unless the dividend has been approved by the FRB. A state member bank may not declare and pay a dividend that would exceed its undivided profits (as reportable on its Reports of Condition and Income) unless the dividend has been approved by the FRB. Payment of dividends by a bank is also restricted pursuant to various state regulatory limitations.

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Certain Transactions by Bank Holding Companies with their Affiliates

There are various statutory restrictions on the extent to which bank holding companies and their non-bank subsidiaries may borrow, obtain credit from or otherwise engage in “covered transactions” with their insured depository institution subsidiaries. The Dodd-Frank Act amended the definition of affiliate to include an investment fund for which the depository institution or one of its affiliates is an investment adviser. An insured depository institution (and its subsidiaries) may not lend money to, or engage in covered transactions with, its non-depository institution affiliates if the aggregate amount of covered transactions outstanding involving the bank, plus the proposed transaction, exceeds the following limits: (i) in the case of any one such affiliate, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 10% of the capital stock and surplus of the insured depository institution; and (ii) in the case of all affiliates, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 20% of the capital stock and surplus of the insured depository institution. For this purpose, “covered transactions” are defined by statute to include a loan or extension of credit to an affiliate, a purchase of or investment in securities issued by an affiliate, a purchase of assets from an affiliate unless exempted by the FRB, the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any person or company, the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate, securities borrowing or lending transactions with an affiliate that creates a credit exposure to such affiliate, or a derivatives transaction with an affiliate that creates a credit exposure to such affiliate. Covered transactions are also subject to certain collateral security requirements. Covered transactions as well as other types of transactions between a bank and a bank holding company must be on market terms and not otherwise unduly favorable to the holding company or an affiliate of the holding company. As of December 31, 2018, there were no such transactions. Moreover, Section 106 of the Bank Holding Company Act Amendment of 1970 provides that, to further competition, a bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property of any kind, or furnishing of any service. As of and for the year ending December 31, 2018, there were no such transactions.

Consumer Protection Regulation

The Company and the Banks are subject to a number of federal and state laws designed to protect consumers and prohibit unfair or deceptive business practices. These laws include the Equal Credit Opportunity Act, Fair Housing Act, Home Ownership Protection Act, Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003 (the “FACT Act”), GLBA, Truth in Lending Act ("TILA"), the CRA, the Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, National Flood Insurance Act and various state law counterparts. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must interact with customers when taking deposits, making loans, collecting loans and providing other services. Further, the Dodd-Frank Act established the Consumer Financial Protection Bureau ("CFPB"), which has the responsibility for making rules and regulations under the federal consumer protection laws relating to financial products and services. The CFPB also has a broad mandate to prohibit unfair, deceptive or abusive acts and practices and is specifically empowered to require certain disclosures to consumers and draft model disclosure forms. Failure to comply with consumer protection laws and regulations can subject financial institutions to enforcement actions, fines and other penalties. The FRB examines the Banks for compliance with CFPB rules and enforces CFPB rules with respect to the Banks.

Mortgage Reform

The Dodd-Frank Act prescribes certain standards that mortgage lenders must consider before making a residential mortgage loan, including verifying a borrower’s ability to repay such mortgage loan, and allows borrowers to assert violations of certain provisions of the TILA as a defense to foreclosure proceedings. Under the Dodd-Frank Act, prepayment penalties are prohibited for certain mortgage transactions and creditors are prohibited from financing insurance policies in connection with a residential mortgage loan or home equity line of credit. In addition, the Dodd-Frank Act prohibits mortgage originators from receiving compensation based on the terms of residential mortgage loans and generally limits the ability of a mortgage originator to be compensated by others if compensation is received from a consumer. The Dodd-Frank Act requires mortgage lenders to make additional disclosures prior to the extension of credit, in each billing statement and for negative amortization loans and hybrid adjustable rate mortgages. Additionally, the CFPB’s qualified mortgage rule requires creditors, such as the Banks, to make a reasonable good faith determination of a consumer's ability to repay any consumer credit transaction secured by a dwelling prior to making the loan. The Growth Act included provisions that ease certain requirements related to mortgage transactions for certain small institutions, which are generally those with less than $10 billion in total consolidated assets.

Privacy and Customer Information Security

The GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the Banks must provide their customers with an annual disclosure that explains their policies and procedures regarding the disclosure of such nonpublic personal information

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and, except as otherwise required or permitted by law, the Banks are prohibited from disclosing such information except as provided in such policies and procedures. If the financial institution only discloses information under exceptions from the GLBA that do not require an opt out to be provided and if there has been no change in the financial institutions privacy policies and practices since its most recent disclosures provide to customers, an annual disclosure is not required to be provided by the financial institution. The GLBA also requires that the Banks develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information (as defined under GLBA), to protect against anticipated threats or hazards to the security or integrity of such information and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The Banks are also required to send a notice to customers whose “sensitive information” has been compromised if unauthorized use of this information is “reasonably possible.” Most of the states, including the states where the Banks operate, have enacted legislation concerning breaches of data security and the duties of the Banks in response to a data breach. Congress continues to consider federal legislation that would require consumer notice of data security breaches. Pursuant to the FACT Act, the Banks must also develop and implement a written identity theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. Additionally, the FACT Act amends the Fair Credit Reporting Act to generally prohibit a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and a reasonable opportunity and a reasonable and simple method to opt out of the making of such solicitations.

Anti-Money Laundering

The Bank Secrecy Act

Under the Bank Secrecy Act (“BSA”), a financial institution is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report to the United States Treasury any cash transactions involving at least $10,000. In addition, financial institutions are required to file suspicious activity reports for any transaction or series of transactions that involve more than $5,000 and which the financial institution knows, suspects or has reason to suspect involves illegal funds, is designed to evade the requirements of the BSA or has no lawful purpose. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “USA PATRIOT Act”), which amended the BSA, is designed to deny terrorists and others the ability to obtain anonymous access to the U.S. financial system. The USA PATRIOT Act has significant implications for financial institutions and businesses of other types involved in the transfer of money. The USA PATRIOT Act, together with the implementing regulations of various federal regulatory agencies, has caused financial institutions, such as the Banks, to adopt and implement additional policies or amend existing policies and procedures with respect to, among other things, anti-money laundering compliance, suspicious activity, currency transaction reporting, customer identity verification and customer risk analysis. In evaluating an application under Section 3 of the BHCA to acquire a bank or an application under the Bank Merger Act to merge banks or effect a purchase of assets and assumption of deposits and other liabilities, the applicable federal banking regulator must consider the anti-money laundering compliance record of both the applicant and the target. In addition, under the USA PATRIOT Act, financial institutions are required to take steps to monitor their correspondent banking and private banking relationships as well as, if applicable, their relationships with “shell banks.”

Office of Foreign Assets Control

The U.S. has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by the U.S. Treasury’s Office of Foreign Assets Control (“OFAC”), take many different forms. Generally, however, they 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 or other transactions relating to a sanctioned country or with certain designated persons and entities; (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); and (iii) restrictions on transactions with or involving certain persons or entities. Blocked assets (for example, property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences for the Company. As of December 31, 2018, the Company did not have any transactions with sanctioned countries, nationals, and others.

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Regulation of Other Activities

Volcker Rule Restrictions on Proprietary Trading and Sponsorship of Hedge Funds and Private Equity Funds

The Dodd-Frank Act prohibits banking organizations from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain limited circumstances, in a provision commonly referred to as the "Volcker Rule." Under the Dodd-Frank Act, proprietary trading generally means trading by a banking entity or its affiliate for its trading account. Hedge funds and private equity funds are described by the Dodd-Frank Act as funds that would be registered under the Investment Company Act but for certain enumerated exemptions. Section 203 of the Growth Act includes a provision that excludes a banking organization from application of the Volcker Rule if the organization does not have and is not controlled by a company that has (i) more than $10 billion in total consolidated assets, and (ii) total trading assets and trading liabilities exceeding 5% of total consolidated assets.

Item 1A. Risk Factors

Before deciding to invest in us or deciding to maintain or increase your investment, you should carefully consider the risks described below, in addition to the other information contained in this report and in our other filings with the SEC. The risks and uncertainties described below and in our other filings are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occur, our business, financial condition and results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose your investment.

Deterioration in local economies or real estate market may adversely affect our business.

We primarily serve individuals and businesses located in the greater Boston metropolitan area, eastern Massachusetts, New York, New Jersey, and Rhode Island. Our success is largely dependent on the economic conditions, including employment levels, population growth, income levels, savings trends and government policies, in those market areas. Weaker economic conditions caused by recession, unemployment, inflation, a decline in real estate values or other factors beyond our control may adversely affect the ability of our borrowers to service their debt obligations, and could result in higher loan and lease losses and lower net income for us.

Our business may be adversely affected by conditions in the financial markets and by economic conditions generally.

Weakness in the U.S. economy may adversely affect our business. While in recent years there has been an improvement in the U.S. economy, the outlook remains uncertain amid concerns about short- and long-term interest rates, debt and equity capital markets and financial market conditions generally. A deterioration of business and economic conditions could adversely affect the credit quality of our loans, results of operations and financial condition. Increases in loan delinquencies and default rates could adversely impact our loan charge-offs and provision for loan and lease losses. Deterioration or defaults made by issuers of the underlying collateral of our investment securities may cause additional credit-related other-than-temporary impairment charges to our income statement. Our ability to borrow from other financial institutions or to access the debt or equity capital markets on favorable terms or at all could be adversely affected by disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.

Changes to interest rates could adversely affect our results of operations and financial condition.

Our consolidated results of operations depend, on a large part, on net interest income, which is the difference between (i) interest income on interest-earning assets, such as loans, leases and securities, and (ii) interest expense on interest-bearing liabilities, such as deposits and borrowed funds. As a result, our earnings and growth are significantly affected by interest rates, which are subject to the influence of economic conditions generally, both domestic and foreign, to events in the capital markets and also to the monetary and fiscal policies of the United States and its agencies, particularly the FRB. The nature and timing of any changes in such policies or general economic conditions and their effect on us cannot be controlled and are extremely difficult to predict. An increase in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations, which could not only result in increased loan defaults, foreclosures and charge-offs, but also necessitate further increases to our allowances for loan losses. A decrease in interest rates may trigger loan prepayments, which may serve to reduce net interest income if we are unable to lend those funds to other borrowers or

invest the funds at the same or higher interest rates.
Changes to and replacement of the LIBOR Benchmark Interest Rate may adversely affect our business, financial condition, and results of operations.
In 2017, the United Kingdom's Financial Conduct Authority ("FCA"), a regulator of financial services firms and financial markets in the United Kingdom, stated that it will plan for a phase out of regulatory oversight of London Interbank Offered

Rate ("LIBOR") interest rate indices. The FCA has indicated that they will support the LIBOR indices through 2021 to allow for an orderly transition to alternative reference rates. Other financial services regulators and industry groups, including the International Swaps and Derivatives Association (“ISDA”), are evaluating the possible phase-out of LIBOR and the development of alternate interest rate indices or reference rates. Accordingly, uncertainty as to the nature of such changes may adversely affect the market for or value of LIBOR-based loans, derivatives, investment securities and other financial obligations held by or due to the Banks, and could adversely impact our financial condition or results of operations.

We operate in a highly regulated industry, and laws and regulations, or changes in them, could limit or restrict our activities and could have a material adverse effect on our operations.

We and our banking subsidiaries are subject to regulation and supervision by the FRB. Our banking subsidiaries are also subject to regulation and supervision by state banking regulators and the FRB. Federal and state laws and regulations govern numerous matters affecting us, including changes in the ownership or control of banks and bank holding companies, maintenance of adequate capital and the financial condition of a financial institution, permissible types, amounts and terms of extensions of credit and investments, permissible non-banking activities, the level of reserves against deposits and restrictions on dividend payments. The FRB and the state banking regulators have the power to issue cease and desist orders to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulation, and the FRB possesses similar powers with respect to bank holding companies. These and other restrictions limit the manner in which we and our banking subsidiaries may conduct business and obtain financing.

As a highly regulated business, the laws, rules, regulations, and supervisory guidance and policies applicable to us are subject to regular modification and change. Changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, or supervisory guidance could affect in enforcement and other legal actions by federal or state authorities, including criminal and civil penalties, the loss of FDIC insurance, revocation of a banking charter, other sanctions by regulatory agencies, civil money penalties, and/or reputational damage, which could have a material adverse effect on our business, financial condition, and results of operations. See the "Supervision and Regulation" section of Item 1, "Business."

We are subject to capital and liquidity standards that require banks and bank holding companies to maintain more and higher quality capital and greater liquidity than has historically been the case.

We became subject to new capital requirements in 2015. These new standards, which now apply and are fully phased-in as of January 1, 2019, force bank holding companies and their bank subsidiaries to maintain substantially higher levels of capital as a percentage of their assets, with a greater emphasis on common equity as opposed to other components of capital. The need to maintain more and higher quality capital, as well as greater liquidity, and generally increased regulatory scrutiny with respect to capital levels, may at some point limit our business activities, including lending, and our ability to expand. It could also result in our being required to take steps to increase our regulatory capital and may dilute shareholder value or limit our ability to pay dividends or otherwise return capital to our investors through stock repurchases.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act, and other fair lending laws and regulations impose community investment and nondiscriminatory lending requirements on financial institutions. The Consumer Financial Protection Bureau, the Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution’s performance under the Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act or other fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions, restrictions on expansion and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution’s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations.

We face significant legal risks, both from regulatory investigations and proceedings and from private actions brought against us.

From time to time we are named as a defendant or are otherwise involved in various legal proceedings, including class actions and other litigation or disputes with third parties. There is no assurance that litigation with private parties will not increase in the future. Actions against us may result in judgments, settlements, fines, penalties or other results adverse to us, which could materially adversely affect our business, financial condition or results of operations, or cause serious reputational harm to us. As a participant in the financial services industry, it is likely that we could continue to experience a high level of litigation related to our businesses and operations.

Our businesses and operations are also subject to increasing regulatory oversight and scrutiny, which may lead to additional regulatory investigations or enforcement actions. These and other initiatives from federal and state officials may subject us to further judgments, settlements, fines or penalties, or cause us to be required to restructure our operations and activities, all of which could lead to reputational issues, or higher operational costs, thereby reducing our revenue.

We may incur fines, penalties and other negative consequences from regulatory violations, possibly even inadvertent or unintentional violations.

The financial services industry is subject to intense scrutiny from bank supervisors in the examination process and aggressive enforcement of federal and state regulations, particularly with respect to mortgage-related practices and other consumer compliance matters, and compliance with anti-money laundering, Bank Secrecy Act and Office of Foreign Assets Control regulations, and economic sanctions against certain foreign countries and nationals. Enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations; however, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there was in place at the time systems and procedures designed to ensure compliance. Failure to comply with these and other regulations, and supervisory expectations related thereto, may result in fines, penalties, lawsuits, regulatory sanctions, reputation damage, or restrictions on our business.

If our allowance for loan and lease losses is not sufficient to cover actual loan and lease losses, our earnings may decrease.

We are exposed to the risk that our borrowers may default on their obligations. A borrower's default on its obligations under one or more loans or leases may result in lost principal and interest income and increased operating expenses as a result of the allocation of management time and resources to the collection and work-out of the loan or lease. In certain situations, where collection efforts are unsuccessful or acceptable work-out arrangements cannot be reached, we may have to write off the loan or lease in whole or in part. In such situations, we may acquire real estate or other assets, if any, that secure the loan or lease through foreclosure or other similar available remedies, and often the amount owed under the defaulted loan or lease exceeds the value of the assets acquired.

We periodically make a determination of an allowance for loan and lease losses based on available information, including, but not limited to, the quality of the loan and lease portfolio as indicated by trends in loan risk ratings, payment performance, economic conditions, the value of the underlying collateral and the level of nonaccruing and criticized loans and leases. Management relies on its loan officers and credit quality reviews, its experience and its evaluation of economic conditions, among other factors, in determining the amount of provision required for the allowance for loan and lease losses. Provisions to this allowance result in an expense for the period. If, as a result of general economic conditions, previously incorrect assumptions, or an increase in defaulted loans or leases, we determine that additional increases in the allowance for loan and lease losses are necessary, additional expenses may be incurred.

Determining the allowance for loan and lease losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and trends, all of which may undergo material changes. At any time, there are likely to be loans and/or leases in our portfolio that will result in losses but that have not been identified as nonperforming or potential problem credits. We cannot be sure that we will be able to identify deteriorating credits before they become nonperforming assets or that we will be able to limit losses on those loans and leases that are identified. We have in the past been, and in the future may be, required to increase our allowance for loan and lease losses for any of several reasons. State and federal regulators, in reviewing our loan and lease portfolio as part of a regulatory examination, may request that we increase the allowance for loan and lease losses. Changes in economic conditions or individual business or personal circumstances affecting borrowers, new information regarding existing loans and leases, identification of additional problem loans and leases and other factors, both within and outside of our control, may require an increase in the allowance for loan and lease losses. In addition, if charge-offs in future periods exceed the allowance for loan and lease losses, we will need additional increases in its allowance for loan and lease losses. Any increases in the allowance for loan and lease losses may result in a decrease in our net income and, possibly, our capital, and could have an adverse effect on our financial condition and results of operations.

Our loan and lease portfolios include commercial real estate mortgage loans and commercial loans and leases, which are generally riskier than other types of loans.

Our commercial real estate and commercial loan and lease portfolios currently comprise 80.8% of total loans and leases. Commercial loans and leases generally carry larger balances and involve a higher risk of nonpayment or late payment than residential mortgage loans. Most of the commercial loans and leases are secured by borrower business assets such as accounts receivable, inventory, equipment and other fixed assets. Compared to real estate, these types of collateral are more difficult to monitor, harder to value, may depreciate more rapidly and may not be as readily saleable if repossessed. Repayment of commercial loans and leases is largely dependent on the business and financial condition of borrowers. Business cash flows are dependent on the demand for the products and services offered by the borrower's business. Such demand may be reduced when economic conditions are weak or when the products and services offered are viewed as less valuable than those offered by competitors. Because of the risks associated with commercial loans and leases, we may experience higher rates of default than if the portfolio were more heavily weighted toward residential mortgage loans. Higher rates of default could have an adverse effect on our financial condition and results of operations.

Environmental liability associated with our lending activities could result in losses.

In the course of business, we may acquire, through foreclosure, properties securing loans originated or purchased that are in default. Particularly in commercial real estate lending, there is a risk that material environmental violations could be discovered on these properties. In this event, we might be required to remedy these violations at the affected properties at our sole cost and expense. The cost of remedial action could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have an adverse effect on our financial condition and results of operations.

Competition in the financial services industry could make it difficult for us to sustain adequate profitability.

We face significant competition for loans, leases and deposits from other banks and financial institutions both within and beyond our local marketplace. Many of our competitors have substantially greater resources and higher lending limits than we do and may offer products and services that we do not, or cannot, provide. There is also increased competition by out-of-market competitors through the internet. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures. Securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. This may significantly change the competitive environment in which we conduct our business. As a result of these various sources of competition, we could lose business to competitors or could be forced to price products and services on less advantageous terms to retain or attract clients, either of which would adversely affect our profitability.

Market changes may adversely affect demand for our services and impact results of operations.

Channels for servicing our customers are evolving rapidly, with less reliance on traditional branch facilities, more use of online and mobile banking, and increased demand for universal bankers and other relationship managers who can service multiples product lines. We compete with larger providers who are rapidly evolving their service channels and escalating the costs of evolving the service process. We have a process for evaluating the profitability of our branch system and other office and operational facilities. The identification of unprofitable operations and facilities can lead to restructuring charges and introduce the risk of disruptions to revenues and customer relationships.

Our securities portfolio performance in difficult market conditions could have adverse effects on our results of operations.

Unrealized losses on investment securities result from changes in credit spreads and liquidity issues in the marketplace, along with changes in the credit profile of individual securities issuers. Under GAAP, we are required to review our investment portfolio periodically for the presence of other-than-temporary impairment of our securities, taking into consideration current market conditions, the extent and nature of changes in fair value, issuer rating changes and trends, volatility of earnings, current analysts' evaluations, our ability and intent to hold investments until a recovery of fair value, as well as other factors. Adverse developments with respect to one or more of the foregoing factors may require us to deem particular securities to be other-than-temporarily impaired, with the credit-related portion of the reduction in the value recognized as a charge to our earnings. Subsequent valuations, in light of factors prevailing at that time, may result in significant changes in the values of these securities in future periods. Any of these factors could require us to recognize further impairments in the value of our securities portfolio, which may have an adverse effect on our results of operations in future periods.

Potential downgrades of U.S. government securities by one or more of the credit ratings agencies could have a material adverse effect on our operations, earnings and financial condition.

A possible future downgrade of the sovereign credit ratings of the U.S. government and a decline in the perceived creditworthiness of U.S. government-related obligations could impact our ability to obtain funding that is collateralized by affected instruments, as well as affect the pricing of that funding when it is available. A downgrade may also adversely affect the market value of such instruments. We cannot predict if, when or how any changes to the credit ratings or perceived creditworthiness of these organizations will affect economic conditions. Such ratings actions could result in a significant adverse impact on us. Among other things, a downgrade in the U.S. government's credit rating could adversely impact the value of our securities portfolio and may trigger requirements that the Company post additional collateral for trades relative to these securities. A downgrade of the sovereign credit ratings of the U.S. government or the credit ratings of related institutions,

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agencies or instruments would significantly exacerbate the other risks to which we are subject and any related adverse effects on the business, financial condition and results of operations.

Wholesale funding sources may prove insufficient to replace deposits at maturity and support our operations and future growth.

We and our banking subsidiaries must maintain sufficient funds to respond to the needs of depositors and borrowers. To manage liquidity, we draw upon a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. These sources include Federal Home Loan Bank advances, proceeds from the sale of investments and loans, and liquidity resources at the holding company. Our ability to manage liquidity will be severely constrained if we are unable to maintain access to funding or if adequate financing is not available to accommodate future growth at acceptable costs. In addition, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, operating margins and profitability would be adversely affected. Turbulence in the capital and credit markets may adversely affect our liquidity and financial condition and the willingness of certain counterparties and customers to do business with us.

Potential deterioration in the performance or financial position of the FHLBB might restrict our funding needs and may adversely impact our financial condition and results of operations.

Significant components of our liquidity needs are met through our access to funding pursuant to our membership in the FHLBB. The FHLBB is a cooperative that provides services to its member banking institutions. The primary reason for joining the FHLBB is to obtain funding. The purchase of stock in the FHLBB is a requirement for a member to gain access to funding. Any deterioration in the FHLBB's performance or financial condition may affect our ability to access funding and/or require the Company to deem the required investment in FHLBB stock to be impaired. If we are not able to access funding through the FHLBB, we may not be able to meet our liquidity needs, which could have an adverse effect on our results of operations or financial condition. Similarly, if we deem all or part of our investment in FHLBB stock impaired, such action could have an adverse effect on our financial condition or results of operations.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to many different counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, other commercial banks, investment banks, mutual and hedge funds, and other financial institutions. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could lead to market-wide liquidity problems and losses or defaults by us or by other institutions and organizations. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be liquidated or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

Loss of deposits or a change in deposit mix could increase our cost of funding.

Deposits are a low cost and stable source of funding. We compete with banks and other financial institutions for deposits. Funding costs may increase if we lose deposits and are forced to replace them with more expensive sources of funding, if clients shift their deposits into higher cost products or if we need to raise interest rates to avoid losing deposits. Higher funding costs reduce our net interest margin, net interest income and net income.

Damage to our reputation could significantly harm our business, including our competitive position and business prospects.

We are dependent on our reputation within our market area, as a trusted and responsible financial company, for all aspects of our relationships with customers, employees, vendors, third-party service providers, and others, with whom we conduct business or potential future business. Our ability to attract and retain customers and employees could be adversely affected if our reputation is damaged. Our actual or perceived failure to address various issues could give rise to reputational risk that could cause harm to us and our business prospects. These issues also include, but are not limited to, legal and regulatory requirements; properly maintaining customer and employee personal information; record keeping; money-laundering; sales and trading practices; ethical issues; appropriately addressing potential conflicts of interest; and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products. Failure to appropriately address any of these issues could also give rise to additional regulatory restrictions and legal risks, which could, among other consequences, increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and incur related costs and expenses.

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Our ability to service our debt and pay dividends is dependent on capital distributions from our subsidiary banks, and these distributions are subject to regulatory limits and other restrictions.

We are a legal entity that is separate and distinct from the Banks. Our revenue (on a parent company only basis) is derived primarily from dividends paid to us by the Banks. Our right, and consequently the right of our shareholders, to participate in any distribution of the assets or earnings of the Banks through the payment of such dividends or otherwise is necessarily subject to the prior claims of creditors of the Banks (including depositors), except to the extent that certain claims of ours in a creditor capacity may be recognized. It is possible, depending upon the financial condition of our subsidiary banks and other factors, that applicable regulatory authorities could assert that payment of dividends or other payments is an unsafe or unsound practice. If one or more of our subsidiary banks is unable to pay dividends to us, we may not be able to service our debt or pay dividends on our common stock. Further, as a result of the capital conservation buffer requirement of the Final Capital Rule, our ability to pay dividends on our common stock or service our debt could be restricted if we do not maintain a capital conservation buffer. A reduction or elimination of dividends could adversely affect the market price of our common stock and would adversely affect our business, financial condition, results of operations and prospects. See Item 1, "Business-Supervision and Regulation-Dividend Restrictions" and "Business-Supervision and Regulation-Capital Adequacy and Safety and Soundness-Regulatory Capital Requirements."

We face continuing and growing security risks to our information base, including the information we maintain relating to our customers.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our business and to store sensitive data, including financial information regarding customers. Our electronic communications and information systems infrastructure, as well as the systems infrastructures of the vendors we use to meet our data processing and communication needs, could be susceptible to cyber-attacks, such as denial of service attacks, hacking, terrorist activities or identity theft. Financial services institutions and companies engaged in data processing have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service or sabotage systems, often through the introduction of computer viruses or malware, cyber-attacks and other means. Denial of service attacks have been launched against a number of large financial services institutions. Hacking and identity theft risks, in particular, could cause serious reputational harm. Cyber threats are rapidly evolving and we may not be able to anticipate or prevent all such attacks. Although to date we have not experienced any material losses relating to cyber-attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. No matter how well designed or implemented our controls are, we will not be able to anticipate all security breaches of these types, and we may not be able to implement effective preventive measures against such security breaches in a timely manner. A failure or circumvention of our security systems could have a material adverse effect on our business operations and financial condition.

We regularly assess and test our security systems and disaster preparedness, including back-up systems, but the risks are substantially escalating. As a result, cyber-security and the continued enhancement of our controls and processes to protect our systems, data and networks from attacks, unauthorized access or significant damage remain a priority. Accordingly, we may be required to expend additional resources to enhance our protective measures or to investigate and remediate any information security vulnerabilities or exposures. Any breach of our system security could result in disruption of our operations, unauthorized access to confidential customer information, significant regulatory costs, litigation exposure and other possible damages, loss or liability. Such costs or losses could exceed the amount of available insurance coverage, if any, and would adversely affect our earnings. Also, any failure to prevent a security breach or to quickly and effectively deal with such a breach could negatively impact customer confidence, damaging our reputation and undermining our ability to attract and keep customers.

We may not be able to successfully implement future information technology system enhancements, which could adversely affect our business operations and profitability.

We invest significant resources in information technology system enhancements in order to provide functionality and security at an appropriate level. We may not be able to successfully implement and integrate future system enhancements, which could adversely impact the ability to provide timely and accurate financial information in compliance with legal and regulatory requirements, which could result in sanctions from regulatory authorities. Such sanctions could include fines and suspension of trading in our stock, among others. In addition, future system enhancements could have higher than expected costs and/or result in operating inefficiencies, which could increase the costs associated with the implementation as well as ongoing operations.

Failure to properly utilize system enhancements that are implemented in the future could result in impairment charges that adversely impact our financial condition and results of operations and could result in significant costs to remediate or replace the defective components. In addition, we may incur significant training, licensing, maintenance, consulting and amortization expenses during and after systems implementations, and any such costs may continue for an extended period of time.

We rely on other companies to provide key components of our business infrastructure.

Third party vendors provide key components of our business infrastructure such as internet connections, network access and core application processing. While we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, could adversely affect our ability to deliver products and services to our customers or otherwise conduct our business efficiently and effectively. Replacing these third party vendors could also entail significant delay and expense.

Our internal controls, procedures and policies may fail or be circumvented.

Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well-designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

If our risk management framework does not effectively identify or mitigate our risks, we could suffer losses.

Our risk management framework seeks to mitigate risk and appropriately balance risk and return. We have established processes and procedures intended to identify, measure, monitor and report the types of risk to which we are subject, including credit risk, operations risk, compliance risk, reputation risk, strategic risk, market risk, and liquidity risk. We seek to monitor and control our risk exposure through a framework of policies, procedures and reporting requirements. Management of our risks in some cases depends upon the use of analytical and/or forecasting models. If the models used to mitigate these risks are inadequate, we may incur losses. In addition, there may be risks that exist, or that develop in the future, that we have not appropriately anticipated, identified or mitigated. If our risk management framework does not effectively identify or mitigate our risks, we could suffer unexpected losses and could be materially adversely affected.

We may be unable to attract and retain qualified key employees, which could adversely affect our business prospects, including our competitive position and results of operations.

Our success is dependent upon our ability to attract and retain highly skilled individuals. There is significant competition for those individuals with the experience and skills required to conduct many of our business activities. We may not be able to hire or retain the key personnel that we depend upon for success. The unexpected loss of services of one or more of these or other key personnel could have a material adverse impact on our business because of their skills, knowledge of the markets in which we operate, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

Natural disasters, acts of terrorism and other external events could harm our business.

Natural disasters can disrupt our operations, result in damage to our properties, reduce or destroy the value of the collateral for our loans and negatively affect the economies in which we operate, which could have a material adverse effect on our results of operations and financial condition. A significant natural disaster, such as a tornado, hurricane, earthquake, fire or flood, could have a material adverse impact on our ability to conduct business, and our insurance coverage may be insufficient to compensate for losses that may occur. Acts of terrorism, war, civil unrest, violence or human error could cause disruptions to our business or the economy as a whole. While we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, operations and financial condition.

Our financial statements are based in part on assumptions and estimates, which, if wrong, could cause unexpected losses in the future.

Pursuant to accounting principles generally accepted in the U.S., we are required to use certain assumptions and estimates in preparing our financial statements, including in determining loan loss and litigation reserves, goodwill impairment and the fair value of certain assets and liabilities, among other items. If assumptions or estimates underlying our financial statements are incorrect, we may experience material losses. See the "Critical Accounting Policies" section in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Changes in accounting standards can be difficult to predict and can materially impact how we record and report our financial condition and results of operations.

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Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board changes the financial accounting and reporting principles that govern the preparation of our financial statements. These changes can be hard to anticipate and implement, and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements. Additionally, significant changes to accounting standards may require costly technology changes, additional training and personnel, and other expense that will negatively impact our results of operations.

A new accounting standard may require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The Financial Accounting Standards Board has issued Accounting Standards Update 2016-13, which will be effective for the Company for the first quarter of the fiscal year ending December 31, 2020. This standard, often referred to as “CECL” (reflecting a current expected credit loss model), will require companies to recognize an allowance for credit losses based on estimates of losses expected to be realized over the contractual lives of the loans. Under current U.S. GAAP, companies generally recognize credit losses only when it is probable that a loss has been incurred as of the balance sheet date. This new standard will require us to collect and review increased types and amounts of data for us to determine the appropriate level of the allowance for loan losses, and may require us to increase our allowance for loan losses. Any increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses may have a material adverse effect on our financial condition and results of operations. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

Changes in tax laws and regulations and differences in interpretation of tax laws and regulations may adversely impact our financial statements.

From time to time, local, state or federal tax authorities change tax laws and regulations, which may result in a decrease or increase to our net deferred tax assets. Local, state or federal tax authorities may interpret tax laws and regulations differently than we do and challenge tax positions that we have taken on tax returns. This may result in differences in the treatment of revenues, deductions, credits and/or differences in the timing of these items. The differences in treatment may result in payment of additional taxes, interest or penalties that could have a material adverse effect on our results.

Future capital offerings may adversely affect the market price of our common stock.

In the future, we may attempt to increase our capital resources or, if our banking subsidiaries' capital ratios fall below required minimums, we could be forced to raise additional capital by making additional offerings of debt, common or preferred stock, trust preferred securities, and senior or subordinated notes. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Moreover, we cannot assure you that such capital will be available to us on acceptable terms or at all. Our inability to raise sufficient additional capital on acceptable terms when needed could adversely affect our businesses, financial condition and results of operations.

The market price and trading volume of our common stock may be volatile.

The market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- quarterly variations in our operating results or the quality of our assets;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;
- announcements of innovations, new products, strategic developments, significant contracts, acquisitions and other material events by us or our competitors;
- the operating and securities price performance of other companies that investors believe are comparable to us;

- our past and future dividend practices;

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- future sales of our equity or equity-related securities; and
- changes in global financial markets and global economies and general market conditions, such as interest rates, stock, commodity or real estate valuations or volatility.

Anti-takeover provisions could negatively impact our stockholders.

Provisions of Delaware law and provisions of our certificate of incorporation and by-laws could make it more difficult for a third party to acquire control of us or have the effect of discouraging a third party from attempting to acquire control of us, even if a merge might be in the best interest of our stockholders.

To the extent that we acquire other companies, our business may be negatively impacted by certain risks inherent with such acquisitions.

In 2018, we completed the acquisition of First Commons Bank. We have acquired and will continue to consider the acquisition of other financial services companies. To the extent that we acquire other companies in the future, our business may be negatively impacted by certain risks inherent with such acquisitions. Some of these risks include the following:

- The risk that the acquired business will not perform in accordance with management's expectations;
- The risk that difficulties will arise in connection with the integration of the operations of the acquired business with the operations of our businesses;
- The risk that management will divert its attention from other aspects of our business;
- The risk that we may lose key employees of the combined business; and
- The risks associated with entering into geographic and product markets in which we have limited or no direct prior experience.

We may be required to write down goodwill and other acquisition-related identifiable intangible assets.

When we acquire a business, such as First Commons Bank, a portion of the purchase price of the acquisition may be allocated to goodwill and other identifiable intangible assets. The excess of the purchase price over the fair value of the net identifiable tangible and intangible assets acquired determines the amount of the purchase price that is allocated to goodwill acquired. As of December 31, 2018, goodwill and other identifiable intangible assets were $166.5 million. Under current accounting guidance, if we determine that goodwill or intangible assets are impaired, we would be required to write down the value of these assets. We conduct an annual review to determine whether goodwill and other identifiable intangible assets are impaired. We conduct a quarterly review for indicators of impairment of goodwill and other identifiable intangible assets. Our management recently completed these reviews and concluded that no impairment charge was necessary for the year ended December 31, 2018. We cannot provide assurance whether we will be required to take an impairment charge in the future. Any impairment charge would have a negative effect on stockholders' equity and financial results and may cause a decline in our stock price.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company’s executive administration offices are located at 131 Clarendon Street, Boston, Massachusetts, which is owned by Brookline Bank, as well as its corporate operations center in Lincoln, Rhode Island, which is owned by BankRI, with other administrative and operations functions performed at several different locations.

Brookline Bank conducts its business from 25 banking offices, 5 of which are owned and 20 of which are leased. Brookline Bank's main banking office is leased and located in Brookline, Massachusetts. Brookline Bank also has 2 additional lending offices and 2 remote ATM locations, all of which are leased. As part of the First Commons Bank Transaction, Brookline Bank added 2 banking offices in the first quarter of 2018, both of which were closed and consolidated into existing Brookline Bank banking offices in the second quarter of 2018. Eastern Funding conducts its business from leased premises in New York City, New York and in Melville, New York.

BankRI conducts its business from 20 banking offices, 6 of which are owned and 14 of which are leased. BankRI's main banking office, is leased and located in Providence, Rhode Island. BankRI also has 2 remote ATM locations, all of which are leased. Macrolease conducts its business from leased premises in Plainview, New York.

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First Ipswich conducts its business from 6 banking offices, 1 of which is owned, 4 of which are leased and 1 of which is subleased. First Ipswich's main banking office is owned and located in Ipswich, Massachusetts. First Ipswich also has 2 remote ATM locations, both of which are leased.

Refer to Note 13, "Commitments and Contingencies," to the consolidated financial statements for information regarding the Company's lease commitments as of December 31, 2018.

Item 3. Legal Proceedings

During the fiscal year ended December 31, 2018, the Company was not involved in any legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Management believes that those routine legal proceedings involve, in the aggregate, amounts that are immaterial to the Company's financial condition and results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) The common stock of the Company is traded on NASDAQ under the symbol BRKL. The approximate number of registered holders of common stock as of February 28, 2019 was 1,840. The Company currently pays quarterly cash dividends in the amount of $0.105 per share. The Company expects comparable cash dividends will be paid in the future.

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Equity Compensation Plan Information

Refer to Note 20, "Employee Benefit Plans" for a discussion of the Company's equity compensation plans.

Five-Year Performance Comparison

The following graph compares total shareholder return on the Company's common stock over the last five years with the the S&P 500 Index, the Russell 2000 Index and the SNL Index of Banks with assets between $5 billion and $10 billion. Index values are as of December 31 of each of the indicated years.

	At December 31,					
Index	2013	2014	2015	2016	2017	2018
Brookline Bancorp, Inc.	100.00	109.00	129.17	190.19	186.55	168.15
Russell 2000	100.00	104.89	100.26	121.63	139.44	124.09
SNL Bank $5B-$10B	100.00	103.01	117.34	168.11	167.48	151.57
S&P 500	100.00	113.69	115.26	129.05	157.22	150.33

The graph assumes $100 invested on December 31, 2013 in each of the Company's common stock, the S&P 500 Index, the Russell 2000 Index and the SNL Index of Banks with assets between $5 billion and $10 billion. The graph also assumes reinvestment of all dividends.

(b) Not applicable.

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(c) The following table presents a summary of the Company's share repurchases during the quarter ended December 31, 2018.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs [1]	Maximum Number of Shares that May Yet be Purchased Under the Programs [1]
December 5 through December 31, 2018	725,583	$ 13.78	725,583	—

[1] On December 5, 2018, the Board of Directors approved a stock repurchase program authorizing management to repurchase up to $10.0 million of the Company's common stock at times and prices to be determined by management. As of December 31, 2018, the Company had completed the program.

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Item 6. Selected Financial Data

The selected financial and other data of the Company set forth below are derived in part from, and should be read in conjunction with, the Consolidated Financial Statements of the Company and Notes thereto presented elsewhere herein.

	At or for the year ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in Thousands, Except Per Share Data)				
FINANCIAL CONDITION DATA					
Total assets (*)	$7,392,805	$6,780,249	$6,438,129	$6,042,338	$5,800,948
Total loans and leases	6,303,516	5,730,679	5,398,864	4,995,540	4,822,607
Allowance for loan and lease losses	58,692	58,592	53,666	56,739	53,659
Investment securities held-to-maturity	114,776	109,730	87,120	93,757	500
Investment securities available-for-sale	502,793	540,124	523,634	513,201	550,761
Investment securities trading	4,207	—	—	—	—
Goodwill and identified intangible assets	166,513	143,934	146,023	148,523	151,434
Total deposits	5,454,044	4,871,343	4,611,076	4,306,018	3,958,106
Core deposits [1]	3,664,879	3,663,873	3,570,054	3,218,146	3,011,398
Certificates of deposit	1,789,165	1,207,470	1,041,022	1,087,872	946,708
Total borrowed funds	920,542	1,020,819	1,044,086	983,029	1,126,404
Stockholders' equity (*)	900,140	803,830	695,544	667,485	641,818
Tangible stockholders' equity (*)(**)	733,627	659,896	549,521	518,962	490,384
Nonperforming loans and leases [2]	24,097	27,272	40,077	19,333	13,714
Nonperforming assets [3]	28,116	31,691	41,476	20,676	15,170
EARNINGS DATA					
Interest and dividend income	$313,893	$263,050	$239,648	$226,910	$218,482
Interest expense	66,194	39,869	35,984	32,545	29,414
Net interest income	247,699	223,181	203,664	194,365	189,068
Provision for credit losses	4,951	18,988	10,353	7,451	8,477
Non-interest income (*)	25,224	32,173	22,667	20,184	20,180
Non-interest expense (*)	155,232	139,111	130,362	125,377	129,160
Provision for income taxes (*)	26,189	43,636	30,392	29,353	26,286
Net income (*)	83,062	50,518	52,362	49,782	43,288
Operating earnings (**)	85,796	52,444	52,362	49,782	43,246
PER COMMON SHARE DATA					
Earnings per share - Basic (*)	$1.04	$0.68	$0.74	$0.71	$0.62
Earnings per share - Diluted (*)	1.04	0.68	0.74	0.71	0.62
Operating earnings per share (*)(**)	1.07	0.70	0.74	0.71	0.62
Dividends paid per common share	0.395	0.360	0.360	0.355	0.340
Book value per share (end of period) (*)	11.30	10.49	9.88	9.51	9.16
Tangible book value per share (*)(**)	9.21	8.61	7.81	7.39	7.00
Stock price (end of period)	13.82	15.70	16.40	11.50	10.03
PERFORMANCE RATIOS					
Net interest margin	3.61 %	3.57 %	3.44 %	3.54 %	3.61 %
Return on average assets (*)	1.15 %	0.76 %	0.83 %	0.85 %	0.78 %
Operating return on average assets (*)(**)	1.19 %	0.79 %	0.83 %	0.85 %	0.78 %
Return on average tangible assets (*)(**)	1.18 %	0.78 %	0.85 %	0.87 %	0.80 %
Operating return on average tangible assets (*)(**)	1.22 %	0.81 %	0.85 %	0.87 %	0.80 %

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	At or for the year ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in Thousands, Except Per Share Data)				
Return on average stockholders' equity (*)	9.51 %	6.53 %	7.59 %	7.57 %	6.86 %
Operating return on average stockholders' equity (*)(**)	9.82 %	7.78 %	7.59 %	7.57 %	6.86 %
Return on average tangible stockholders' equity (*)(**)	11.80 %	8.04 %	9.66 %	9.80 %	9.06 %
Operating return on average tangible stockholders' equity (*)(**)	12.08 %	9.35 %	9.66 %	9.80 %	9.05 %
Dividend payout ratio (*)(**)	37.85 %	55.52 %	48.44 %	50.15 %	55.16 %
Efficiency ratio (*) [4]	56.88 %	54.48 %	57.60 %	58.44 %	61.73 %
GROWTH RATIOS					
Total loan and lease growth [5]	10.60 %	6.15 %	8.07 %	3.59 %	10.55 %
Total deposit growth [5]	11.96 %	5.64 %	7.08 %	8.79 %	3.21 %
ASSET QUALITY RATIOS					
Net loan and lease charge-offs as a percentage of average loans and leases	0.08 %	0.25 %	0.25 %	0.09 %	0.07 %
Nonaccrual loans and leases as a percentage of total loans and leases	0.38 %	0.48 %	0.74 %	0.39 %	0.28 %
Nonperforming assets as a percentage of total assets (*)	0.38 %	0.47 %	0.64 %	0.34 %	0.26 %
Total allowance for loan and lease losses as a percentage of total loans and leases	0.93 %	1.02 %	0.99 %	1.14 %	1.11 %
Allowance for loan and lease losses related to originated loans and leases as a percentage of originated loans and leases (**)	0.96 %	1.05 %	1.03 %	1.20 %	1.20 %
CAPITAL RATIOS					
Stockholders' equity to total assets (*)	12.18 %	11.86 %	10.80 %	11.05 %	11.06 %
Tangible equity ratio (*)(**)	10.95 %	9.94 %	8.73 %	8.81 %	8.68 %
Tier 1 leverage capital ratio	10.58 %	10.43 %	9.16 %	9.37 %	9.01 %
Common equity Tier 1 capital ratio (***)	11.92 %	12.02 %	10.48 %	10.62 %	N/A
Tier 1 risk-based capital ratio	12.26 %	12.34 %	10.79 %	10.91 %	10.55 %
Total risk-based capital ratio	14.44 %	14.75 %	13.20 %	13.54 %	13.24 %

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(1) Core deposits consist of demand checking, NOW, money market and savings accounts.

(2) Nonperforming loans and leases consist of nonaccrual loans and leases.

(3) Nonperforming assets consist of nonperforming loans and leases, other real estate owned and other repossessed assets.

(4) The efficiency ratio is calculated by dividing non-interest expense by the sum of net interest income and non-interest income for the period.

(5) Total growth is calculated by dividing the change in the balance during the period by the balance at the beginning of the period.

(*) Previously reported amounts prior to January 1, 2015 have been restated to reflect a retrospective change in accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01. Refer to Note 10, "Other Assets".

(**) Refer to Non-GAAP Financial Measures and Reconciliation to GAAP.

(***) Common equity tier 1 capital ratio is calculated by dividing common equity Tier 1 capital by risk-weighted assets. The ratio was established as part of the implementation of Basel III, effective January 1, 2015.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The Company, a Delaware corporation, operates as a multi-bank holding company for Brookline Bank and its subsidiaries; BankRI and its subsidiaries; First Ipswich and its subsidiaries; and Brookline Securities Corp.

As a commercially-focused financial institution with 51 full-service banking offices throughout greater Boston, the north shore of Massachusetts and Rhode Island, the Company, through the Banks, offers a wide range of commercial, business and retail banking services, including a full complement of cash management products, foreign exchange services, on-line and mobile banking services, consumer and residential loans and investment advisory services, designed to meet the financial needs of small- to mid-sized businesses and individuals throughout central New England. Specialty lending activities include equipment financing primarily in the New York and New Jersey metropolitan area.

The Company focuses its business efforts on profitably growing its commercial lending businesses, both organically and through acquisitions. The Company’s customer focus, multi-bank structure, and risk management are integral to its organic growth strategy and serve to differentiate the Company from its competitors. As full-service financial institutions, the Banks and their subsidiaries focus their efforts on developing and deepening long-term banking relationships with qualified customers through a full complement of products and excellent customer service, and strong risk management.

The Company manages the Banks under uniform strategic objectives, with one set of uniform policies consistently applied by one executive management team. Within this environment, the Company believes that the ability to make customer decisions locally enhances management's motivation, service levels and, as a consequence, the Company's financial results. As such, while most back-office functions are consolidated at the holding company level, branding and decision-making, including credit decisions and pricing, remain largely local in order to better meet the needs of bank customers and further motivate the Banks’ commercial, business and retail bankers. These credit decisions, at the local level, are executed through corporate policies overseen by the Company's credit department.

The competition for loans and leases and deposits remains intense. While the economy improved in 2018, the Company expects the operating environment in 2019 to remain challenging. The volume of loan and lease originations and loan and lease losses will depend, to a large extent, on how the economy performs. Loan and lease growth and deposit growth are also greatly influenced by the rate-setting actions of the FRB. A sustained, low interest rate environment with a flat interest rate curve may negatively impact the Company's yields and net interest margin. While the Company is slightly asset sensitive and should benefit from rising rates, these rate increases could precipitate a change in the mix and volume of the Company's deposits and loans. The future operating results of the Company will depend on its ability to maintain or increase the current net interest margin, while minimizing exposure to credit risk, along with increasing sources of non-interest income, while controlling the growth of non-interest expenses.

The Company and the Banks are supervised, examined and regulated by the FRB. As a Massachusetts-chartered savings bank and trust company, respectively, Brookline Bank and First Ipswich are also subject to regulation under the laws of the Commonwealth of Massachusetts and the jurisdiction of the Massachusetts Division of Banks. As a Rhode Island-chartered financial institution, BankRI is also subject to regulation under the laws of the State of Rhode Island and the jurisdiction of the Banking Division of the Rhode Island Department of Business Regulation. The FDIC continues to insure each of the Banks’ deposits up to $250,000 per depositor. As a Massachusetts-chartered savings bank, Brookline Bank is also insured by the DIF, a private industry-sponsored company. The DIF insures savings bank deposits in excess of the FDIC insurance limits. As such, Brookline Bank offers 100% insurance on all deposits as a result of a combination of insurance from the FDIC and the DIF.

The Company’s common stock is traded on the Nasdaq Global Select Market℠ under the symbol “BRKL.”

Executive Overview

Growth

Total assets of $7.4 billion as of December 31, 2018 increased $612.6 million, or 9.0%, from December 31, 2017. The increase was primarily driven by increases in loans and leases, partly offset by decreases in investment securities.

Total loans and leases of $6.3 billion as of December 31, 2018 increased $572.8 million, or 10.0%, from December 31, 2017. The Company's commercial loan portfolios, which are comprised of commercial real estate loans and commercial loans and leases, totaled $5.1 billion, or 81.2% of total loans and leases as of December 31, 2018, an increase of $420.8 million, or 9.0%, from $4.7 billion, or 82.0% of total loans and leases, as of December 31, 2017. Total deposits of $5.5 billion as of December 31, 2018 increased $582.7 million, or 12.0%, from $4.9 billion as of December 31, 2017. Core deposits, which include demand checking, NOW, money market and savings accounts, totaled $3.7

billion, or 67.2% of total deposits as of December 31, 2018, an increase of $1.0 million, from $3.7 billion, or 75.2% of total deposits as of December 31, 2017. Certificate of deposit balances totaled $1.8 billion, or 32.8% of total deposits as of December 31, 2018, an increase of $581.7 million, or 48.17% on an annualized basis from $1.2 billion, or 24.8% of total deposits, as of December 31, 2017.

Asset Quality

Nonperforming assets as of December 31, 2018 totaled $28.1 million, or 0.38% of total assets, compared to $31.7 million, or 0.47% of total assets, as of December 31, 2017. Net charge-offs for the year ended December 31, 2018 were $4.7 million, or 0.08% of average loans and leases, compared to $13.9 million, or 0.25% of average loans and leases, for the year ended December 31, 2017.The decrease in nonperforming loans and leases and nonperforming assets was primarily driven by the charge offs and pay downs on certain taxi medallion loans.

The ratio of the allowance for loan and lease losses to total loans and leases was 0.93% as of December 31, 2018, compared to 1.02% as of December 31, 2017. Excluding the loans acquired from BankRI, First Ipswich and First Commons Bank, the allowance for loan and lease losses related to originated loans and leases as a percentage of the total originated loan and lease portfolio was 0.96% as of December 31, 2018, compared to 1.05% as of December 31, 2017. The Company continued to employ its historical underwriting methodology throughout the twelve month period ended December 31, 2018.

Capital Strength

The Company is a "well-capitalized" bank holding company as defined in the FRB's Regulation Y. The Company's common equity Tier 1 Capital Ratio was 11.94% as of December 31, 2018, compared to 12.02% as of December 31, 2017. The Company's Tier 1 Leverage Ratio was 10.58% as of December 31, 2018, compared to 10.43% as of December 31, 2017. As of December 31, 2018, the Company's Tier 1 Risk-Based Ratio was 12.26%, compared to 12.34% as of December 31, 2017. The Company's Total Risk-Based Ratio was 14.42% as of December 31, 2018, compared to 14.75% as of December 31, 2017.

The Company's ratio of stockholders' equity to total assets was 12.18% and 11.86% as of December 31, 2018 and December 31, 2017, respectively. The Company's tangible equity ratio was 10.15% and 9.94% as of December 31, 2018 and December 31, 2017, respectively.

Net Income

For the year ended December 31, 2018, the Company reported net income of $83.1 million, or $1.04 per basic and diluted share, an increase of $32.5 million, or 64.4%, from $50.5 million, or $0.68 per basic and diluted share for the year ended December 31, 2017. The increase in net income is primarily the result of an increase in net interest income of $24.5 million, a decrease in the provision for income taxes of $17.4 million, a decrease in the provision for credit losses of $14.0 million, partially offset by an increase in non-interest expense of $16.1 million and a decrease in non-interest income of $6.9 million.

The return on average assets was 1.15% for the year ended December 31, 2018, compared to 0.76% for the year ended December 31, 2017. The return on average stockholders' equity was 9.51% for the year ended December 31, 2018, compared to 6.53% for the year ended December 31, 2017.

The net interest margin was 3.61% for the year ended December 31, 2018 up from 3.57% for the year ended December 31, 2017. The increase in the net interest margin is a result of an increase in the yield on interest-earning assets by 38 basis points to 4.58% in 2018 from 4.20% in 2017, partially offset by an increase of 37 basis points in the Company's overall cost of funds to 1.06% in 2018 from 0.69% in 2017.

Results for 2018 included a $5.0 million provision for credit losses, as discussed in the "Allowance for Credit Losses—Allowance for Loan and Lease Losses" section below.

Non-interest income decreased $6.9 million to $25.2 million for the year ended December 31, 2018 from $32.2 million for the year ended December 31, 2017. Several factors contributed to the year over year decrease, including a decrease of $11.2 million in gain on sales of securities recorded in the first quarter of 2017, partially offset by an increase of $3.3 million in loan level derivative income and an increase of 1.1 million in other non-interest income.

Non-interest expense increased $16.1 million to $155.2 million for the year ended December 31, 2018 from $139.1 million for the year ended December 31, 2017. The increase was largely attributable to an increase of $9.1 million in compensation and employee benefits, an increase of $3.4 million in merger and acquisition expense, an increase of

$1.7 million in other non-interest expense and an increase of $1.4 million in equipment and data processing.

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Critical Accounting Policies

The accounting policies described below are considered critical to understanding the Company's financial condition and operating results. Such accounting policies are considered to be especially important because they involve a higher degree of complexity and require management to make difficult and subjective judgments which often require assumptions or estimates about matters that are inherently uncertain. The use of different judgments, assumptions and estimates could result in material differences in the Company's operating results or financial condition.

Valuation of Investment Securities

Investment securities classified as available-for-sale are carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders' equity. Debt securities that the Company has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and are carried at amortized cost. Investment securities classified as held-for-trading securities are recorded on a marked-to-market basis with realized gains and losses recognized through the income statement.

The market values of the Company's investment securities, particularly its fixed-rate securities, are affected by changes in market interest rates as determined by the term structure of risk-free rates and the credit spreads associated with different investment categories. In general, as interest rates rise, the fair value of fixed-rate securities will decrease; as interest rates fall, the fair value of fixed-rate securities will increase. On a quarterly basis, the Company reviews and evaluates fair value based on market data obtained from independent sources or, in the absence of active market data, from model-derived valuations based on market assumptions. If the Company deems any decline to be other-than-temporary, the amount of impairment loss recorded in earnings for a debt security is the entire difference between the security's cost and its fair value if the Company intends to sell the debt security prior to recovery or it is more likely than not that the Company will have to sell the debt security prior to recovery. If, however, the Company does not intend to sell the debt security or it concludes that it is more likely than not that the Company will not have to sell the debt security prior to recovery, the credit loss component of an other-than-temporary impairment of a debt security is recognized as a charge to earnings and the remaining portion of the impairment loss is recognized as a reduction in comprehensive income. The credit loss component of an other-than-temporary loss is determined based on the Company's best estimate of cash flows expected to be collected. There were no impairment losses charged to earnings in 2018, 2017 and 2016.

See Note 21, "Fair Value of Financial Instruments" to the consolidated financial statements for additional information on how management determines the fair value of its financial instruments.

Valuation of Acquired Loans

Loans that the Company acquired are initially recorded at fair value with no carryover of the related allowance for loan and lease losses. Determining the fair value of the acquired loans involves estimating the amount and timing of principal and interest cash flows initially expected to be collected on the loans and discounting those cash flows at an appropriate market rate of interest. The Company continues to evaluate the reasonableness of expectations for the timing and the amount of cash to be collected. Subsequent decreases in expected cash flows may result in changes in the amortization or accretion of fair market value adjustments, and in some cases may result in a loan being considered impaired.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses represents management's estimate of probable losses inherent in the loan and lease portfolio. Additions to the allowance for loan and lease losses are made by charges to the provision for credit losses. Losses on loans and leases are deducted from the allowance when all or a portion of a loan or lease is considered uncollectable. The determination of the loans on which full collectability is not reasonably assured, the estimates of the fair value of the underlying collateral, and the assessment of economic and other conditions are subject to assumptions and judgments by management. Valuation allowances could differ materially as a result of changes in, or different interpretations of, these assumptions and judgments.

Management evaluates the adequacy of the allowance on a quarterly basis and reviews its conclusion as to the amount to be established with the Audit Committee and the Board of Directors.

See Note 7, "Allowance for Loan and Lease Losses," to the consolidated financial statements for additional information on how management determines the balance of the allowance for loan and lease losses for each portfolio and class of loans.

Impairment of Goodwill

Goodwill is presumed to have an indefinite useful life and is tested at least annually for impairment. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. If fair value exceeds the carrying amount at the time of

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testing, goodwill is not considered impaired. Quoted market prices in active markets are the best evidence of fair value and are considered to be used as the basis for measurement, when available. Other acceptable valuation methods include present-value measurements based on multiples of earnings or revenues, or similar performance measures. Differences in valuation techniques could result in materially different evaluations of impairment. In September 2011, the FASB issued Accounting Standards Update ("ASU") 2011-08 which provides guidance for companies when testing goodwill for impairment. The objective of the ASU is to simplify how entities test goodwill for impairment. Pursuant to the ASU, entities may now assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50%.

To determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, an entity should consider the extent to which each of the adverse events or circumstances identified could affect the comparison of a reporting unit's fair value with its carrying amount.

Pursuant to the ASU, an entity should place more weight on the events and circumstances that have the greatest impact on a reporting unit's fair value or the carrying amount of its net assets; and may affect its determination of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

Qualitative factors that have been assessed to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount including goodwill: general economic conditions, regulatory environment, share price, real estate values, lending concentrations, interest-rate environment, asset quality, capital, financial performance, integration of acquired companies and conversion to a new data processing system.

The Company has evaluated the qualitative factors discussed above and assessed the effect identified adverse events or circumstances could have, and based on this analysis has concluded there was no indication of goodwill impairment as of December 31, 2018. Further analysis of the Company’s goodwill can be found in Note 9 “Goodwill and Other Intangible Assets” within notes to the consolidated financial statements.

Identified Intangible Assets

Identified intangible assets are assets resulting from acquisitions that are being amortized over their estimated useful lives. The recoverability of identified intangible assets is evaluated for impairment at least annually. If impairment is deemed to have occurred, the amount of impairment is charged to expense when identified.

Income Taxes

Certain areas of accounting for income taxes require management's judgment, including determining the expected realization of deferred tax assets and the adequacy of liabilities for uncertain tax positions. Judgments are made regarding various tax positions, which are often subjective and involve assumptions about items that are inherently uncertain. If actual factors and conditions differ materially from estimates made by management, the actual realization of the net deferred tax assets or liabilities for uncertain tax positions could vary materially from the amounts previously recorded.

Deferred tax assets arise from items that may be claimed as a tax deduction or credit in future income tax returns, for which a financial statement tax benefit has been recognized. The Company’s realization of the deferred tax asset depends upon future levels of its taxable income and the existence of prior years' taxable income for which claims for refunds can be carried back. Where necessary, valuation allowances are recorded against those deferred tax assets which a Company has determined will not be realized. Deferred tax liabilities represent items that will require a future tax payment. Deferred tax liabilities generally represent tax expense recognized in the Company's financial statements for which payment has been deferred, or a deduction claimed on the Company's tax return but not yet recognized as an expense in the Company's financial statements. Deferred tax liabilities are also recognized for certain non-cash items such as goodwill.

See Note 17, “Income Taxes” in the notes to the consolidated financial statements for information regarding income taxes and the impact of the enacted tax bill, H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (the "Tax Reform Act") on the Company's consolidated financial statements as of December 31, 2018.

Recent Accounting Developments

See Note 1, “Basis of Presentation” in the notes to the consolidated financial statements for information regarding recent accounting developments.

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Non-GAAP Financial Measures and Reconciliation to GAAP

In addition to evaluating the Company's results of operations in accordance with GAAP, management periodically supplements this evaluation with an analysis of certain non-GAAP financial measures, such as operating earnings metrics, the return on average tangible assets, return on average tangible equity, the tangible equity ratio, tangible book value per share, dividend payout ratio, and the ratio of the allowance for loan and lease losses related to originated loans and leases as a percentage of originated loans and leases. Management believes that these non-GAAP financial measures provide information useful to investors in understanding the Company's underlying operating performance and trends, and facilitates comparisons with the performance assessment of financial performance, including non-interest expense control, while the tangible equity ratio and tangible book value per share are used to analyze the relative strength of the Company's capital position.

In light of diversity in presentation among financial institutions, the methodologies used by the Company for determining the non-GAAP financial measures discussed above may differ from those used by other financial institutions.

Operating Earnings

Operating earnings exclude the after-tax impact of securities gains and merger and acquisition expense as well as the impact of the Tax Reform Act. By excluding such items, the Company's results can be measured and assessed on a more consistent basis from period to period. Items excluded from operating earnings are also excluded when calculating the operating return and operating efficiency ratios.

The following table summarizes the Company's operating earnings and operating earnings per share ("EPS") for the periods indicated:

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in Thousands, Except Per Share Data)				
Net income, as reported (*)	$83,062	$50,518	$52,362	$49,782	$43,288
Less:					
Security gains (after-tax)	174	7,303	—	—	42
Add:					
Merger and acquisition expense (after-tax) (1)	2,908	264	—	—	—
Impact of Tax Reform Act	—	8,965	—	—	—
Operating earnings (*)	$85,796	$52,444	$52,362	$49,782	$43,246
Earnings per share, as reported (*)	$1.04	$0.68	$0.74	$0.71	$0.62
Less:					
Security gains (after-tax)	—	0.10	—	—	—
Add:					
Merger and acquisition expense (after-tax) (1)	0.03	—	—	—	—
Impact of Tax Reform Act	—	0.12	—	—	—
Operating earnings per share (*)	$1.07	$0.70	$0.74	$0.71	$0.62

(*) Previously reported amounts prior to January 1, 2015 have been restated to reflect a retrospective change in accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01. Refer to Note 10, "Other Assets".

(1) Merger and acquisition expense related to the acquisition of First Commons Bank in the first quarter of 2018 and the purchase of the remaining minority interest of Eastern Funding. Refer to Note 25, "Subsequent Events".

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The following table summarizes the Company's operating return on average assets, operating return on average tangible assets, operating return on average stockholders' equity and operating return on average tangible stockholders' equity for the periods indicated:

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in Thousands)				
Operating earnings (*)	$85,796	$52,444	$52,362	$49,782	$43,288
Average total assets (*)	$7,223,081	$6,607,234	$6,279,722	$5,840,749	$5,556,224
Less: Average goodwill and average identified intangible assets, net	163,712	145,000	147,308	150,020	153,170
Average tangible assets (*)	$7,059,369	$6,462,234	$6,132,414	$5,690,729	$5,403,054
Return on average assets (*)	1.15 %	0.76 %	0.83 %	0.85 %	0.78 %
Less:					
Security gains (after-tax)	— %	0.11 %	— %	— %	— %
Add:					
Merger and acquisition expense (after-tax)	0.04 %	— %	— %	— %	— %
Impact of Tax Reform Act	— %	0.14 %	— %	— %	— %
Operating return on average assets (*)	1.19 %	0.79 %	0.83 %	0.85 %	0.78 %
Return on average tangible assets (*)	1.18 %	0.78 %	0.85 %	0.87 %	0.80 %
Less:					
Security gains (after-tax)	— %	0.11 %	— %	— %	— %
Add:					
Merger and acquisition expense (after-tax)	0.04 %	— %	— %	— %	— %
Impact of Tax Reform Act	— %	0.14 %	— %	— %	— %
Operating return on average tangible assets (*)	1.22 %	0.81 %	0.85 %	0.87 %	0.80 %
Average total stockholders' equity (*)	$873,388	$773,244	$689,556	$657,841	$630,966
Less: Average goodwill and average identified intangible assets, net	163,712	145,000	147,308	150,020	153,170
Average tangible stockholders' equity (*)	$709,676	$628,244	$542,248	$507,821	$477,796
Return on average stockholders' equity (*)	9.51 %	6.53 %	7.59 %	7.57 %	6.86 %
Less:					
Security gains (after-tax)	0.02 %	0.94 %	— %	— %	0.01 %
Add:					
Merger and acquisition expense (after-tax)	0.33 %	0.03 %	— %	— %	— %
Impact of Tax Reform Act	— %	1.17 %	— %	— %	— %
Operating return on average stockholders' equity (*)	9.82 %	6.79 %	7.59 %	7.57 %	6.85 %

(Continued)

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	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in Thousands)				
Return on average tangible stockholders' equity (*)	11.70 %	8.04 %	9.66 %	9.80 %	9.06 %
Less:					
Security gains (after-tax)	0.01 %	0.16 %	— %	— %	0.01 %
Add:					
Merger and acquisition expense (after-tax)	0.40 %	0.04 %	— %	— %	— %
Impact of Tax Reform Act	— %	0.43 %	— %	— %	— %
Operating return on average tangible stockholders' equity (*)	12.09 %	8.35 %	9.66 %	9.80 %	9.05 %

(*) Previously reported amounts prior to January 1, 2015 have been restated to reflect a retrospective change in accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01. Refer to Note 10, "Other Assets".

The following table summarizes the Company's return on average tangible assets and return on average tangible stockholders' equity for the periods indicated:

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in Thousands)				
Net income, as reported (*)	$83,062	$50,518	$52,362	$49,782	$43,288
Average total assets (*)	$7,223,081	$6,607,234	$6,279,722	$5,840,749	$5,556,224
Less: Average goodwill and average identified intangible assets, net	163,712	145,000	147,308	150,020	153,170
Average tangible assets (*)	$7,059,369	$6,462,234	$6,132,414	$5,690,729	$5,403,054
Return on average tangible assets (*)	1.18 %	0.78 %	0.85 %	0.87 %	0.80 %
Average total stockholders' equity (*)	$873,388	$773,244	$689,556	$657,841	$630,966
Less: Average goodwill and average identified intangible assets,net	163,712	145,000	147,308	150,020	153,170
Average tangible stockholders' equity (*)	$709,676	$628,244	$542,248	$507,821	$477,796
Return on average tangible stockholders' equity (*)	11.70 %	8.04 %	9.66 %	9.80 %	9.06 %

(*) Previously reported amounts prior to January 1, 2015 have been restated to reflect a retrospective change in accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01. Refer to Note 10, "Other Assets".

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The following table summarizes the Company's tangible equity ratio for the periods indicated:

	At December 31, 2018	2017	2016	2015	2014
	(Dollars in Thousands)				
Total stockholders' equity (*)	$900,140	$803,830	$695,544	$667,485	$641,818
Less: Goodwill and identified intangible assets, net	166,513	143,934	146,023	148,523	151,434
Tangible stockholders' equity (*)	$733,627	$659,896	$549,521	$518,962	$490,384
Total assets (*)	$7,392,805	$6,780,249	$6,438,129	$6,042,338	$5,800,948
Less: Goodwill and identified intangible assets, net	166,513	143,934	146,023	148,523	151,434
Tangible assets (*)	$7,226,292	$6,636,315	$6,292,106	$5,893,815	$5,649,514
Tangible equity ratio (*)	10.15 %	9.94 %	8.73 %	8.81 %	8.68 %

(*) Previously reported amounts prior to January 1, 2015 have been restated to reflect a retrospective change in accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01. Refer to Note 10, "Other Assets".

The following table summarizes the Company's tangible book value per share for the periods indicated:

	Year Ended December 31, 2018	2017	2016	2015	2014
	(Dollars in Thousands)				
Tangible stockholders' equity (*)	$733,627	$ 659,896	$ 549,521	$ 518,962	$ 490,384
Common shares issued	85,177,172	81,695,695	75,744,445	75,744,445	75,744,445
Less:					
Treasury shares	5,020,025	4,440,665	4,707,096	4,861,554	5,040,571
Unallocated ESOP	109,950	142,332	176,688	213,066	251,382
Unvested restricted stock	390,636	455,283	476,854	486,035	419,702
Common shares outstanding	79,656,561	76,657,415	70,383,807	70,183,790	70,032,790
Tangible book value per share (*)	$9.21	$ 8.61	$ 7.81	$ 7.39	$ 7.00

(*) Previously reported amounts prior to January 1, 2015 have been restated to reflect a retrospective change in accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01. Refer to Note 10, "Other Assets".

The following table summarizes the Company's dividend payout ratio for the periods indicated:

	Year Ended December 31, 2018	2017	2016	2015	2014
	(Dollars in Thousands)				
Dividends paid	$31,441	$27,035	$25,366	$24,967	$23,876
Net income, as reported (*)	$83,062	$50,518	$52,362	$49,782	$43,288
Dividend payout ratio (*)	37.85 %	53.52 %	48.44 %	50.15 %	55.16 %

(*) Previously reported amounts prior to January 1, 2015 have been restated to reflect a retrospective change in accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01. Refer to Note 10, "Other Assets".

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The following table summarizes the Company’s allowance for loan and lease losses related to originated loans and leases as a percentage of total originated loans and leases for the periods indicated:

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Allowance for loan and lease losses	$58,692	$58,592	$53,666	$56,739	$53,659
Less: Allowance for acquired loan and lease losses	1,814	1,040	1,253	1,752	2,848
Allowance for originated loan and lease losses	$56,878	$57,552	$52,413	$54,987	$50,811
Total loans and leases	$6,303,516	$5,730,679	$5,398,864	$4,995,540	$4,822,607
Less: Total acquired loans and leases	394,407	240,057	315,304	422,652	590,654
Total originated loan and leases	$5,909,109	$5,490,622	$5,083,560	$4,572,888	$4,231,953
Allowance for loan and lease losses related to originated loans and leases as a percentage of originated loan and leases	0.96 %	1.05 %	1.03 %	1.20 %	1.20 %

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Financial Condition

Loans and Leases

The following table summarizes the Company's portfolio of loans and leases receivables as of the dates indicated:

	At December 31,									
	2018		2017		2016		2015		2014	
	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total
	(Dollars in Thousands)									
Commercial real estate loans:										
Commercial real estate	$2,330,725	37.0 %	$2,174,969	38.0 %	$2,050,382	38.1 %	$1,875,592	37.5 %	$1,680,082	34.8 %
Multi-family mortgage	847,711	13.4 %	760,670	13.3 %	731,186	13.5 %	658,480	13.2 %	639,706	13.2 %
Construction	173,300	2.7 %	140,138	2.4 %	136,999	2.5 %	130,322	2.6 %	148,013	3.1 %
Total commercial real estate loans	3,351,736	53.1 %	3,075,777	53.7 %	2,918,567	54.1 %	2,664,394	53.3 %	2,467,801	51.1 %
Commercial loans and leases:										
Commercial	736,418	11.7 %	705,004	12.3 %	635,426	11.8 %	592,531	11.9 %	514,077	10.7 %
Equipment financing	982,089	15.6 %	866,488	15.1 %	799,860	14.8 %	721,890	14.5 %	601,424	12.5 %
Condominium association	50,451	0.8 %	52,619	0.9 %	60,122	1.1 %	59,875	1.2 %	51,593	1.1 %
Total commercial loans and leases	1,768,958	28.1 %	1,624,111	28.3 %	1,495,408	27.7 %	1,374,296	27.6 %	1,167,094	24.3 %
Consumer loans:										
Residential mortgage	782,968	12.4 %	660,065	11.5 %	624,349	11.6 %	616,449	12.3 %	571,920	11.9 %
Home equity	376,484	6.0 %	355,954	6.2 %	342,241	6.3 %	314,553	6.3 %	287,058	5.9 %
Other consumer	23,370	0.4 %	14,772	0.3 %	18,299	0.3 %	25,848	0.5 %	328,734	6.8 %
Total consumer loans	1,182,822	18.8 %	1,030,791	18.0 %	984,889	18.2 %	956,850	19.1 %	1,187,712	24.6 %
Total loans and leases	6,303,516	100.0 %	5,730,679	100.0 %	5,398,864	100.0 %	4,995,540	100.0 %	4,822,607	100.0 %
Allowance for loan and lease losses	(58,692)		(58,592)		(53,666)		(56,739)		(53,659)	
Net loans and leases	$6,244,824		$5,672,087		$5,345,198		$4,938,801		$4,768,948	

The Company's loan portfolio consists primarily of first mortgage loans secured by commercial, multi-family and residential real estate properties located in the Company's primary lending area, loans to business entities, including commercial lines of credit, loans to condominium associations and loans and leases used to finance equipment used by small businesses. The Company also provides financing for construction and development projects, home equity and other consumer loans.

The Company employs seasoned commercial lenders and retail bankers who rely on community and business contacts as well as referrals from customers, attorneys and other professionals to generate loans and deposits. Existing borrowers are also an important source of business since many of them have more than one loan outstanding with the Company. The Company's ability to originate loans depends on the strength of the economy, trends in interest rates, and levels of customer demand and market competition.

The Company's current policy is that the aggregate amount of loans outstanding to any one borrower or related entities may not exceed $35.0 million unless approved by the Board Credit Committee, a committee of the Company's Board of Directors.

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As of December 31, 2018, there were twelve borrowers with commitments over $35.0 million. The total of those commitments was $520.8 million or 6.9% of total commitments as of December 31, 2018.

The Company has written underwriting policies to control the inherent risks in loan origination. The policies address approval limits, loan-to-value ratios, appraisal requirements, debt service coverage ratios, loan concentration limits and other matters relevant to loan underwriting.

Commercial Real Estate Loans

The commercial real estate portfolio is comprised of commercial real estate loans, multi-family mortgage loans, and construction loans and is the largest component of the Company's overall loan portfolio, representing 53.1% of total loans and leases outstanding as of December 31, 2018.

Typically, commercial real estate loans are larger in size and involve a greater degree of risk than owner-occupied residential mortgage loans. Loan repayment is usually dependent on the successful operation and management of the properties and the value of the properties securing the loans. Economic conditions can greatly affect cash flows and property values.

A number of factors are considered in originating commercial real estate and multi-family mortgage loans. The qualifications and financial condition of the borrower (including credit history), as well as the potential income generation and the value and condition of the underlying property, are evaluated. When evaluating the qualifications of the borrower, the Company considers the financial resources of the borrower, the borrower's experience in owning or managing similar property and the borrower's payment history with the Company and other financial institutions. Factors considered in evaluating the underlying property include the net operating income of the mortgaged premises before debt service and depreciation, the debt service coverage ratio (the ratio of cash flow before debt service to debt service), the use of conservative capitalization rates, and the ratio of the loan amount to the appraised value. Generally, personal guarantees are obtained from commercial real estate loan borrowers.

Commercial real estate and multi-family mortgage loans are typically originated for terms of five years with amortization periods of 20 to 30 years. Many of the loans are priced at inception on a fixed-rate basis generally for periods ranging from two to five years with repricing periods for longer-term loans. When possible, prepayment penalties are included in loan covenants on these loans. For commercial customers who are interested in loans with fixed rate terms longer than five years, the Company offers loan level derivatives to accommodate customer need.

The Company's urban and suburban market area is characterized by a large number of apartment buildings, office buildings, and retail stores, among others. As a result, commercial real estate and multi-family mortgage lending has been a significant part of the Company's activities for many years. Many of the Company's borrowers have more than one multi-family or commercial real estate loan outstanding with the Company. The Company monitors the commercial real estate portfolio for tenant exposures; both by company and industry.

The commercial real estate portfolio was composed primarily of loans secured by apartment buildings ($773.5 million), office buildings ($678.9 million), retail stores ($593.5 million), industrial properties ($248.0 million), mixed-use properties ($259.4 million), lodging services ($120.3 million) and to food services ($58.1 million) as of December 31, 2018. At that date, 97.2% of the commercial real estate loans outstanding were secured by properties located in New England.

Construction and development financing is generally considered to involve a higher degree of risk than long-term financing on improved, occupied real estate and thus has lower concentration limits than do other commercial credit classes. Risk of loss on a construction loan is largely dependent upon the accuracy of the initial estimate of construction costs, the estimated time to sell or rent the completed property at an adequate price or rate of occupancy, and market conditions. If the estimates and projections prove to be inaccurate, the Company may be confronted with a project which, upon completion, has a value that is insufficient to assure full loan repayment.

Criteria applied in underwriting construction loans for which the primary source of repayment is the sale of the property is different from the criteria applied in underwriting construction loans for which the primary source of repayment is the stabilized cash flow from the completed project. For those loans where the primary source of repayment is from resale of the property, in addition to the normal credit analysis performed for other loans, the Company also analyzes project costs, the attractiveness of the property in relation to the market in which it is located and demand within the market area. For those construction loans where the source of repayment is the stabilized cash flow from the completed project, the Company analyzes not only project costs but also how long it might take to achieve satisfactory occupancy and the reasonableness of projected rental rates in relation to market rental rates.

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Commercial Loans

The commercial loan and lease portfolio is comprised of commercial loans, equipment financing loans and leases and condominium association loans and represented 28.1% of total loans outstanding as of December 31, 2018.

The commercial loan and lease portfolio is composed primarily of loans to small businesses ($556.5 million), transportation services ($381.6 million), recreation services ($114.5 million), food services ($121.1 million), manufacturing ($76.0 million), rental and leasing services ($46.8 million), and retail ($72.7 million) as of December 31, 2018.

The Company provides commercial banking services to companies in its market area. Approximately 45.9% of the commercial loans outstanding as of December 31, 2018 were made to borrowers located in New England. The remaining 54.1% of the commercial loans outstanding were made to borrowers in other areas in the United States of America, primarily by the Company's equipment financing divisions. Product offerings include lines of credit, term loans, letters of credit, deposit services and cash management. These types of credit facilities have as their primary source of repayment cash flows from the operations of a business. Interest rates offered are available on a floating basis tied to the prime rate or a similar index or on a fixed-rate basis referenced on the Federal Home Loan Bank of Boston ("FHLBB") index.

Credit extensions are made to established businesses on the basis of loan purpose and assessment of capacity to repay as determined by an analysis of their financial statements, the nature of collateral to secure the credit extension and, in most instances, the personal guarantee of the owner of the business as well as industry and general economic conditions. The Company also participates in U.S. Government programs such as the Small Business Administration (the "SBA") in both the 7A program and as an SBA preferred lender.

The Company’s equipment financing divisions focus on market niches in which its lenders have deep experience and industry contacts, and on making loans to customers with business experience. An important part of the Company’s equipment financing loan origination volume comes from equipment manufacturers and existing customers as they expand their operations. The equipment financing portfolio is composed primarily of loans to finance laundry, tow trucks, fitness, dry cleaning and convenience store equipment. Approximately 15.3% of the commercial loans outstanding were made to borrowers located primarily in the greater New York and New Jersey metropolitan area. Typically, the loans are priced at a fixed rate of interest and require monthly payments over their three- to seven-year life. The yields earned on equipment financing loans are higher than those earned on the commercial loans made by the Banks because they involve a higher degree of credit risk. Equipment financing customers are typically small-business owners who operate with limited financial resources and who face greater risks when the economy weakens or unforeseen adverse events arise. Because of these characteristics, personal guarantees of borrowers are usually obtained along with liens on available assets. The size of loan is determined by an analysis of cash flow and other characteristics pertaining to the business and the equipment to be financed, based on detailed revenue and profitability data of similar operations.

Loans to condominium associations are for the purpose of funding capital improvements, are made for five- to ten-year terms and are secured by a general assignment of condominium association revenues. Among the factors considered in the underwriting of such loans are the level of owner occupancy, the financial condition and history of the condominium association, the attractiveness of the property in relation to the market in which it is located and the reasonableness of estimates of the cost of capital improvements to be made. Depending on loan size, funds are advanced as capital improvements are made and, in more complex situations, after completion of engineering inspections.

Consumer Loans

The consumer loan portfolio is comprised of residential mortgage loans, home equity loans and lines of credit, and other consumer loans and represented 18.8% of total loans outstanding as of December 31, 2018. The Company focuses its mortgage and home equity lending on existing and new customers within its branch networks in its urban and suburban marketplaces in the greater Boston and Providence metropolitan areas.

The Company originates adjustable- and fixed-rate residential mortgage loans secured by one- to four-family residences. Each residential mortgage loan granted is subject to a satisfactorily completed application, employment verification, credit history and a demonstrated ability to repay the debt. Generally, loans are not made when the loan-to-value ratio exceeds 80% unless private mortgage insurance is obtained and/or there is a financially strong guarantor. Appraisals are performed by outside independent fee appraisers.

In general, the Company maintains three-, five- and seven-year adjustable-rate mortgage loans and ten-year fixed-rate fully amortizing mortgage loans in its portfolio. Fixed-rate mortgage loans with maturities beyond ten years, such as 15- and 30-year fixed-rate mortgages, are generally sold into the secondary market on a servicing-released basis. The Banks act as correspondent banks in these secondary-market transactions. Loan sales in the secondary market provide funds for additional lending and other banking activities.

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Underwriting guidelines for home equity loans and lines of credit are similar to those for residential mortgage loans. Home equity loans and lines of credit are limited to no more than 80% of the appraised value of the property securing the loan including the amount of any existing first mortgage liens.

Other consumer loans have historically been a modest part of the Company's loan originations. As of December 31, 2018, other consumer loans equaled $23.4 million, or 0.4% of total loans outstanding. Consumer equity and debt securities were pledged as collateral for a substantial part of the total of those loans.

Loans to Insiders

Refer to Note 6, “Loans and Leases” within Notes to Consolidated Financial Statements for information regarding loans to insiders.

Loan Maturities and Repricing

The following table shows the contractual maturity and repricing dates of the Company's loans as of December 31, 2018. The table does not include projected prepayments or scheduled principal amortization.

	Amount due at December 31, 2018						
	Within One Year	More than One Year to Three Years	More than Three Years to Five Years	More than Five Years to Fifteen Years	More than Fifteen Years	Total after One Year	Total
	(In Thousands)						
Commercial real estate	$936,916	$524,393	$624,324	$236,559	$8,533	$1,393,809	$2,330,725
Multi-family mortgage	337,481	157,956	266,815	81,308	4,151	510,230	847,711
Construction	112,428	19,856	26,776	14,240	—	60,872	173,300
Commercial	250,305	126,524	195,551	83,412	80,626	486,113	736,418
Equipment financing	87,830	251,690	502,214	140,355	—	894,259	982,089
Condominium association	8,563	8,146	15,769	17,973	—	41,888	50,451
Residential mortgage	191,165	149,516	249,033	154,180	39,074	591,803	782,968
Home equity	184,276	2,348	8,617	42,096	139,147	192,208	376,484
Other consumer	17,014	718	69	—	5,569	6,356	23,370
Total	$2,125,978	$1,241,147	$1,889,168	$770,123	$277,100	$4,177,538	$6,303,516

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

	Due after One Year		
	Fixed	Adjustable	Total
	(In Thousands)		
Originated:			
Commercial real estate	$491,898	$803,552	$1,295,450
Multi-family mortgage	198,094	267,365	465,459
Construction	9,753	51,048	60,801
Commercial	253,775	209,422	463,197
Equipment financing	661,172	229,846	891,018
Condominium association	26,538	15,350	41,888
Residential mortgage	47,630	447,015	494,645
Home equity	26,874	129,931	156,805
Other consumer	813	5,543	6,356
Total originated	1,716,547	2,159,072	3,875,619
Acquired:			
Commercial real estate	15,684	82,675	98,359
Multi-family mortgage	13,416	31,355	44,771
Construction	—	71	71
Commercial	4,740	18,176	22,916
Equipment financing	3,241	—	3,241
Residential mortgage	46,658	50,500	97,158
Home equity	18,121	17,282	35,403
Other consumer	—	—	—
Total acquired	101,860	200,059	301,919
Total loans	$1,818,407	$2,359,131	$4,177,538

Asset Quality

Criticized and Classified Assets

The Company's management rates certain loans and leases as "other assets especially mentioned ("OAEM")", "substandard" or "doubtful" based on criteria established under banking regulations. Refer to Note 7, "Allowance for Loan and Lease Losses," to the consolidated financial statements for more information on the Company's risk rating system. These loans and leases are collectively referred to as "criticized" assets. Loans and leases rated OAEM have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects of the loan or lease at some future date. Loans and leases rated as substandard are inadequately protected by the payment capacity of the obligor or of the collateral pledged, if any. Substandard loans and leases have a well-defined weakness or weaknesses that jeopardize the liquidation of debt and are characterized by the distinct possibility that the Company will sustain some loss if existing deficiencies are not corrected. Loans and leases rated as doubtful have well-defined weaknesses that jeopardize the orderly liquidation of debt and partial loss of principal is likely. As of December 31, 2018, the Company had $58.6 million of total assets, including acquired assets, that were designated as criticized. This compares to $68.2 million of assets designated as criticized as of December 31, 2017. The decrease in criticized assets was primarily due to the charge-offs in taxi medallion loans and the pay offs in criticized loans and leases during the year ended December 31, 2018.

Nonperforming Assets

"Nonperforming assets" consist of nonaccrual loans and leases, other real estate owned ("OREO") and other repossessed assets. Under certain circumstances, the Company may restructure the terms of a loan or lease as a concession to a borrower, except for acquired loans and leases which are individually evaluated against expected performance on the date of acquisition. These restructured loans and leases are generally considered "nonperforming loans and leases" until a history of collection of at least six months on the restructured terms of the loan or lease has been established. OREO consists of real estate acquired through foreclosure proceedings and real estate acquired through acceptance of a deed in lieu of foreclosure. Other repossessed assets consist of assets that have been acquired through foreclosure that are not real estate and are included in other assets on the Company's consolidated balance sheets.

In cases where a borrower experiences financial difficulties and the Company makes certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructured loan. In determining whether a debtor is experiencing financial difficulties, the Company considers, among other factors, if the debtor is in payment default or is likely to be in payment default in the foreseeable future without the modification, the debtor declared or is in the process of declaring bankruptcy, there is substantial doubt that the debtor will continue as a going concern, the debtor's entity-specific projected cash flows will not be sufficient to service its debt, or the debtor cannot obtain funds from sources other than the existing creditors at market terms for debt with similar risk characteristics.

Nonperforming assets are composed of nonaccrual loans and leases, OREO and other repossessed assets. As of December 31, 2018, the Company had nonperforming assets of $28.1 million, representing 0.38% of total assets, compared to nonperforming assets of $31.7 million, or 0.47% of total assets, as of December 31, 2017. The decrease in nonperforming assets was primarily due to the partial charge-off of loans secured by taxi medallions during the year ending December 31, 2018.

The Company evaluates the underlying collateral of each nonaccrual loan and lease and continues to pursue the collection of interest and principal. Management believes that the current level of nonperforming assets remains manageable relative to the size of the Company's loan and lease portfolio. If economic conditions were to worsen or if the marketplace were to experience prolonged economic stress, management believes it is likely that the level of nonperforming assets would increase, as would the level of charged-off loans.

Past Due and Accruing

Accrual of interest on loans generally is discontinued when contractual payment of principal or interest becomes past due 90 days or, if in management's judgment, reasonable doubt exists as to the full timely collection of interest. Exceptions may be made if the loan has matured and is in the process of renewal or is well-secured and in the process of collection. In addition, loans categorized as ASC 310-30 accrue regardless of past due status. When a loan is placed on nonaccrual status, interest accruals cease and uncollected accrued interest is reversed and charged against current interest income. Interest payments on nonaccrual loans are generally applied to principal. If collection of the principal is reasonably assured, interest payments are recognized as income on the cash basis. Loans are generally returned to accrual status when principal and interest payments are current, full collectability of principal and interest is reasonably assured and a consistent record of at least six consecutive months of performance has been achieved.

As of December 31, 2018, the Company had loans and leases greater than 90 days past due and accruing of $13.5 million, or 0.21% of total loans and leases, compared to $3.0 million, or 0.05% of total loans and leases, as of December 31, 2017, representing an increase of $10.5 million. The increase was primarily due to one acquired commercial real estate loan which was greater than 90 days past due and accruing. These loans are therefore not included in the non-performing assets category.

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The following table sets forth information regarding nonperforming assets for the periods indicated:

	At December 31,				
	2018	2017	2016	2015	2014
	(Dollars in Thousands)				
Nonperforming loans and leases:					
Nonaccrual loans and leases:					
Commercial real estate	$3,928	$3,313	$5,340	$5,482	$1,009
Multi-family mortgage	330	608	1,404	291	—
Construction	396	860	—	—	—
Total commercial real estate loans	4,654	4,781	6,744	5,773	1,009
Commercial	6,621	11,619	22,974	6,264	5,196
Equipment financing	9,500	8,106	6,758	2,610	3,223
Condominium association	265	—	—	—	—
Total commercial loans and leases	16,386	19,725	29,732	8,874	8,419
Residential mortgage	2,132	1,979	2,501	2,225	1,682
Home equity	908	744	951	1,757	1,918
Other consumer	17	43	149	704	686
Total consumer loans	3,057	2,766	3,601	4,686	4,286
Total nonaccrual loans and leases	24,097	27,272	40,077	19,333	13,714
Other real estate owned	3,054	3,235	618	729	953
Other repossessed assets	965	1,184	781	614	503
Total nonperforming assets	$28,116	$31,691	$41,476	$20,676	$15,170
Loans and leases past due greater than 90 days and accruing	$13,482	$3,020	$7,077	$8,690	$6,008
Total delinquent loans and leases 61-90 days past due	3,308	7,376	7,350	3,294	8,117
Restructured loans and leases not included in nonperforming assets	12,257	16,241	13,883	17,953	14,815
Total nonaccrual loans and leases as a percentage of total loans and leases	0.38 %	0.48 %	0.74 %	0.39 %	0.28 %
Total nonperforming assets as a percentage of total assets	0.38 %	0.47 %	0.64 %	0.34 %	0.26 %
Total delinquent loans and leases 61-90 days past due as a percentage of total loans and leases	0.05 %	0.13 %	0.14 %	0.07 %	0.17 %

Troubled Debt Restructured Loans and Leases

As of December 31, 2018, restructured loans included $2.0 million of commercial real estate loans, $0.3 million of multi-family mortgage loans, $9.4 million of commercial loans, $5.9 million of equipment financing loans and leases, $1.6 million of residential mortgage loans and $1.7 million of home equity loans. As of December 31, 2017, restructured loans included $5.0 million of commercial real estate loans, $0.6 million of multi-family mortgage loans, $13.9 million of commercial loans, $4.0 million of equipment financing loans and leases, $1.1 million of residential mortgage loans and $1.4 million of home equity loans. A restructured loan is a loan for which the maturity date was extended, the principal was reduced, and/or the interest rate was modified to reduce the required monthly payment to a more manageable amount for the borrower.

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The following table sets forth information regarding troubled debt restructured loans and leases at the dates indicated:

	At December 31, 2018	At December 31, 2017
	(Dollars in Thousands)	
Troubled debt restructurings:		
On accrual	$ 12,257	$ 16,241
On nonaccrual	8,684	9,770
Total troubled debt restructurings	$ 20,941	$ 26,011

Changes in troubled debt restructured loans and leases were as follows for the periods indicated:

	Year ended December 31, 2018	2017
	(Dollars in Thousands)	
Balance at beginning of period	$26,011	$25,802
Additions	5,843	7,001
Net charge-offs	(1,174)	(4,723)
Repayments	(9,739)	(1,147)
Other reductions (1)	—	(922)
Balance at end of period	$20,941	$26,011

(1) Includes loans and leases that were removed from TDR status

Allowances for Credit Losses

Allowance for Loan and Lease Losses

The allowance for loan and lease losses consists of general and specific allowances and reflects management's estimate of probable loan and lease losses inherent in the loan portfolio at the balance sheet date. Management uses a consistent and systematic process and methodology to evaluate the adequacy of the allowance for loan and lease losses on a quarterly basis. The allowance is calculated by loan type: commercial real estate loans, commercial loans and leases, and consumer loans, each category of which is further segregated. A formula-based credit evaluation approach is applied to each group that is evaluated collectively, primarily by loss factors, which includes estimates of incurred losses over an estimated loss emergence period ("LEP"), assigned to each risk rating by type, coupled with an analysis of certain loans individually evaluated for impairment. Management continuously evaluates and challenges inputs and assumptions in the allowance for loan and lease loss.

The process to determine the allowance for loan and lease losses requires management to exercise considerable judgment regarding the risk characteristics of the loan portfolios and the effect of relevant internal and external factors. While management evaluates currently available information in establishing the allowance for loan and lease losses, future adjustments to the allowance for loan and lease losses may be necessary if conditions differ substantially from the assumptions used in making the evaluations. Management performs a comprehensive review of the allowance for loan and lease losses on a quarterly basis. In addition, various regulatory agencies, as an integral part of their examination process, periodically review a financial institution's allowance for loan and lease losses and carrying amounts of other real estate owned. Such agencies may require the financial institution to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. See Note 1, "Basis of Presentation," and Note 7, "Allowance for Loan and Lease Losses," to the consolidated financial statements for descriptions of how management determines the balance of the allowance for loan and lease losses for each portfolio and class of loans.

During the third quarter of 2015, the Company enhanced and refined its general allowance methodology to provide further quantification of probable losses in the portfolio. Under the enhanced methodology, management combined the historical loss histories of the Banks to generate a single set of ratios. Management believes it is appropriate to aggregate the ratios as the Banks share common environmental factors, operate in similar geographic markets, and utilize common underwriting standards in accordance with the Company's Credit Policy. In prior periods, a historical loss history applicable to each Bank was used.

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Management employed a similar analysis for the consolidation of the qualitative factors as it did for the quantitative factors. Again, management believes the combination of the existing nine qualitative factors used at each of the Banks into a single group of nine factors used across the Company is appropriate based on the commonality of environmental factors, markets and underwriting standards among the Banks. In prior periods each of the Banks utilized a set of qualitative factors applicable to each Bank.

As of December 31, 2018, the Company had a portfolio of approximately $13.7 million in loans secured by taxi medallions issued by the cities of Boston and Cambridge. As of December 31, 2017, this portfolio was approximately $19.7 million. Application-based mobile ride services, such as Uber and Lyft, have generated increased competition in the transportation sector, resulting in a reduction in taxi utilization and, as a result, a reduction in the collateral value and credit quality of taxi medallion loans. This has increased the likelihood that loans secured by taxi medallions may default, or that the borrowers may be unable to repay these loans according to terms, resulting in an increase in past due loans, troubled debt restructurings, and charge-offs. Therefore, beginning with the three months ended September 30, 2015, the Company's allowance calculation included a further segmentation of the commercial loans and leases to reflect the increased risk in the Company's taxi medallion portfolio.

Based on the refinements to the Company's allowance methodology discussed above, management determined that the potential risks anticipated by the unallocated allowance are now incorporated into the qualitative and quantitative components, making the unallocated allowance unnecessary. In prior years, the unallocated allowance was used to recognize the estimated risk associated with the allocated general and specific allowances. It incorporated management's evaluation of existing conditions that were not included in the allocated allowance determinations and provided for losses that arise outside of the ordinary course of business.
The following tables present the changes in the allowance for loan and lease losses by portfolio category for the years ended December 31, 2018, 2017, 2016, 2015, and 2014, respectively.

	Year Ended December 31, 2018			
	Commercial Real Estate	Commercial	Consumer	Total
	(In Thousands)			
Balance at December 31, 2017	$27,112	$26,333	$5,147	$58,592
Charge-offs	(103)	(6,585)	(540)	(7,228)
Recoveries	—	2,287	290	2,577
Provision for loan and lease losses	1,178	3,248	325	4,751
Balance at December 31, 2018	$28,187	$25,283	$5,222	$58,692
Total loans and leases	$3,351,736	$1,768,958	$1,182,822	$6,303,516
Total allowance for loan and lease losses as a percentage of total loans and leases	0.84 %	1.43 %	0.44 %	0.93 %

	Year Ended December 31, 2017			
	Commercial Real Estate	Commercial	Consumer	Total
	(In Thousands)			
Balance at December 31, 2016	$27,645	$20,906	$5,115	$53,666
Charge-offs	(494)	(14,914)	(403)	(15,811)
Recoveries	476	1,158	319	1,953
(Credit) provision for loan and lease losses	(515)	19,183	116	18,784
Balance at December 31, 2017	$27,112	$26,333	$5,147	$58,592
Total loans and leases	$3,075,777	$1,624,111	$1,030,791	$5,730,679

Total allowance for loan and lease losses as a percentage of total loans and leases	0.88 %	1.62 %	0.50 %	1.02 %

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	Year Ended December 31, 2016			
	Commercial Real Estate	Commercial	Consumer	Total
	(In Thousands)			
Balance at December 31, 2015	$30,151	$22,018	$4,570	$56,739
Charge-offs	(2,169)	(10,516)	(1,982)	(14,667)
Recoveries	—	642	750	1,392
(Credit) provision for loan and lease losses	(337)	8,762	1,777	10,202
Balance at December 31, 2016	$27,645	$20,906	$5,115	$53,666
Total loans and leases	$2,918,567	$1,495,408	$984,889	$5,398,864
Allowance for loan and lease losses as a percentage of total loans and leases	0.95 %	1.40 %	0.52 %	0.99 %

	Year Ended December 31, 2015				
	Commercial Real Estate	Commercial	Consumer	Unallocated	Total
	(In Thousands)				
Balance at December 31, 2014	$29,594	$15,957	$5,690	$ 2,418	$53,659
Charge-offs	(550)	(3,634)	(2,370)	—	(6,554)
Recoveries	—	667	1,544	—	2,211
Provision (credit) for loan and lease losses	1,107	9,028	(294)	(2,418)	7,423
Balance at December 31, 2015	$30,151	$22,018	$4,570	$ —	$56,739
Total loans and leases	$2,664,394	$1,374,296	$956,850	N/A	$4,995,540
Allowance for loan and lease losses as a percentage of total loans and leases	1.13 %	1.60 %	0.48 %	N/A	1.14 %

	Year Ended December 31, 2014				
	Commercial Real Estate	Commercial	Consumer	Unallocated	Total
	(In Thousands)				
Balance at December 31, 2013	$23,022	$15,220	$7,299	$ 2,932	$48,473
Charge-offs	(130)	(2,507)	(1,813)	—	(4,450)
Recoveries	4	801	592	—	1,397
Provision (credit) for loan and lease losses	6,698	2,443	(388)	(514)	8,239
Balance at December 31, 2014	$29,594	$15,957	$5,690	$ 2,418	$53,659
Total loans and leases	$2,467,801	$1,167,094	$1,187,712	N/A	$4,822,607
Allowance for loan and lease losses as a percentage of total loans and leases	1.20 %	1.37 %	0.48 %	N/A	1.11 %

The allowance for loan and lease losses was $58.7 million as of December 31, 2018, or 0.93% of total loans and leases outstanding. This compared to an allowance for loan and lease losses of $58.6 million, or 1.02% of total loans and leases outstanding, as of December 31, 2017. The increase in the allowance for loan and lease losses from December 31, 2017 to December 31, 2018 was primarily due to originated loan growth of $418.5 million, partially offset by the decrease in reserve due to changes in historical loss factors applied to the loan portfolios.
Management believes that the allowance for loan and lease losses as of December 31, 2018 is appropriate based on the facts and circumstances discussed further below.

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Commercial Real Estate Loans

The allowance for commercial real estate loan losses was $28.2 million, or 0.84% of total commercial real estate loans outstanding, as of December 31, 2018. This compared to an allowance for commercial real estate loan losses of $27.1 million, or 0.88% of total commercial real estate loans outstanding, as of December 31, 2017. Specific reserves on commercial real estate loans were five thousand as of December 31, 2018, compared to none at December 31, 2017. The $1.1 million increase in the allowance for commercial real estate loan losses during 2018 was primarily driven by the increase in reserves on one acquired commercial real estate loan with deteriorated credit, as well as the originated loan growth of $214.4 million, or 7.3% from December 31, 2017.

The ratio of total criticized and classified commercial real estate loans to total commercial real estate loans decreased to 0.64% as of December 31, 2018 from 0.91% as of December 31, 2017. The ratio of originated commercial real estate loans on nonaccrual to total originated commercial real estate loans decreased to 0.14% as of December 31, 2018 from 0.16% as of December 31, 2017. The decrease in total criticized and classified commercial real estate loans had a minimal impact on the allowance for commercial real estate loan losses as these loans are adequately collateralized over the loan carrying balance.

Net charge-offs increased $85.0 thousand to $103.0 thousand, or 0.003% of average commercial real estate loans, for the year ended December 31, 2018, compared with net charge-offs of $18.0 thousand, or 0.001% of average commercial real estate loans, for the year ended December 31, 2017. The increase in net charge-offs was primarily due to the charge-off of an acquired commercial real estate relationship. Provisions for commercial real estate loans recorded in these periods more than adequately covered charge-offs during those periods. See the "Results of Operations—Provision for Credit Losses" section below for additional information.

Commercial Loans and Leases

The allowance for commercial loan and lease losses was $25.3 million, or 1.43% of total commercial loans and leases outstanding, as of December 31, 2018, compared to $26.3 million, or 1.62% of total commercial loans and leases outstanding, as of December 31, 2017. Specific reserves on commercial loans and leases decreased from $3.1 million as of December 31, 2017 to $3.0 million as of December 31, 2018. The $1.0 million decrease in the allowance for commercial loans and lease losses during 2018 was primarily driven by the decrease in historical loss factors applied to the commercial loan and lease portfolios, partially offset by the reserve for originated loan growth of $130.5 million, or 8.1% from December 31, 2017.

The ratio of total criticized and classified commercial loans and leases to total commercial loans and leases decreased to 2.10% as of December 31, 2018, from 2.47% as of December 31, 2017. The ratio of originated commercial loans and leases on nonaccrual to total originated commercial loans and leases decreased to 0.93% as of December 31, 2018 from 1.15% as of December 31, 2017. The decreases in the ratio of total criticized and classified commercial loans and leases to total commercial loans and leases and the ratio of originated commercial loans and leases on nonaccrual to total originated commercial loans and leases was primarily due to the charge-offs and payoffs on criticized commercial loans in 2018.

Net charge-offs decreased $9.5 million to $4.3 million, or 0.25% of average commercial loans and leases, for the year ended December 31, 2018, compared with net charge-offs of $13.8 million, or 0.88% of average commercial loans and leases, for the year ended December 31, 2017. The decrease in net charge-offs was primarily due to a decrease in the charge-offs of the taxi medallion and commercial loans which had a specific reserve in prior period. Provisions for commercial loans recorded in these periods more than adequately covered charge-offs during those periods. See the "Results of Operations—Provision for Credit Losses" section below for additional information.

Consumer Loans

The allowance for consumer loan losses, including residential loans and home equity loans and lines of credit, was $5.2 million, or 0.44% of total consumer loans outstanding, as of December 31, 2018, compared to $5.1 million, or 0.50% of consumer loans outstanding, as of December 31, 2017. Specific reserves on consumer loans were $115.0 thousand and $22.0 thousand as of December 31, 2018 and December 31, 2017, respectively. The $0.1 million increase in the allowance for consumer loans and leases during 2018 was primarily due to the originated loan growth of $73.6 million, or 7.9%, from December 31, 2017.

The ratio of originated consumer loans on nonaccrual to total originated consumer loans decreased to 0.20% as of December 31, 2018 from 0.23% as of December 31, 2017. The risk of loss on a home equity loan is higher since the property securing the loan has often been previously pledged as collateral for a first mortgage loan. The Company gathers and analyzes delinquency data, to the extent that data are available on these first liens, for purposes of assessing the collectability of the second liens held by the Company even if these home equity loans are not delinquent. This data are further analyzed for performance differences between amortizing and non-amortizing home equity loans, the percentage borrowed to total loan commitment and by the amount of payments made by the borrowers. The loss exposure is not considered to be high due to the

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combination of current property values, the historically low loan-to-value ratios, the low level of losses experienced in the past few years and the low level of loan delinquencies as of December 31, 2018. If the local economy weakens, however, a rise in losses in those loan classes could occur. Historically, losses in these classes have been low.

Net charge-offs in the consumer loan portfolio totaled $0.3 million, or 0.03% of average consumer loans, for the year ended December 31, 2018, compared with net charge-offs of $0.1 million, or 0.01% of average consumer loans, for the year ended December 31, 2017. Provisions for consumer loans recorded in these periods more than adequately covered charge-offs during those periods. See the "Results of Operations—Provision for Credit Losses" section below for additional information.

The following table sets forth the Company's percent of allowance for loan and lease losses to the total allowance for loan and lease losses and the percent of loans to total loans for each of the categories listed at the dates indicated.

	At December 31,														
	2018					2017					2016				
	Amount	Percent of Allowance to Total Allowance		Percent of Loans in Each Category to Total Loans		Amount	Percent of Allowance to Total Allowance		Percent of Loans in Each Category to Total Loans		Amount	Percent of Allowance to Total Allowance		Percent of Loans in Each Category to Total Loans	
	(Dollars in Thousands)														
Commercial real estate	$20,779	35.4	%	37.0	%	$20,089	34.3	%	38.0	%	$19,354	36.1	%	38.1	%
Multi-family mortgage	5,915	10.1	%	13.4	%	5,667	9.7	%	13.3	%	5,528	10.3	%	13.5	%
Construction	1,494	2.5	%	2.7	%	1,356	2.3	%	2.4	%	2,763	5.1	%	2.5	%
Total commercial real estate loans	28,188	48.0	%	53.1	%	27,112	46.3	%	53.7	%	27,645	51.5	%	54.1	%
Commercial	14,047	23.9	%	11.7	%	15,366	26.2	%	12.3	%	10,096	18.8	%	11.8	%
Equipment financing	10,888	18.6	%	15.6	%	10,586	18.1	%	15.1	%	10,345	19.3	%	14.8	%
Condominium association	347	0.6	%	0.8	%	381	0.7	%	0.9	%	465	0.9	%	1.1	%
Total commercial loans and leases	25,282	43.1	%	28.1	%	26,333	45.0	%	28.3	%	20,906	39.0	%	27.7	%
Residential mortgage	3,076	5.2	%	12.4	%	2,743	4.7	%	11.5	%	2,587	4.8	%	11.6	%
Home equity	2,047	3.5	%	6.0	%	2,219	3.8	%	6.2	%	2,356	4.4	%	6.3	%
Other consumer	99	0.2	%	0.4	%	185	0.2	%	0.3	%	172	0.3	%	0.3	%
Total consumer loans	5,222	8.9	%	18.8	%	5,147	8.7	%	18.0	%	5,115	9.5	%	18.2	%
Total	$58,692	100.0	%	100.0	%	$58,592	100.0	%	100.0	%	$53,666	100.0	%	100.0	%

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The following table sets forth the Company's percent of allowance for loan and lease losses to the total allowance for loan and lease losses and the percent of loans to total loans for each of the categories listed at the dates indicated.

	At December 31, 2015					2014				
	Amount	Percent of Allowance to Total Allowance		Percent of Loans in Each Category to Total Loans		Amount	Percent of Allowance to Total Allowance		Percent of Loans in Each Category to Total Loans	
	(Dollars in Thousands)									
Commercial real estate	$21,100	37.3	%	37.5	%	$20,858	38.9	%	34.8	%
Multi-family mortgage	6,376	11.2	%	13.2	%	5,057	9.4	%	13.2	%
Construction	2,675	4.7	%	2.6	%	3,679	6.9	%	3.1	%
Total commercial real estate loans	30,151	53.2	%	53.3	%	29,594	55.2	%	51.1	%
Commercial	12,745	22.5	%	11.9	%	7,463	13.9	%	10.7	%
Equipment financing	8,809	15.5	%	14.5	%	8,112	15.1	%	12.5	%
Condominium association	464	0.8	%	1.2	%	382	0.7	%	1.1	%
Total commercial loans and leases	22,018	38.8	%	27.6	%	15,957	29.7	%	24.3	%
Residential mortgage	2,069	3.6	%	12.3	%	1,392	2.6	%	11.9	%
Home equity	2,149	3.8	%	6.3	%	1,846	3.5	%	5.9	%
Other consumer	352	0.6	%	0.5	%	2,452	4.5	%	6.8	%
Total consumer loans	4,570	8.0	%	19.1	%	5,690	10.6	%	24.6	%
Unallocated	—	—	%	—	%	2,418	4.5	%	—	%
Total	$56,739	100.0	%	100.0	%	$53,659	100.0	%	100.0	%

Liability for Unfunded Credit Commitments

The liability for unfunded credit commitments, which is included in other liabilities, was $1.9 million, and $1.7 million, as of December 31, 2018, and 2017, respectively. The changes in the liability for unfunded credit commitments reflect changes in the estimate of loss exposure associated with certain credit unfunded credit commitments.

See the subsections "Comparison of Years Ended December 31, 2018 and December 31, 2017—Provision for Credit Losses" and "Comparison of Years Ended December 31, 2017 and December 31, 2016—Provision for Credit Losses" appearing elsewhere in this report for a discussion of the provision for loan and lease losses and loan and lease charge-offs recognized in the Company's consolidated financial statements during the past three years.

Investment Securities and Restricted Equity Securities

The investment portfolio exists primarily for liquidity purposes, and secondarily as sources of interest and dividend income, interest-rate risk management and tax planning as a counterbalance to loan and deposit flows. Investment securities are utilized as part of the Company's asset/liability management and may be sold in response to, or in anticipation of, factors such as changes in market conditions and interest rates, security prepayment rates, deposit outflows, liquidity concentrations and regulatory capital requirements.

The investment policy of the Company, which is reviewed and approved by the Board of Directors on an annual basis, specifies the types of investments that are acceptable, required investment ratings by at least one nationally recognized rating agency, concentration limits and duration guidelines. Compliance with the investment policy is monitored on a regular basis. In general, the Company seeks to maintain a high degree of liquidity and targets cash, cash equivalents and investment securities available-for-sale balances between 10% and 30% of total assets.

Cash, cash equivalents, and investment securities increased $0.5 million, or 0.1%, to $711.4 million as of December 31, 2018 from $710.9 million as of December 31, 2017. The increase was primarily driven by an increase in deposit balances, combined with growth in loans and leases. Cash, cash equivalents, and investment securities were 9.62% of total assets as of December 31, 2018, compared to 10.48% of total assets at December 31, 2017.

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The following table sets forth certain information regarding the amortized cost and market value of the Company's investment securities at the dates indicated:

	At December 31,					
	2018		2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)					
Investment securities available-for-sale:						
GSE debentures	$184,072	$181,079	$151,483	$149,924	$98,122	$97,020
GSE CMOs	107,363	103,130	131,082	127,022	161,483	158,040
GSE MBSs	169,334	165,089	191,281	189,313	214,946	212,915
SBA commercial loan asset- backed securities	51	51	73	72	107	107
Corporate debt obligations	40,618	39,708	62,811	62,683	48,308	48,485
U.S. Treasury bonds	13,812	13,736	8,785	8,730	4,801	4,737
Trust preferred securities	—	—	1,471	1,398	1,469	1,358
Marketable equity securities	—	—	978	982	966	972
Total investment securities available-for-sale	$515,250	$502,793	$547,964	$540,124	$530,202	$523,634
Investment securities held-to-maturity:						
GSE debentures	$50,546	$49,601	$41,612	$40,801	$14,735	$14,101
GSE MBSs	11,426	11,131	13,923	13,705	17,666	17,479
Municipal obligations	52,304	51,598	53,695	53,517	54,219	53,204
Foreign government obligations	500	500	500	500	500	487
Total investment securities held-to-maturity	$114,776	$112,830	$109,730	$108,523	$87,120	$85,271
Equity securities held-for-trading	$4,207	$4,207	$—	$—	$—	$—
Restricted equity securities:						
FHLBB stock	$43,655		$42,427		$47,284	
FRB stock	17,995		16,842		16,752	
Other	101		100		475	
Total restricted equity securities	$61,751		$59,369		$64,511	

Total investment securities and restricted equity securities primarily consist of investment securities available-for-sale, investment securities held-to-maturity, stock in the FHLBB and stock in the FRB. The total securities portfolio increased $29.9 million, or 4.2% since December 31, 2017. As of December 31, 2018, total securities portfolio was 9.19% of total assets, compared to 10.46% of total assets as of December 31, 2017.

The fair value of investment securities is based principally on market prices and dealer quotes received from third-party, nationally-recognized pricing services for identical investment securities such as U.S. Treasury and agency securities. The Company's equity securities held-for-trading are priced this way and are included in Level 1. These prices are validated by comparing the primary pricing source with an alternative pricing source when available. When quoted market prices for identical securities are unavailable, the Company uses market prices provided by independent pricing services based on recent trading activity and other observable information, including but not limited to market interest-rate curves, referenced credit spreads and estimated prepayment speeds where applicable. These investments include certain U.S. and government agency debt securities, municipal and corporate debt securities, GSE residential MBSs and CMOs, trust preferred securities, and equity securities held-for-trading, all of which are included in Level 1 and 2.

Additionally, management reviews changes in fair value from period to period and performs testing to ensure that prices received from the third parties are consistent with their expectation of the market. Changes in the prices obtained from the pricing service are analyzed from month to month, taking into consideration changes in market conditions including changes in mortgage spreads, changes in U.S. Treasury security yields and changes in generic pricing of 15-year and 30-year securities.

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Additional analysis may include a review of prices provided by other independent parties, a yield analysis, a review of average life changes using Bloomberg analytics and a review of historical pricing for the particular security.

Maturities, calls and principal repayments for investment securities available-for-sale and investment securities held-to-maturity totaled $86.2 million for the year ended December 31, 2018 compared to $75.4 million for the same period in 2017. The Company sold $22.2 million of investment securities available-for-sale in 2018, compared to none in 2017. For the year ended December 31, 2018, the Company purchased $73.9 million of investment securities available-for-sale and $8.9 million of investment securities held-to-maturity, compared to $91.0 million of investment securities available-for-sale and $26.9 million of investment securities held-to-maturity in 2017.

As of December 31, 2018, the fair value of all investment securities available-for-sale was $502.8 million and carried a total of $12.5 million of net unrealized losses, compared to a fair value of $540.1 million and net unrealized losses of $7.8 million as of December 31, 2017. As of December 31, 2018, $466.7 million, or 92.8%, of the portfolio, had gross unrealized losses of $12.8 million. This compares to $469.2 million, or 86.9%, of the portfolio with gross unrealized losses of $8.4 million as of December 31, 2017. The Company's unrealized loss position increased in 2018 driven by higher year over year interest rates and a change in the portfolio mix from shorter duration MBS to longer duration agency debentures and municipal securities.

Management believes that these negative differences between amortized cost and fair value do not include credit losses, but rather differences in interest rates between the time of purchase and the time of measurement. It is more likely than not that the Company will not sell the investment securities before recovery, and, as a result, it will recover the amortized cost basis of the investment securities. As such, management has determined that the securities are not other-than-temporarily impaired as of December 31, 2018. If market conditions for securities worsen or the creditworthiness of the underlying issuers deteriorates, it is possible that the Company may recognize additional other-than-temporary impairments in future periods. For additional discussion on how the Company validates fair values provided by the third-party pricing service, see Note 21, “Fair Value of Financial Instruments.”

Investment Securities Available-for-Sale

U.S. Government-Sponsored Enterprises

The Company invests in securities issued by U.S. Government-sponsored enterprises ("GSEs"), including GSE debentures, mortgage-backed securities ("MBSs"), and collateralized mortgage obligations ("CMOs"). GSE securities include obligations issued by the Federal National Mortgage Association ("FNMA"), the Federal Home Loan Mortgage Corporation ("FHLMC"), the Government National Mortgage Association ("GNMA"), the Federal Home Loan Banks ("FHLB") and the Federal Farm Credit Bank. As of December 31, 2018, only GNMA MBSs and CMOs, and Small Business Administration ("SBA") commercial loan asset-backed securities in our available-for-sale portfolio with an estimated fair value of $20.6 million were backed explicitly by the full faith and credit of the U.S. Government, compared to $23.7 million as of December 31, 2017.

GSE securities are considered attractive investments because they (1) generate positive yields with minimal administrative expense, (2) impose minimal credit risk as a result of the guarantees usually provided, (3) can be utilized as collateral for borrowings, (4) generate cash flows useful for liquidity management and (5) are ‘‘qualified investments’’ as designated for regulatory purposes that the Company is obligated to meet.

As of December 31, 2018, the Company owned 60 GSE debentures with a total fair value of $181.1 million, and a net unrealized loss of $3.0 million. As of December 31, 2017, the Company held 48 GSE debentures with a total fair value of $149.9 million, and a net unrealized loss of $1.6 million. As of December 31, 2018, 51 of the 60 securities in this portfolio were in an unrealized loss position. As of December 31, 2017, 43 of the 48 securities in this portfolio were in an unrealized loss position. All securities are performing and backed by the implicit (FHLB/FNMA/FHLMC) or explicit (GNMA/SBA) guarantee of the U.S. Government. For the years ended December 31, 2018 and 2017, the Company purchased a total of $33.9 million and $54.2 million. respectively, of GSE debentures.

As of December 31, 2018, the Company owned 61 GSE CMOs with a total fair value of $103.1 million and a net unrealized loss of $4.2 million. As of December 31, 2017, the Company held 62 GSE CMOs with a total fair value of $127.0 million with a net unrealized loss of $4.1 million. As of December 31, 2018, 46 of the 61 securities in this portfolio were in an unrealized loss position. As of December 31, 2017, 47 of the 62 securities in this portfolio were in an unrealized loss position. All securities are performing and backed by the implicit (FHLB/FNMA/FHLMC) or explicit (GNMA) guarantee of the U.S. Government. For the year ended December 31, 2018 and 2017, the Company did not purchase any GSE CMOs.

As of December 31, 2018, the Company owned 165 GSE MBSs with a total fair value of $165.1 million and a net unrealized loss of $4.2 million. As of December 31, 2017, the Company held 194 GSE MBSs with a total fair value of $189.3

million with a net unrealized loss of $2.0 million. As of December 31, 2018, 93 of the 165 securities in this portfolio were in an unrealized loss position. As of December 31, 2017, 82 of the 194 securities in this portfolio were in an unrealized loss position. All securities are performing and backed by the implicit (FHLB/FNMA/FHLMC) or explicit (GNMA) guarantee of the U.S. Government. For the years ended December 31, 2018 and 2017, the Company purchased a total of $15.2 million and $18.3 million, respectively, of GSE MBSs.

SBA Commercial Loan Asset-Backed Securities

As of December 31, 2018, the Company owned four SBA securities with a total fair value of $0.1 million, which approximated amortized cost. As of December 31, 2017, the Company owned five SBA securities with a total fair value of $0.1 million which approximated amortized cost. As of December 31, 2018, all of the securities in this portfolio were in an unrealized loss position. As of December 31, 2017, four of the five securities in this portfolio were in an unrealized loss position. All securities are performing and backed by the explicit (SBA) guarantee of the U.S Government.

Mortgage-related securities are created by the pooling of mortgages and the issuance of a security with an interest rate that is less than the average interest rate on the underlying mortgages. Mortgage related securities purchased by the Company generally are comprised of a pool of single-family mortgages. The issuers of such securities are generally GSEs such as FNMA, FHLMC and GNMA, which pool and resell participation interests in the form of securities to investors and guarantee the payment of principal and interest to the investors.

Investments in mortgage-related securities issued and guaranteed by GSEs generally do not entail significant credit risk. Such investments, however, are susceptible to significant interest rate and cash flow risks when actual cash flows from the investments differ from cash flows estimated at the time of purchase. Additionally, the market value of such securities can be affected adversely by market changes in interest rates. Prepayments that are faster than anticipated may shorten the life of a security and result in the accelerated expensing of any premiums paid, thereby reducing the net yield earned on the security. Although prepayments of underlying mortgages depend on many factors, the difference between the interest rates on the underlying mortgages and prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of declining interest rates, refinancing generally increases and accelerates the prepayment of underlying mortgages and the related security. Such an occurrence can also create reinvestment risk because of the unavailability of other investments with a comparable rate of return in relation to the nature and maturity of the alternative investment. Conversely, in a rising interest-rate environment, prepayments may decline, thereby extending the estimated life of the security and depriving the Company of the ability to reinvest cash flows at the higher market rates of interest.

Corporate Obligations

From time to time, the Company may invest in high-quality corporate obligations to provide portfolio diversification and improve the overall yield on the portfolio. As of December 31, 2018, the Company owned 11 corporate obligation securities with a total fair value of $39.7 million and a net unrealized gain of $0.9 million. This compares to 19 corporate obligation securities with a total fair value of $62.7 million and a net unrealized gain of $0.1 million as of December 31, 2017. As of December 31, 2018, all of the securities in this portfolio were in an unrealized loss position. As of December 31, 2017, nine of the nineteen securities in this portfolio were in an unrealized loss position. Full collection of the obligations is expected because the financial condition of the issuers is sound, and the issuers have not defaulted on scheduled payments, the obligations are rated investment grade, and the Company has the ability and intent to hold the obligations for a period of time to recover the amortized cost. For the year ended December 31, 2018, the Company did not purchase any corporate obligations as compared to 2017, when the Company purchased $14.5 million of corporate obligations.

U.S. Treasury Bonds

The Company invests in securities issued by the U.S. government. As of December 31, 2018, the Company owned seven U.S. Treasury bonds with a total fair value of $13.7 million and a net unrealized loss of $0.1 million. As of December 31, 2017, the Company owned two U.S. Treasury bonds with a total fair value of $8.7 million and a net unrealized loss of $0.1 million. As of December 31, 2018, two of the seven securities were in an unrealized loss position. As of December 31, 2017, all of the securities in this portfolio were in unrealized loss positions. For the years ended December 31, 2018 and 2017, the Company purchased $24.7 million and $4.0 million in U.S. Treasury bonds, respectively.

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Trust Preferred Securities

Trust preferred securities represent subordinated debt issued by financial institutions. As of December 31, 2018, the Company did not own trust preferred securities. This compares to two trust preferred securities with a total fair value of $1.4 million and a net unrealized loss of $0.1 million as of December 31, 2017. As of December 31, 2017, both of the securities in this portfolio were in an unrealized loss position.

Equity Securities Held-for-Trading

As of December 31, 2017, the Company had two marketable equity securities classified as available-for-sale with a fair value of $1.0 million. During the third quarter of 2018, the Company re-designated all equity securities as held-for-trading. As of December 31, 2018, the Company owned three equity securities held-for-trading with a fair value of $4.2 million. Held-for-trading securities are recorded on a mark-to-market basis with realized gains and losses recognized through the income statement.

Investment Securities Held-to-Maturity

U.S. Government-Sponsored Enterprises

As of December 31, 2018, the Company owned 17 GSE debentures with a total fair value of $49.6 million and a net unrealized loss of $0.9 million. As of December 31, 2017, the Company owned 14 GSE debentures with a total fair value of $40.8 million and a net unrealized loss of $0.8 million. As of December 31, 2018, 14 of the 17 securities in this portfolio were in an unrealized loss position. At December 31, 2017, all of the securities in this portfolio were in an unrealized loss position. All securities are performing and backed by the implicit (FHLB/FNMA/FHLMC) or explicit (GNMA) guarantee of the U.S Government. During the years ended December 31, 2018 and December 31, 2017, the Company purchased a total of $8.9 million and $26.9 million in GSE debentures, respectively.

As of December 31, 2018, the Company owned 11 GSE MBSs with a total fair value of $11.1 million and a net unrealized loss of $0.3 million. As of December 31, 2017, the Company owned 11 GSE MBSs with a total fair value of $13.7 million and an unrealized loss of $0.2 million. As of December 31, 2018, eight of the eleven securities in this portfolio were in an unrealized loss position. At December 31, 2017, eight of the eleven securities were in an unrealized loss position. All securities are performing and backed by the implicit (FHLB/FNMA/FHLMC) or explicit (GNMA) guarantee of the U.S. Government. During the year ended December 31, 2018 and 2017, the Company did not purchase any GSE MBSs.

Municipal Obligations

As of December 31, 2018, the Company owned 98 municipal obligation securities with a total fair value and total amortized cost of $51.6 million and $52.3 million, respectively. As of December 31, 2017, the Company owned 100 municipal obligation securities with a total fair value and total amortized cost of $53.5 million and $53.7 million, respectively. As of December 31, 2018, 94 of the 98 securities in this portfolio were in an unrealized loss position as compared to December 31, 2017, when 69 of the 100 securities were in an unrealized loss position. During the year ended December 31, 2018 and 2017, the Company did not purchase any municipal obligations.

Foreign Government Obligations

As of December 31, 2018, the Company owned one foreign government obligation security with a fair value and amortized cost of $0.5 million. As of December 31, 2017, the Company owned one foreign government obligation security with a fair value and amortized cost of $0.5 million. As of December 31, 2018 and 2017, the security was in an unrealized loss position. During the year ended December 31, 2018 and 2017, the Company did not purchase any foreign government obligation securities.

Restricted Equity Securities

FHLBB Stock—The Company invests in the stock of the FHLBB as one of the requirements to borrow. The Company maintains an excess balance of capital stock, which allows for additional borrowing capacity at each of the Banks. As of December 31, 2018, the excess balance of capital stock is $5.0 million, as compared to no excess balance at December 31, 2017.

As of December 31, 2018, the Company owned stock in the FHLBB with a carrying value of $43.7 million, an increase of $1.2 million from $42.4 million as of December 31, 2017. As of December 31, 2018, the FHLBB had total assets of $63.6 billion and total capital of $3.6 billion, of which $1.4 billion was retained earnings. The FHLBB stated that it remained in compliance with all regulatory capital ratios as of December 31, 2018 and was classified as "adequately capitalized" by its

regulator, based on the FHLBB's financial information as of September 30, 2018. See Note 5, "Restricted Equity Securities" to the consolidated financial statements for further information about the FHLBB.

Federal Reserve Bank Stock—The Company invests in the stock of the Federal Reserve Bank of Boston, as a condition of the membership for the Banks in the Federal Reserve System. In 2018, the Company maintained its investment in the stock of the Federal Reserve Bank of Boston to adjust for deposit growth. The FRB is the primary federal regulator for the Company and the Banks.

Other Stock—The Company invests in a small number of other restricted securities which included Northeast Retirement Services, Inc. ("NRS"). The Company, through its wholly owned subsidiary, Brookline Securities Corp. ("Brookline Securities"), held 9,721 shares of restricted equity securities of NRS. This investment was recorded at cost of $122 thousand as no readily determinable fair value was available. On December 5, 2016, Community Bank Systems, Inc. ("CBU") announced entry into a merger agreement to acquire NRS. After receiving stockholder and regulatory approvals, CBU completed the acquisition of NRS on February 3, 2017. The Company exchanged the 9,721 shares of NRS and received $319.04 in cash and 14.876 shares of CBU common stock for each share of NRS held. As part of the merger agreement, the Company was restricted to selling 5,071 shares per day in the open market and a portion of the merger consideration was held in escrow to be used for indemnification claims, if any, within the 12 month period following the merger. The Company completed the sale of all CBU shares during the first quarter of 2017. The Company recognized a gain on the sale of securities of $11.4 million for the quarter ending March 31, 2017.

On March 6, 2018, the Company, through its wholly owned subsidiary, BSC, received $0.6 million in cash and 11,303 shares of CBU common stock as settlement for the indemnification escrow on the 12 month anniversary date of the merger between NRS and CBU. The Company subsequently sold all 11,303 shares of the CBU stock and recognized a gain on the sale of $0.6 million.

Brookline Securities held one Class A Common Stock share and 2,070 Class B Common Stock shares of the Savings Bank Life Insurance Company of Massachusetts ("SBLI"). In July 2017, SBLI converted from a Massachusetts stock insurance company to a Massachusetts mutual insurance company and, as a result, Brookline Securities received $500 for one share of Class A Common Stock and $128 per share for its 2,070 shares of Class B Common Stock of SBLI, or gross proceeds of $265.5 thousand in cash. Brookline Securities recognized a nominal gain on the exchange.

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Carrying Value, Weighted Average Yields, and Contractual Maturities of Investment and Restricted Equity Securities
The table below sets forth certain information regarding the carrying value, weighted average yields and contractual maturities of the Company's investment and restricted equity securities portfolio at the date indicated.

	Balance at December 31, 2018									
	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
	Carrying Value	Weighted Average Yield (1)	Carrying Value	Weighted Average Yield (1)	Carrying Value	Weighted Average Yield (1)	Carrying Value	Weighted Average Yield (1)	Carrying Value	Weighted Average Yield (1)
	(Dollars in Thousands)									
Investment securities available-for-sale:										
GSE debentures	$—	— %	$136,017	2.08 %	$45,063	2.43 %	$—	— %	$181,079	2.17 %
GSE CMOs	—	— %	10	6.82 %	10,675	1.63 %	92,445	1.89 %	103,130	1.86 %
GSE MBSs	57	3.29 %	21,584	2.02 %	50,618	1.99 %	92,830	2.46 %	165,089	2.26 %
SBA commercial loan asset- backed securities	—	— %	37	2.46 %	14	2.61 %	—	— %	51	2.50 %
Corporate debt obligations	11,950	2.02 %	21,310	2.45 %	6,449	2.79 %	—	— %	39,708	2.37 %
U.S. Treasury bonds	—	— %	13,736	2.37 %	—	— %	—	— %	13,736	2.37 %
Equity securities held-for-trading (2)	—	— %	—	— %	—	— %	4,207	2.58 %	4,207	2.58 %
Total investment securities available-for-sale	$12,007	2.03 %	$192,694	2.14 %	$112,819	2.18 %	$189,482	2.17 %	$507,000	2.16 %
Investment securities held-to-maturity:										
GSE debentures	$—	— %	$41,579	2.10 %	$8,966	2.86 %	$—	— %	$50,546	2.23 %
GSE MBSs	—	— %	$50	— %	—	— %	11,376	2.13 %	11,426	2.12 %
Municipal obligations	7,140	1.40 %	31,106	1.91 %	14,059	2.25 %	—	— %	52,304	1.93 %
Foreign government obligations	500	2.15 %	—	— %	—	— %	—	— %	500	2.15 %
Total investment securities held-to-maturity	$7,640	1.45 %	$72,735	2.02 %	$23,025	2.49 %	$11,376	2.13 %	$114,776	2.08 %
Restricted equity securities (2):										
FHLBB stock	$—	— %	$—	— %	$—	— %	$43,655	5.95 %	$43,655	5.95 %
FRB stock	—	— %	—	— %	—	— %	17,995	6.06 %	17,995	6.06 %
Other stock	—	— %	—	— %	—	— %	101	— %	101	— %
Total restricted equity securities	$—	— %	$—	— %	$—	— %	$61,751	5.97 %	$61,751	5.97 %

(1) Yields have been calculated on a tax-equivalent basis.

(2) Equity securities have no contractual maturity, therefore they are reported above in the over ten year maturity column.

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Deposits

The following table presents the Company's deposit mix at the dates indicated.

	At December 31,								
	2018			2017			2016		
	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total	Weighted Average Rate
	(Dollars in Thousands)								
Non-interest-bearing deposits:									
Demand checking accounts	$1,033,551	19.0 %	— %	$942,583	19.3 %	— %	$900,474	19.5 %	— %
Interest-bearing deposits:									
NOW accounts	336,317	6.2 %	0.10 %	350,568	7.2 %	0.07 %	323,160	7.0 %	0.07 %
Savings accounts	619,961	11.4 %	0.32 %	646,359	13.3 %	0.25 %	613,061	13.3 %	0.20 %
Money market accounts	1,675,050	30.7 %	1.18 %	1,724,363	35.4 %	0.56 %	1,733,359	37.6 %	0.47 %
Certificate of deposit accounts	1,789,165	32.7 %	1.58 %	1,207,470	24.8 %	1.27 %	1,041,022	22.6 %	1.04 %
Total interest-bearing deposits	4,420,493	81.0 %	1.14 %	3,928,760	80.7 %	0.68 %	3,710,602	80.5 %	0.55 %
Total deposits	$5,454,044	100.0%	0.92 %	$4,871,343	100.0%	0.55 %	$4,611,076	100.0%	0.44 %

The Company seeks to increase its core (non-certificate of deposit) deposits and decrease its loan-to-deposit ratio over time, while continuing to increase deposits as a percentage of total funding sources. The Company's loan-to-deposit ratio decreased to 115.6% as of December 31, 2018, from 117.6% as of December 31, 2017.

Total deposits increased $0.6 billion, or 12.0%, to $5.5 billion as of December 31, 2018, compared to $4.9 billion as of December 31, 2017. Deposits as a percentage of total assets increased from 71.8% as of December 31, 2017 to 73.8% as of December 31, 2018. The increase in deposits as a percentage of total assets is primarily due to the growth in the certificate of deposit balance.

As of December 31, 2018, the Company had $350.7 million of brokered deposits compared to $274.7 million as of December 31, 2017. Brokered deposits allow the Company to seek additional funding by attracting deposits from outside the Company's core market. The Company's investment policy limits the amount of brokered deposits to 15% of total assets. Brokered deposits, which are included in the certificate of deposit balance, increased $581.7 million, or 48.2%, during 2018. Certificates of deposit have also increased as a percentage of total deposits to 32.8% as of December 31, 2018 from 24.8% as of December 31, 2017.

In 2018, core deposits increased $1.0 million. The ratio of core deposits to total deposits decreased from 75.2% as of December 31, 2017 to 67.2% as of December 31, 2018, primarily due to the shift in deposit mix and increase in brokered deposits.

The Company's growth in deposits and the shift in the mix of deposits in 2018 and 2017 were due in part to expansion of the Company's cash management services and increased efforts in seeking deposits from existing customer relationships. A rise in interest rates could cause a shift from core deposit accounts to certificate of deposit accounts with longer maturities. Generally, the rates paid on certificates of deposit are higher than those paid on core deposit accounts.

The following table sets forth the distribution of the average balances of the Company's deposit accounts for the years indicated and the weighted average interest rates on each category of deposits presented. Averages for the years presented are based on daily balances.

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	Year Ended December 31,								
	2018			2017			2016		
	Average Balance	Percent of Total Average Deposits	Weighted Average Rate	Average Balance	Percent of Total Average Deposits	Weighted Average Rate	Average Balance	Percent of Total Average Deposits	Weighted Average Rate
	(Dollars in Thousands)								
Core deposits:									
Non-interest-bearing demand checking accounts	$997,179	19.3 %	— %	$912,743	19.3 %	— %	$849,672	18.9 %	— %
NOW accounts	340,194	6.6 %	0.08 %	322,681	6.8 %	0.07 %	294,318	6.5 %	0.07 %
Savings accounts	618,674	12.0 %	0.29 %	620,757	13.1 %	0.21 %	578,855	12.9 %	0.23 %
Money market accounts	1,715,057	33.1 %	0.90 %	1,761,112	37.2 %	0.50 %	1,670,609	37.2 %	0.45 %
Total core deposits	3,671,104	71.0 %	— %	3,617,293	76.4 %	0.29 %	3,393,454	75.5 %	0.27 %
Certificate of deposit accounts	1,497,473	29.0 %	1.64 %	1,116,909	23.6 %	1.16 %	1,102,110	24.5 %	1.00 %
Total deposits	$5,168,577	100.0 %	0.81 %	$4,734,202	100.0 %	0.49 %	$4,495,564	100.0 %	0.44 %

As of December 31, 2018 and 2017, the Company had outstanding certificate of deposit of $100,000 or more, maturing as follows:

	At December 31,			
	2018		2017	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)			
Maturity period:				
Six months or less	$261,170	1.63 %	$157,263	0.96 %
Over six months through 12 months	270,897	1.97 %	134,297	1.08 %
Over 12 months	418,167	2.38 %	244,348	1.73 %
Total certificate of deposit of $100,000 or more	$950,234	2.06 %	$535,908	1.34 %

Borrowed Funds

The following table sets forth certain information regarding FHLBB advances, subordinated debentures and notes and other borrowed funds for the periods indicated:

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in Thousands)		
Borrowed funds:			
Average balance outstanding	$1,075,446	$1,013,360	$1,006,200
Maximum amount outstanding at any month end during the year	1,208,920	1,093,693	1,059,885
Balance outstanding at end of year	920,542	1,020,819	1,044,086
Weighted average interest rate for the period	2.22 %	1.61 %	1.56 %
Weighted average interest rate at end of period	2.55 %	1.82 %	1.58 %

Advances from the FHLBB

On a long-term basis, the Company intends to continue to increase its core deposits. The Company also uses FHLBB borrowings and other wholesale borrowings as part of the Company's overall strategy to fund loan growth and manage interest-rate risk and liquidity. The advances are secured by a blanket security agreement which requires the Banks to maintain certain qualifying assets as collateral, principally mortgage loans and securities in an aggregate amount at least equal to outstanding advances. The maximum amount that the FHLBB will advance to member institutions, including the Company, fluctuates from time to time in accordance with the policies of the FHLBB. The Company may also borrow from the FRB's "discount window" as necessary.

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FHLBB borrowings decreased by $105.5 million to $784.4 million as of December 31, 2018 from the December 31, 2017 balance of $889.9 million. The decrease in FHLBB borrowings was primarily due to maturing advances from the FHLBB.

Other Borrowed Funds

In addition to advances from the FHLBB and subordinated debentures and notes, the Company utilizes other funding sources as part of the overall liquidity strategy. Those funding sources include repurchase agreements, committed and uncommitted lines of credit with several financial institutions.

The Company periodically enters into repurchase agreements with its larger deposit and commercial customers as part of its cash management services which are typically overnight borrowings. Repurchase agreements with customers increased
$15.1 million to $52.7 million as of December 31, 2018 from $37.6 million as of December 31, 2017.

The Company has access to a $12.0 million committed line of credit as of December 31, 2018. As of December 31, 2018 and December 31, 2017, the Company did not have any borrowings on this committed line of credit outstanding.

The Banks also have access to funding through several uncommitted lines of credit of $370.0 million. As of December 31, 2018 the Company had no borrowings on outstanding uncommitted lines as compared to December 31, 2017, when the Company had $10.0 million in borrowings on outstanding uncommitted lines.

Subordinated Debentures and Notes

In connection with the acquisition of Bancorp Rhode Island, Inc., the Company assumed three subordinated debentures issued by a subsidiary of Bancorp Rhode Island, Inc.

On September 15, 2014, the Company offered $75.0 million of 6.0% fixed-to-floating subordinated notes due September
15, 2029. The Company is obligated to pay 6.0% interest semiannually between September 2014 and September 2024. Subsequently, the Company is obligated to pay 3-month LIBOR plus 3.315% quarterly until the notes mature in September 2029. As of December 31, 2018, the Company had capitalized costs of $1.1 million in relation to the issuance of these subordinated notes.

The following table summarizes the Company's subordinated debentures and notes at the dates indicated.

				Carrying Amount	
Issue Date	Rate	Maturity Date	Next Call Date	December 31, 2018	December 31, 2017
	(Dollars in Thousands)				
June 26, 2003	Variable; 3-month LIBOR + 3.10%	June 26, 2033	March 26, 2019	$4,803	$ 4,778
March 17, 2004	Variable; 3-month LIBOR + 2.79%	March 17, 2034	March 19, 2019	4,704	4,668
September 15, 2014	6.0% Fixed-to-Variable; 3-month LIBOR + 3.315%	September 15, 2029	September 15, 2024	73,926	73,825
			Total	$83,433	$ 83,271

Derivative Financial Instruments

The Company has entered into loan level derivatives, risk participation agreements, and foreign exchange contracts with certain commercial customers and concurrently enters into offsetting swaps with third-party financial institutions. The Company may also, from time to time, enter into risk participation agreements. The risk participation-out agreements have grown in tandem with the Company's increase in derivative activity. The Company did not have derivative fair value hedges or derivative cash flow hedges at December 31, 2018 or 2017.

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The following table summarizes certain information concerning the Company's loan level derivatives, risk participation agreements, and foreign exchange contracts at December 31, 2018 and 2017:

	At December 31, 2018	At December 31, 2017
	(Dollars in Thousands)	
Loan level derivatives:		
Receive fixed, pay variable	$719,625	$ 494,659
Pay fixed, receive variable	719,625	494,659
Risk participation-out agreements	100,531	36,627
Risk participation-in agreements	35,838	3,825
Foreign exchange contracts (Notional Amount)		
Buys foreign currency, sells U.S. currency	$6,573	$ 1,495
Sells foreign currency, buys U.S. currency	6,582	1,502
Fixed weighted average interest rate from the Company to counterparty	4.25 %	4.17 %
Floating weighted average interest rate from counterparty to the Company	4.00 %	3.19 %
Weighted average remaining term to maturity (in months)	90	81
Fair value:		
Recognized as an asset:		
Loan level derivatives	$22,013	$ 8,865
Risk participation-out agreements	344	65
Foreign exchange contracts	131	72
Recognized as a liability:		
Loan level derivatives	$22,013	$ 8,865
Risk participation-in agreements	84	10
Foreign exchange contracts	123	65

Stockholders' Equity and Dividends

The Company's total stockholders' equity was $900.1 million as of December 31, 2018, representing a $96.3 million increase compared to $803.8 million at December 31, 2017. The increase is due to net income of $83.1 million for the year ended December 31, 2018, issuance of common stock of $55.2 million, which was partially offset by dividends paid by the Company of $31.4 million and restricted stock awards of $2.5 million in 2018.

For the year ended December 31, 2018, the dividend payout ratio was 37.9%, compared to 53.5% for the year ended December 31, 2017. The dividends paid in the fourth quarter of 2018 represented the Company's 79th consecutive quarter of dividend payments. The Company's quarterly dividend paid was $0.09 per share for the first quarter of 2018, which increased to $0.10 per share for the second and third quarter of 2018 and increased in the fourth quarter of 2018 to $0.105 per share.

On December 5, 2018, the Board of Directors (the "Board") of the Company approved a stock repurchase program authorizing Management to repurchase up to $10.0 million of the Company's common stock. As of December 31, 2018, the Company had completed the program and repurchased 725,583 shares at a weighted average price of $13.78. In 2017 and 2016, no shares of the Company's common stock were repurchased by the Company.

Stockholders' equity represented 12.18% of total assets as of December 31, 2018 and 11.86% of total assets as of December 31, 2017. Tangible stockholders' equity (total stockholders' equity less goodwill and identified intangible assets, net) represented 10.15% of tangible assets (total assets less goodwill and identified intangible assets, net) as of December 31, 2018 and 9.94% as of December 31, 2017.

On, April 27, 2017, the Company entered into an underwriting agreement with Piper Jaffray & Co., as representative of the underwriters named therein (collectively, the “Underwriters”), to offer and sell 5,175,000 shares of the Company’s common stock, $0.01 par value per share, at a public offering price of $14.50 per share in an underwritten public offering (the “Offering”). In conjunction with the Offering, the Company granted the Underwriters a 30-day option to purchase up to an additional 776,250 shares of its common stock. On May 2, 2017, the Company and the Underwriters closed the Offering. The Underwriters exercised their option resulting in a new issuance in the aggregate of 5,951,250 shares of the Company's common stock at a price to the public of $14.50 per share. The Company received net proceeds of $82.0 million after deductions for underwriting discounts, commissions, and expenses.

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Results of Operations

The primary drivers of the Company's net income are net interest income, which is strongly affected by the net yield on and growth of interest-earning assets and liabilities ("net interest margin"), the quality of the Company's assets, its levels of non-interest income and non-interest expense, and its tax provision.

The Company's net interest income represents the difference between interest income earned on its investments, loans and leases, and its cost of funds. Interest income is dependent on the amount of interest-earning assets outstanding during the period and the yield earned thereon. Cost of funds is a function of the average amount of deposits and borrowed money outstanding during the year and the interest rates paid thereon. The net interest margin is calculated by dividing net interest income by average interest-earning assets. Net interest spread is the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities. The increases or decreases, as applicable, in the components of interest income and interest expense, expressed in terms of fluctuation in average volume and rate, are summarized under "Rate/Volume Analysis" below. Information as to the components of interest income, interest expense and average rates is provided under "Average Balances, Net Interest Income, Interest-Rate Spread and Net Interest Margin" below.

Because the Company's assets and liabilities are not identical in duration and in repricing dates, the differential between the two is vulnerable to changes in market interest rates as well as the overall shape of the yield curve. These vulnerabilities are inherent to the business of banking and are commonly referred to as "interest-rate risk." How interest-rate risk is measured and, once measured, how much interest-rate risk is taken are based on numerous assumptions and other subjective judgments. See the discussion in the "Measuring Interest-Rate Risk" section of Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" below.

The quality of the Company's assets also influences its earnings. Loans and leases that are not paid on a timely basis and exhibit other weaknesses can result in the loss of principal and/or interest income. Additionally, the Company must make timely provisions to the allowance for loan and lease losses based on estimates of probable losses inherent in the loan and lease portfolio. These additions, which are charged against earnings, are necessarily greater when greater probable losses are expected. Further, the Company incurs expenses as a result of resolving troubled assets. These variables reflect the "credit risk" that the Company takes on in the ordinary course of business and are further discussed under "Financial Condition—Asset Quality" above.

Average Balances, Net Interest Income, Interest-Rate Spread and Net Interest Margin

The following table sets forth information about the Company's average balances, interest income and interest rates earned on average interest-earning assets, interest expense and interest rates paid on average interest-bearing liabilities, interest-rate spread and net interest margin for the years ended December 31, 2018, 2017 and 2016. Average balances are derived from daily average balances and yields include fees, costs and purchase-accounting-related premiums and discounts which are considered adjustments to coupon yields in accordance with GAAP. Certain amounts previously reported have been reclassified to conform to the current presentation.

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	Year Ended December 31,								
	2018			2017			2016		
	Average Balance	Interest (1)	Average Yield/ Cost	Average Balance	Interest (1)	Average Yield/ Cost	Average Balance	Interest (1)	Average Yield/ Cost
	(Dollars in Thousands)								
Assets:									
Interest-earning assets:									
Debt securities	$653,652	$14,174	2.17 %	$634,930	$12,964	2.04 %	$605,097	$12,055	1.99 %
Marketable and restricted equity securities	67,640	3,973	5.88 %	65,992	3,065	4.64 %	66,738	3,017	4.52 %
Short-term investments	38,437	700	1.82 %	40,847	442	1.08 %	54,205	242	0.45 %
Total investments	759,729	18,847	2.48 %	741,769	16,471	2.22 %	726,040	15,314	2.11 %
Commercial real estate loans (2)	3,235,101	146,147	4.46 %	2,968,673	123,000	4.09 %	2,811,487	113,910	3.99 %
Commercial loans (2)	813,815	37,616	4.56 %	739,369	30,904	4.13 %	695,057	27,509	3.90 %
Equipment financing (2)	919,047	63,968	6.96 %	830,755	55,164	6.64 %	748,626	48,217	6.44 %
Residential mortgage loans (2)	746,372	29,773	3.99 %	645,925	23,593	3.65 %	624,994	22,217	3.55 %
Other consumer loans (2)	401,425	18,216	4.53 %	366,713	15,328	4.18 %	353,600	13,864	3.91 %
Total loans and leases	6,115,760	295,720	4.84 %	5,551,435	247,989	4.47 %	5,233,764	225,717	4.31 %
Total interest-earning assets	6,875,489	314,567	4.58 %	6,293,204	264,460	4.20 %	5,959,804	241,031	4.04 %
Allowance for loan and lease losses	(59,154)			(62,972)			(58,071)		
Non-interest-earning assets	406,746			377,002			377,989		
Total assets	$7,223,081			$6,607,234			$6,279,722		
Liabilities and Stockholders' Equity:									
Interest-bearing liabilities:									
Interest-bearing deposits:									
NOW accounts	$340,194	283	0.08 %	$322,681	225	0.07 %	$294,318	209	0.07 %
Savings accounts	618,674	1,804	0.29 %	620,757	1,297	0.21 %	578,855	1,322	0.23 %
Money market accounts	1,715,057	15,369	0.90 %	1,761,112	8,863	0.50 %	1,670,609	7,549	0.45 %
Certificate of deposit	1,497,473	24,522	1.64 %	1,116,909	12,903	1.16 %	1,102,110	10,990	1.00 %
Total interest-bearing deposits (3)	4,171,398	41,978	1.01 %	3,821,459	23,288	0.61 %	3,645,892	20,070	0.55 %
Advances from the FHLBB	946,017	18,650	1.94 %	884,266	11,330	1.26 %	879,650	10,760	1.20 %

Subordinated debentures and notes	83,350	5,181	6.22 %	83,186	5,081	6.11 %	83,017	5,038	6.07 %
Other borrowed funds	46,079	385	0.83 %	45,908	170	0.37 %	43,533	116	0.27 %
Total borrowed funds	1,075,446	24,216	2.22 %	1,013,360	16,581	1.61 %	1,006,200	15,914	1.56 %
Total interest-bearing liabilities	5,246,844	66,194	1.26 %	4,834,819	39,869	0.82 %	4,652,092	35,984	0.77 %
Non-interest-bearing liabilities:									
Non-interest-bearing demand checking accounts (3)	997,179			912,743			849,672		
Other non-interest-bearing liabilities	96,560			78,965			82,073		
Total liabilities	6,340,583			5,826,527			5,583,837		
Brookline Bancorp, Inc. stockholders' equity	873,388			773,244			689,556		
Noncontrolling interest in subsidiary	9,110			7,463			6,329		
Total liabilities and equity	$7,223,081			$6,607,234			$6,279,722		
Net interest income (tax-equivalent basis) / Interest-rate spread (4)		248,373	3.32 %		224,591	3.38 %		205,047	3.27 %
Less adjustment of tax-exempt income		674			1,410			1,383	
Net interest income		$247,699			$223,181			$203,664	
Net interest margin (5)			3.61 %			3.57 %			3.44 %

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(1) Tax-exempt income on debt securities, equity securities and industrial revenue bonds are included in commercial real estate loans on a tax-equivalent basis.
(2) Loans on nonaccrual status are included in the average balances.
(3) Including non-interest-bearing checking accounts, the average interest rate on total deposits was 0.81%, 0.49% and 0.45% in the years ended December 31, 2018, 2017 and 2016, respectively.
(4) Interest-rate spread represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.
(5) Net interest margin represents net interest income (tax equivalent basis) divided by average interest-earning assets.
See "Comparison of Years Ended December 31, 2018 and December 31, 2017" and "Comparison of Years Ended December 31, 2017 and December 31, 2016" below for a discussion of average assets and liabilities, net interest income, interest-rate spread and net interest margin.

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Rate/Volume Analysis

The following table presents, on a tax-equivalent basis, the extent to which changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities have affected the Company's interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume), and (iii) 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.

	Year Ended December 31, 2018 Compared to Year Ended December 31, 2017 Increase (Decrease) Due To			Year Ended December 31, 2017 Compared to Year Ended December 31, 2016 Increase (Decrease) Due To		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(In Thousands)					
Interest and dividend income:						
Investments:						
Debt securities	$383	$827	$1,210	$602	$307	$909
Marketable and restricted equity securities	78	830	908	(33)	81	48
Short-term investments	(27)	285	258	(72)	272	200
Total investments	434	1,942	2,376	497	660	1,157
Loans and leases:						
Commercial real estate loans	11,527	11,620	23,147	6,276	2,814	9,090
Commercial loans and leases	3,300	3,412	6,712	1,764	1,631	3,395
Equipment financing	6,057	2,747	8,804	5,414	1,533	6,947
Residential mortgage loans	3,865	2,315	6,180	747	629	1,376
Other consumer loans	1,532	1,356	2,888	512	952	1,464
Total loans	26,281	21,450	47,731	14,713	7,559	22,272
Total change in interest and dividend income	26,715	23,392	50,107	15,210	8,219	23,429
Interest expense:						
Deposits:						
NOW accounts	16	42	58	16	—	16
Savings accounts	(4)	511	507	94	(119)	(25)
Money market accounts	(240)	6,746	6,506	431	883	1,314
Certificate of deposit	5,247	6,372	11,619	148	1,765	1,913
Total deposits	5,019	13,671	18,690	689	2,529	3,218
Borrowed funds:						
Advances from the FHLBB	839	6,481	7,320	54	516	570
Subordinated debentures and notes	10	90	100	10	33	43
Other borrowed funds	1	214	215	7	47	54
Total borrowed funds	850	6,785	7,635	71	596	667
Total change in interest expense	5,869	20,456	26,325	760	3,125	3,885
Change in tax-exempt income	(736)	—	(736)	27	—	27
Change in net interest income	$21,582	$2,936	$24,518	$14,423	$5,094	$19,517

See "Comparison of Years Ended December 31, 2018 and December 31, 2017" and "Comparison of Years Ended December 31, 2017 and December 31, 2016" below for a discussion of changes in interest income, interest-rate spread and net interest margin resulting from changes in rates and volumes.

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Comparison of Years Ended December 31, 2018 and December 31, 2017

Net Interest Income

Net interest income increased $24.5 million to $247.7 million for the year ended December 31, 2018 from $223.2 million for the year ended December 31, 2017. The increase year over year reflects a $48.2 million increase in interest income on loans and leases, and a $1.4 million increase in interest income on debt securities, partially offset by a $26.3 million increase in interest expense on deposit and borrowings, which is reflective of the various portfolios repricing and replacing balances into the current low interest rate environment.

Net interest margin increased by 4 basis points to 3.61% in 2018 from 3.57% in 2017. The Company's weighted average interest rate on loans (prior to purchase accounting adjustments) increased to 4.84% for the year ended December 31, 2018 from 4.47% for the year ended December 31, 2017. Interest amortization and accretion on acquired loans totaled $0.7 million and contributed 1 basis point to 2018 loan yields, compared to $0.8 million and 1 basis point in 2017. The increase in the net interest margin is the result of repricing and originating interest-earning assets in a higher rate environment, partially offset by an increase in funding costs.

The yield on interest-earning assets increased to 4.58% for the year ended December 31, 2018 from 4.20% for the year ended December 31, 2017. This increase is the result of higher yields on loans and leases. During the year ended December 31, 2018, the Company recorded $3.5 million in prepayment penalties and late charges, which contributed 5 basis points to yields on interest-earning assets in the year ended December 31, 2018 compared to $3.7 million, or 6 basis points, for the year ended December 31, 2017.

The overall cost of funds (including non-interest-bearing demand checking accounts) increased 44 basis points to 1.26% for the year ended December 31, 2018 from 0.82% for the year ended December 31, 2017. Refer to "Financial Condition - Borrowed Funds" above for more details.

Management seeks to position the balance sheet to be neutral to asset sensitive to changes in interest rates. Since the end of 2016, short term interest rates have risen while at the same time net interest income, net interest spread, and net interest margin have also increased. In general, the Company's balance sheet position should respond positively in a rising interest rate environment and when the rate curves are steepening which should result in a positive impact to net interest income, net interest spread, and the net interest margin. A declining interest rate or flattening yield curve environment is expected to have a negative impact on the Company's yields and net interest margin. Additional risk factors include, but are not limited to: ongoing pricing pressures in both the loan and deposit portfolios, the ability to increase the Company's core deposits, decrease its loan-to-deposit ratio, and decrease its reliance on FHLBB advances. Net interest income may also be negatively affected by changes in the amount of accretion on acquired loans and leases, deposits and borrowed funds, which are included in interest income and interest expense, respectively.

Interest Income—Loans and Leases

	Year Ended December 31, 2018	2017	Dollar Change	Percent Change
	(Dollars in Thousands)			
Interest income—loans and leases:				
Commercial real estate loans	$146,146	$123,000	$23,146	18.8 %
Commercial loans	37,166	29,936	7,230	24.2 %
Equipment financing	63,968	55,164	8,804	16.0 %
Residential mortgage loans	29,773	23,593	6,180	26.2 %
Other consumer loans	18,216	15,329	2,887	18.8 %
Total interest income—loans and leases	$295,269	$247,022	$48,247	19.5 %

Interest income from loans and leases was $295.3 million for 2018, and represented a yield on total loans of 4.84%. This compares to $247.0 million of interest on loans and a yield of 4.47% for 2017. This $48.2 million increase in interest income from loans and leases was attributable to $26.3 million of increased origination volume and an increase of $21.5 million due to the changes in interest rates.

Accretion on acquired loans and leases of $0.7 million contributed 1 basis point to the Company's net interest margin for the year ended December 31, 2018, compared to $0.8 million and 1 basis point for the year ended December 31, 2017. The decrease was due to the continued paydowns of acquired loans and the recognition of related purchase accounting accretion.

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Interest Income—Investments

	Year Ended December 31, 2018	2017	Dollar Change	Percent Change
	(Dollars in Thousands)			
Interest income—investments:				
Debt securities	$13,960	$12,524	$1,436	11.5 %
Held-for-trading and restricted equity securities	3,964	3,062	902	29.5 %
Short-term investments	700	442	258	58.4 %
Total interest income—investments	$18,624	$16,028	$2,596	16.2 %

Total investment income was $18.6 million for the year ended December 31, 2018 compared to $16.0 million for the year ended December 31, 2017. As of December 31, 2018, the yield on total investments was 2.48% as compared to 2.22% as of December 31, 2017. This year over year increase in total investment income of $2.6 million, or 16.2%, was driven by a $1.9 million increase due to rates and a $0.4 million increase due to volume.

Interest Expense—Deposits and Borrowed Funds

	Year Ended December 31, 2018	2017	Dollar Change	Percent Change
	(Dollars in Thousands)			
Interest expense:				
Deposits:				
NOW accounts	$283	$225	$58	25.8 %
Savings accounts	1,804	1,297	507	39.1 %
Money market accounts	15,369	8,863	6,506	73.4 %
Certificate of deposit	24,522	12,903	11,619	90.0 %
Total interest expense—deposits	41,978	23,288	18,690	80.3 %
Borrowed funds:				
Advances from the FHLBB	18,650	11,330	7,320	64.6 %
Subordinated debentures and notes	5,181	5,081	100	2.0 %
Other borrowed funds	385	170	215	126.5%
Total interest expense—borrowed funds	24,216	16,581	7,635	46.0 %
Total interest expense	$66,194	$39,869	$26,325	66.0 %

Deposits

Ongoing increases in the interest rates paid on deposits contributed to increases in the Company’s overall cost of deposits.

In 2018, interest paid on deposits increased $18.7 million, or 80.3%, as compared to 2017. Interest expense increased $13.7 million due to an increase in interest rates and $5.0 million due to the growth in deposits. Purchase accounting amortization on acquired deposits for the year ended December 31, 2018 was $0.8 million, compared to no amortization for the year ended December 31, 2017. Purchase accounting amortization impacted the Company's net interest margin by one basis point in 2018, compared to no impact in 2017.

Borrowed Funds

As of December 31, 2018 the Company's borrowed funds include: $784.4 million in FHLBB advances, $83.4 million in subordinated debentures and notes, and $52.7 million in other borrowed funds. In 2018, the average balance of FHLBB advances increased $61.8 million, or 7.0%, while the average balance of subordinated debentures and notes increased $0.2 million, or 0.2%. Other borrowed funds, which include repurchase agreements, increased $0.2 million, or 0.4%, for the year ended December 31, 2018.

During the year ended December 31, 2018, interest paid on borrowed funds increased $7.6 million, or 46.0% year over year, primarily driven by an increase in FHLBB borrowings. The cost of borrowed funds was 2.22% for the year ended

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December 31, 2018 as compared to 1.61% for the year ended December 31, 2017. This change was driven by an increase of $6.8 million due to borrowing rates and by an increase of $0.9 million in interest expense due to volume. For the year ended December 31, 2018, the purchase accounting accretion on acquired borrowed funds was $0.1 million which did not contribute any basis points to the Company's net interest margin. For the year ended December 31, 2017, the purchase accounting accretion on acquired borrowed funds was $1.0 million which contributed two basis points to the Company's net interest margin.

Provision for Credit Losses

The provisions for credit losses are set forth below:

	Originated Year Ended December 31,		Acquired Year Ended December 31,		Total Year Ended December 31,	
	2018	2017	2018	2017	2018	2017
	(In Thousands)					
Provision (credit) for loan and lease losses:						
Commercial real estate	$254	$(343)	$924	$(172)	$1,178	$(515)
Commercial	3,699	18,899	(451)	284	3,248	19,183
Consumer	556	273	(231)	(157)	325	116
Total provision (credit) for loan and lease losses	4,509	18,829	242	(45)	4,751	18,784
Unfunded credit commitments	200	204	—	—	200	204
Total provision (credit) for credit losses	$4,709	$19,033	$242	$(45)	$4,951	$18,988

For the year ended December 31, 2018, the provision for credit losses decreased $14.0 million, or 73.9%, to $5.0 million from $19.0 million for the year ended December 31, 2017. The decrease in the provision for credit losses for the year ended December 31, 2018 was primarily driven by a decrease to net charge-offs as a result of taxi charge-offs of $3.7 million in 2018 compared to $8.5 million in 2017, and decreased reserves required due to changes in historical loss factors, partially offset by the increases in reserves for loan growth and purchased loans. See management's discussion in "Allowances for Credit Losses-Allowance for Loan and Lease Losses" and Note 7, "Allowance for Loan and Lease Losses," to the consolidated financial statements for a description of how management determined the allowance for loan and lease losses for each portfolio and class of loans.

The liability for unfunded credit commitments, which is included in other liabilities, was $1.9 million and $1.7 million as of December 31, 2018 and December 31, 2017, respectively. For the year ended December 31, 2018, the liability for unfunded credit commitments increased by $0.2 million to reflect changes in the estimate of loss exposure associated with certain unfunded credit commitments. No credit commitments were charged off against the Company's liability account for the years ended December 31, 2018 and 2017.

Non-Interest Income

The following table sets forth the components of non-interest income:

	Year Ended December 31,		Dollar Change	Percent Change
	2018	2017		
	(Dollars in Thousands)			
Deposit fees	$10,400	$10,050	$350	3.5 %
Loan fees	1,427	1,110	317	28.6 %
Loan level derivative income, net	5,440	2,187	3,253	148.7 %
Gain on sales of investment securities, net	227	11,393	(11,166)	(98.0)%
Gain on sales of loans and leases held-for-sale	1,883	2,644	(761)	(28.8)%
Other	5,847	4,789	1,058	22.1 %
Total non-interest income	$25,224	$32,173	$(6,949)	(21.6)%

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For the year ended December 31, 2018, non-interest income decreased $7.0 million, or 21.6%, to $25.2 million as compared to $32.2 million the same period in 2017. This decrease is primarily due to an $11.2 million decrease in the gain on sales of investment securities, partly offset by a $3.3 million increase in loan level derivative income due to higher volume, and a $1.1 million increase in other income.

Loan level derivative income increased $3.3 million, or 148.7%, to $5.4 million for the year ended December 31, 2018 from $2.2 million for the same period of 2017, primarily driven by an increase in loan level derivatives completed in 2018.

Gain on sales of investment securities decreased $11.2 million, or 98.0%, to $0.2 million for the year ended December 31, 2018 from $11.4 million for the same period of 2017, primarily driven by the gain on sale of NRS stock in the first quarter of 2017.

Other income increased $1.0 million, or 22.1%, to $5.8 million for the year ended December 31, 2018 from $4.8 million for the same period of 2017, primarily driven by an increase in gain on sale of fixed assets, other income, and foreign exchange outgoing wire income.

Non-Interest Expense

The following table sets forth the components of non-interest expense:

	Year Ended December 31, 2018	Year Ended December 31, 2017	Dollar Change	Percent Change
	(Dollars in Thousands)			
Compensation and employee benefits	$91,535	$82,413	$9,122	11.1 %
Occupancy	14,991	14,546	445	3.1 %
Equipment and data processing	18,213	16,854	1,359	8.1 %
Professional services	4,404	4,315	89	2.1 %
FDIC insurance	2,722	3,326	(604)	(18.2)%
Advertising and marketing	4,016	3,369	647	19.2 %
Amortization of identified intangible assets	2,080	2,089	(9)	(0.4)%
Merger and acquisition expense	3,787	411	3,376	821.4 %
Other	13,484	11,788	1,696	14.4 %
Total non-interest expense	$155,232	$139,111	$16,121	11.6 %

For the year ended December 31, 2018, non-interest expense increased $16.1 million, or 11.6%, to $155.2 million as compared to $139.1 million for the same period in 2017. This increase is primarily due to a $9.1 million increase in compensation and employee benefits expense, a $3.4 million increase in merger and acquisition expense, and a $1.7 million increase in other expense.

The efficiency ratio increased to 56.88% for the year ended December 31, 2018 from 54.48% for the same period in 2017. The increase was primarily driven by merger and acquisition expenses associated with the First Commons Bank acquisition.

Compensation and employee benefits expense increased $9.1 million, or 11.1%, to $91.5 million for the year ended December 31, 2018 from $82.4 million for the same period in 2017. The increase was primarily driven by an increase in employee headcount and incentive plan expenses.

Merger and acquisition expense increased $3.4 million, or 821.4%, to $3.8 million for the year ended December 31, 2018 from $0.4 million for the same period in 2017, due to the closing of the First Commons Bank acquisition.

Other expense increased $1.7 million, or 14.4%, to $13.5 million for the year ended December 31, 2018 from $11.8 million for the same period in 2017. The increase was primarily driven by an increase related to OREO expenses.

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Provision for Income Taxes

	Year Ended December 31, 2018	2017	Dollar Change	Percent Change
	(Dollars in Thousands)			
Income before provision for income taxes	$112,740	$97,255	$15,485	15.9 %
Provision for income taxes	26,189	43,636	(17,447)	(40.0)%
Net income, before non-controlling interest in subsidiary	$86,551	$53,619	$32,932	61.4 %
Effective tax rate	23.2 %	44.9 %	N/A	(48.3)%

The Company recorded income tax expense of $26.2 million for 2018, compared to $43.6 million for 2017. This represents an effective tax rate of 23.2% and 44.9% for 2018 and 2017, respectively. The decrease in the Company's effective tax rate from 2017 was primarily driven by $10.3 million less in federal income taxes, as a result of the Tax Reform Act, along with a $9.0 million Tax Cuts and Jobs Act adjustment that was made in 2017.

The Tax Reform Act represents the most comprehensive reform to the U.S. tax code in over thirty years. The majority of the provisions of the Tax Reform Act took effect on January 1, 2018. The Tax Reform Act lowered the Company’s federal tax rate from 35% in 2017 to 21% in 2018. The Tax Reform Act also contained other provisions that may affect the Company currently or in future years. Among these are changes to the deductibility of meals and entertainment, the deductibility of executive compensation, accelerated expensing of depreciable property for assets placed in service after September 27, 2017 and before 2023, limited the deductibility of net interest expense, eliminated the corporate alternative minimum tax, limited net operating loss carryforwards to 80% of taxable income and most recently, a parking disallowance related to employee parking.

As a result of the Tax Reform Act, in 2017, management re-valued the carrying value of our net deferred tax asset and investments in low income housing tax credits. The impact of the Tax Reform Act resulted in a write down of the carrying balance of net deferred tax assets and investments in affordable housing projects of $8.6 million and $0.3 million, respectively.

Comparison of Years Ended December 31, 2017 and December 31, 2016

Net Interest Income

Net interest income increased $19.5 million to $223.2 million for the year ended December 31, 2017 from $203.7 million for the year ended December 31, 2016. The increase year over year reflects a $22.3 million increase in interest income on loans and leases, and a $0.8 million increase in interest income on debt securities, partially offset by a $3.9 million increase in interest expense on deposit and borrowings, which is reflective of the various portfolios repricing and replacing balances into the current low interest rate environment.

Net interest margin increased by 13 basis points to 3.57% in 2017 from 3.44% in 2016. The Company's weighted average interest rate on loans (prior to purchase accounting adjustments) increased to 4.47% for the year ended December 31, 2017 from 4.31% for the year ended December 31, 2016. Interest amortization and accretion on acquired loans totaled $0.8 million and contributed 1 basis point to 2017 loan yields, compared to $1.5 million and 3 basis points in 2016. The increase in the net interest margin is the result of repricing and originating interest-earning assets in a higher rate environment, partially offset by an increase in funding costs.

The yield on interest-earning assets increased to 4.20% for the year ended December 31, 2017 from 4.04% for the year ended December 31, 2016. This increase is the result of higher yields on loans and leases. During the year ended December 31, 2017, the Company recorded $3.7 million in prepayment penalties and late charges, which contributed 6 basis points to yields on interest-earning assets in the year ended December 31, 2017 compared to $3.5 million, or 6 basis points, for the year ended December 31, 2016.

The overall cost of funds (including non-interest-bearing demand checking accounts) increased 5 basis points to 0.82% for the year ended December 31, 2017 from 0.77% for the year ended December 31, 2016. Refer to "Financial Condition - Borrowed Funds" above for more details.

Management seeks to position the balance sheet to be neutral to asset sensitive to changes in interest rates. Since the end of 2016, short term interest rates have risen while at the same time net interest income, net interest spread, and net interest margin have also increased. In general, the Company's balance sheet position should respond positively in a rising interest rate environment and when the rate curves are steepening, resulting in a positive impact to net interest income, net interest spread, and the net interest margin. A declining interest rate or flattening yield curve environment is expected to have a negative impact on the Company's yields and net interest margin. Additional risk factors include, but are not limited to: ongoing pricing

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pressures in both the loan and deposit portfolios, the ability to increase the Company's core deposits, decrease its loan-to-deposit ratio, and decrease its reliance on FHLBB advances. Net interest income may also be negatively affected by changes in the amount of accretion on acquired loans and leases, deposits and borrowed funds, which are included in interest income and interest expense, respectively.

Interest Income—Loans and Leases

	Year Ended December 31, 2017	2016	Dollar Change	Percent Change
	(Dollars in Thousands)			
Interest income—loans and leases:				
Commercial real estate loans	$123,000	$113,910	$9,090	8.0 %
Commercial loans	29,936	26,513	3,423	12.9 %
Equipment financing	55,164	48,217	6,947	14.4 %
Residential mortgage loans	23,593	22,217	1,376	6.2 %
Other consumer loans	15,329	13,864	1,465	10.6 %
Total interest income—loans and leases	$247,022	$224,721	$22,301	9.9 %

Interest income from loans and leases was $247.0 million for 2017, and represented a yield on total loans of 4.47%. This compares to $224.7 million of interest on loans and a yield of 4.31% for 2016. This $22.3 million increase in interest income from loans and leases was attributable to $14.7 million of increased origination volume and an increase of $7.6 million due to the changes in interest rates.

Accretion on acquired loans and leases of $0.8 million contributed 1 basis point to the Company's net interest margin for the year ended December 31, 2017, compared to $1.5 million and 3 basis points for the year ended December 31, 2016. The decrease was due to the continued paydowns of acquired loans and the recognition of related purchase accounting accretion.

Interest Income—Investments

	Year Ended December 31, 2017	2016	Dollar Change	Percent Change
	(Dollars in Thousands)			
Interest income—investments:				
Debt securities	$12,524	$11,710	$814	7.0 %
Marketable and restricted equity securities	3,062	2,975	87	2.9 %
Short-term investments	442	242	200	82.6 %
Total interest income—investments	$16,028	$14,927	$1,101	7.4 %

Total investment income was $16.0 million for the year ended December 31, 2017 compared to $14.9 million for the year ended December 31, 2016. As of December 31, 2017, the yield on total investments was 2.22% as compared to 2.11% as of December 31, 2016. This year over year increase in total investment income of $1.1 million, or 7.4%, was driven by a $0.7 million increase due to rates and a $0.5 million increase due to volume.

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Interest Expense—Deposits and Borrowed Funds

	Year Ended December 31, 2017	2016	Dollar Change	Percent Change
	(Dollars in Thousands)			
Interest expense:				
Deposits:				
NOW accounts	$225	$209	$16	7.7 %
Savings accounts	1,297	1,322	(25)	(1.9)%
Money market accounts	8,863	7,549	1,314	17.4 %
Certificate of deposit	12,903	10,990	1,913	17.4 %
Total interest expense—deposits	23,288	20,070	3,218	16.0 %
Borrowed funds:				
Advances from the FHLBB	11,330	10,760	570	5.3 %
Subordinated debentures and notes	5,081	5,038	43	0.9 %
Other borrowed funds	170	116	54	46.6 %
Total interest expense—borrowed funds	16,581	15,914	667	4.2 %
Total interest expense	$39,869	$35,984	$3,885	10.8 %

Deposits

Except for NOW accounts, ongoing increases in the interest rates paid on deposits contributed to increases in the Company’s overall cost of deposits.

In 2017, interest paid on deposits increased $3.2 million, or 16.0%, as compared to 2016. Interest expense increased $2.5 million due to an increase in interest rates and $0.7 million due to the growth in deposits. No purchase accounting accretion was recorded on acquired deposits for the year ended December 31, 2017, compared to $0.1 million for the year ended December 31, 2016. Purchase accounting accretion did not impact the Company's net interest margin in either year.

Borrowed Funds

As of December 31, 2017 the Company's borrowed funds include: $0.9 billion in FHLBB advances, $83.2 million in subordinated debentures and notes, and $47.6 million in other borrowed funds. In 2017, the average balance of FHLBB advances increased $4.6 million, or 0.5%, while the average balance of subordinated debentures and notes increased $0.2 million, or 0.2%. Other borrowed funds, which include repurchase agreements, increased $2.4 million, or 5.5%, for the year ended December 31, 2017.

During the year ended December 31, 2017, interest paid on borrowed funds increased $0.7 million, or 4.2% year over year, primarily driven by an increase in FHLBB borrowings. The cost of borrowed funds was 1.61% for the year ended December 31, 2017 as compared to 1.56% for the year ended December 31, 2016. This change was driven by an increase of $0.6 million due to borrowing rates and by an increase of $0.1 million in interest expense due to volume. For the year ended December 31, 2017, the purchase accounting accretion on acquired borrowed funds was $1.0 million which contributed 2 basis points to the Company's net interest margin. For the year ended December 31, 2016, the purchase accounting accretion on acquired borrowed funds was $2.6 million which contributed 4 basis points to the Company's net interest margin.

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Provision for Credit Losses

The provisions for credit losses are set forth below:

	Originated		Acquired		Total	
	Year Ended		Year Ended		Year Ended	
	December 31,		December 31,		December 31,	
	2017	2016	2017	2016	2017	2016
	(In Thousands)					
Provision (credit) for loan and lease losses:						
Commercial real estate	$(343)	$(750)	$(172)	$413	$(515)	$(337)
Commercial	18,899	8,469	284	293	19,183	8,762
Consumer	273	1,263	(157)	514	116	1,777
Unallocated	—	—	—	—	—	—
Total provision (credit) for loan and lease losses	18,829	8,982	(45)	1,220	18,784	10,202
Unfunded credit commitments	204	151	—	—		