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INDEPENDENT BANK CORP

Form 10-K

February 28, 2019

false--12-31FY2018000077690128080000YesfalsefalsefalseNoYes2440000.02841.000.051.000.050.750.000.750.001.000.851
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[Table of Contents](#)

United States Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018

or

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

For the transition period from _____ to _____
Commission File Number: 1-9047

Independent Bank Corp.

(Exact name of registrant as specified in its charter)

Massachusetts

*(State or other jurisdiction of
incorporation or organization)*

04-2870273

*(I.R.S. Employer
Identification No.)*

Office Address: 2036 Washington Street, 02339

Hanover, Massachusetts

**Mailing Address: 288 Union Street,
Rockland, Massachusetts**

02370

(Zip Code)

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(Address of principal executive offices)

Registrant's telephone number, including area code:

(781) 878-6100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.01 par value 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.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant 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 No

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 registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (check one):

Large Accelerated Filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

If and 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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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Table of Contents

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 voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on June 30, 2018 was approximately \$2,113,770,437.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. February 25, 2019 - 28,121,819

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933.

Portions of the Registrant's definitive proxy statement for its 2019 Annual Meeting of Stockholders are incorporated into Part III, Items 10-14 of this Form 10-K. The 2019 definitive proxy statement will be filed within 120 days of December 31, 2018.

Table of Contents

INDEPENDENT BANK CORP.
2018 ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

	Page #
Part I	
Item 1. <u>Business</u>	4
<u>General</u>	4
<u>Market Area and Competition</u>	5
<u>Lending Activities</u>	5
<u>Investment Activities</u>	11
<u>Sources of Funds</u>	11
<u>Investment Management</u>	12
<u>Regulation</u>	12
<u>Statistical Disclosure by Bank Holding Companies</u>	19
<u>Available Information</u>	19
Item 1A. <u>Risk Factors</u>	19
Item 1B. <u>Unresolved Staff Comments</u>	26
Item 2. <u>Properties</u>	26
Item 3. <u>Legal Proceedings</u>	26
Item 4. <u>Mine Safety Disclosures</u>	26
Part II	
Item 5. <u>Market for Independent Bank Corp.'s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	27
Item 6. <u>Selected Financial Data</u>	29
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>Table 1 - Securities Portfolio Composition</u>	38
<u>Table 2 - Securities Portfolio, Amounts Maturing</u>	39
<u>Table 3 - Closed Residential Real Estate Loans</u>	40
<u>Table 4 - Mortgage Servicing Asset</u>	41
<u>Table 5 - Components of Loan Growth/(Decline)</u>	41
<u>Table 6 - Loan Portfolio Composition</u>	42
<u>Table 7 - Scheduled Contractual Loan Amortization</u>	42
<u>Table 8 - Nonperforming Assets</u>	44
<u>Table 9 - Activity in Nonperforming Assets</u>	45
<u>Table 10 - Troubled Debt Restructurings</u>	45
<u>Table 11 - Activity in Troubled Debt Restructurings</u>	46
<u>Table 12 - Interest Income - Nonaccrual Loans and Troubled Debt Restructurings</u>	46
<u>Table 13 - Summary of Changes in the Allowance for Loan Losses</u>	48
<u>Table 14 - Summary of Allocation of Allowance for Loan Losses</u>	49
<u>Table 15 - Components of Deposit Growth/(Decline)</u>	50
<u>Table 16 - Maturities of Time Certificates of Deposits \$100,000 and over</u>	50
<u>Table 17 - Borrowings by Category</u>	51
<u>Table 18 - Summary of Results of Operations</u>	52
<u>Table 19 - Average Balance, Interest Earned/Paid & Average Yields</u>	52
<u>Table 20 - Volume Rate Analysis</u>	54
<u>Table 21 - Noninterest Income</u>	55

<u>Table 22 - Noninterest Expense</u>	<u>56</u>
<u>Table 23 - Tax Provision and Applicable Tax Rates</u>	<u>57</u>
<u>Table 24 - New Markets Tax Credit Recognition Schedule</u>	<u>57</u>
<u>Table 25 - Interest Rate Sensitivity</u>	<u>61</u>

Table of Contents

INDEPENDENT BANK CORP.	
	<u>Table 26 - Sources of Liquidity</u> 62
	<u>Table 27 - Contractual Obligations, Commitments, Contingencies, and Off-Balance Sheet Financial Instruments by Maturity</u> 64
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 67
Item 8.	<u>Financial Statements and Supplementary Data</u> 68
	<u>Consolidated Balance Sheets</u> 69
	<u>Consolidated Statements of Income</u> 70
	<u>Consolidated Statements of Comprehensive Income</u> 71
	<u>Consolidated Statements of Stockholders' Equity</u> 72
	<u>Consolidated Statements of Cash Flows</u> 74
	<u>Note 1 - Summary of Significant Accounting Policies</u> 76
	<u>Note 2 - Acquisitions</u> 86
	<u>Note 3 - Securities</u> 91
	<u>Note 4 - Loans, Allowance for Loan Losses and Credit Quality</u> 96
	<u>Note 5 - Bank Premises and Equipment</u> 107
	<u>Note 6 - Goodwill and Other Intangible Assets</u> 107
	<u>Note 7 - Deposits</u> 108
	<u>Note 8 - Borrowings</u> 109
	<u>Note 9 - Earnings Per Share</u> 112
	<u>Note 10 - Stock Based Compensation</u> 113
	<u>Note 11 - Derivatives and Hedging Activities</u> 117
	<u>Note 12 - Balance Sheet Offsetting</u> 121
	<u>Note 13 - Income Taxes</u> 122
	<u>Note 14 - Low Income Housing Project Investments</u> 125
	<u>Note 15 - Employee Benefit Plans</u> 125
	<u>Note 16 - Fair Value Measurements</u> 130
	<u>Note 17 - Revenue Recognition</u> 137
	<u>Note 18 - Other Comprehensive Income (Loss)</u> 140
	<u>Note 19 - Commitments and Contingencies</u> 142
	<u>Note 20 - Regulatory Matters</u> 143
	<u>Note 21 - Parent Company Financial Statements</u> 145
	<u>Note 22 - Selected Quarterly Financial Data</u> 148
	<u>Note 23 - Transactions with Related Parties</u> 149
Item 9.	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u> 149
Item 9A.	<u>Controls and Procedures</u> 149
Item 9B.	<u>Other Information</u> 152
Part III	
Item 10.	<u>Directors, Executive Officers and Corporate Governance</u> 152
Item 11.	<u>Executive Compensation</u> 152
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 152
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u> 152
Item 14.	<u>Principal Accounting Fees and Services</u> 152

Part IV

Item 15. Exhibits, Financial Statement Schedules
Signatures

153
157

Table of Contents

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K, both in the MD&A and elsewhere, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about management’s confidence and strategies and management’s expectations about new and existing programs and products, acquisitions, relationships, opportunities, taxation, technology, market conditions and economic expectations. These statements may be identified by such forward-looking terminology as “should,” “expect,” “believe,” “view,” “opportunity,” “allow,” “continues,” “reflects,” “typically,” “usually,” “anticipate,” or similar statements or of such terms. Such forward-looking statements involve certain risks and uncertainties and our actual results may differ materially from such forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements in addition to those risk factors listed under the “Risk Factors” section of this Annual Report on Form 10-K include, but are not limited to:

- a weakening in the United States economy in general and the regional and local economies within the New England region and the Company’s market area;
- adverse changes or volatility in the local real estate market;
- adverse changes in asset quality including an unanticipated credit deterioration in our loan portfolio including those related to one or more large commercial relationships;
- acquisitions may not produce results at levels or within time frames originally anticipated and may result in unforeseen integration issues or impairment of goodwill and/or other intangibles;
- inability to raise capital on terms that are favorable;
- additional regulatory oversight and additional costs associated with the Company's anticipated increase in assets to over \$10 billion;
- changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System;
 - higher than expected tax expense, resulting from failure to comply with general tax laws, changes in tax laws, or failure to comply with requirements of the federal New Markets Tax Credit program;
- unexpected changes in market interest rates for interest earning assets and/or interest bearing liabilities;
- unexpected increased competition in the Company’s market area;
- unanticipated loan delinquencies, loss of collateral, decreased service revenues, and other potential negative effects on our business caused by severe weather or other external events;
- a deterioration in the conditions of the securities markets;
- a deterioration of the credit rating for U.S. long-term sovereign debt;
- our inability to adapt to changes in information technology, including changes to industry accepted delivery models driven by a migration to the internet as a means of service delivery;
- electronic fraudulent activity within the financial services industry, especially in the commercial banking sector;
- adverse changes in consumer spending and savings habits;
 - failure to consummate or a delay in consummating the acquisition of Blue Hills Bancorp, which is subject to certain standard conditions, including regulatory approval;
- the inability to realize expected synergies from merger transactions in the amounts or in the timeframes anticipated;
- inability to retain customers and employees, including those acquired in the MNB Bancorp and Blue Hills Bancorp, Inc. acquisitions;
- the effect of laws and regulations regarding the financial services industry including, but not limited to, the Dodd-Frank Wall Street Reform and the Consumer Protection Act and regulatory uncertainty surrounding these laws and regulations;
- changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) generally applicable to the Company’s business;
- the impact of the U.S. Government shutdown;
-

changes in accounting policies, practices and standards, as may be adopted by the regulatory agencies as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, and other accounting standard setters;

cyber security attacks or intrusions that could adversely impact our businesses; and

other unexpected material adverse changes in our operations or earnings.

Except as required by law, the Company disclaims any intent or obligation to update publicly any such forward-looking statements, whether in response to new information, future events or otherwise. Any public statements or disclosures by the Company following this Annual Report on Form 10-K which modify or impact any of the forward-looking statements contained in this Annual Report on Form 10-K will be deemed to modify or supersede such statements in this Annual Report on Form 10-K.

Table of Contents**PART I****ITEM 1. BUSINESS****General**

Independent Bank Corp. (the “Company”) is a state chartered, federally registered bank holding company headquartered in Rockland, Massachusetts that was incorporated under Massachusetts law in 1985. The Company is the sole stockholder of Rockland Trust Company (“Rockland” or the “Bank”), a Massachusetts trust company chartered in 1907. Rockland is a community-oriented commercial bank, and the community banking business is the Company’s only reportable operating segment. The community banking business is managed as a single strategic unit and derives its revenues from a wide range of banking services, including lending activities, acceptance of demand, savings, and time deposits, and investment management. At December 31, 2018, the Company had total assets of \$8.9 billion, total deposits of \$7.4 billion, stockholders’ equity of \$1.1 billion, and 1,188 full-time equivalent employees.

On September 20, 2018 the Company and Blue Hills Bancorp, Inc. (“Blue Hills Bancorp”), parent of Blue Hills Bank, signed a definitive merger agreement for the Company to acquire Blue Hills Bancorp and Rockland Trust to acquire Blue Hills Bank. The merger agreement provides that each Blue Hills Bancorp stockholder will receive 0.2308 of a share of the Company’s common stock and \$5.25 in cash for each share of Blue Hills Bancorp common stock. The transaction is intended to qualify as a tax-free reorganization for federal income tax purposes and to provide a tax-free exchange for Blue Hills Bancorp stockholders for the Company common stock portion of the consideration they receive. The merger remains subject to regulatory approval and other customary closing conditions.

On November 16, 2018, the Company completed its acquisition of MNB Bancorp (MNB Bancorp) the parent company of The Milford National Bank and Trust Company, adding three full service bank branches in Worcester County, Massachusetts. The acquisition included the acquisition of \$293.5 million in loans and the assumption of \$278.2 million in deposits, each at fair value. The total deal consideration was \$56.1 million and comprised of 25% cash and 75% stock consideration, which equates to 528,353 shares of the Company’s common stock issued to MNB Bancorp shareholders valued at \$42.5 million, and \$13.6 million in cash, inclusive of cash in lieu of fractional shares. The Company is currently the sponsor of Independent Capital Trust V, a Delaware statutory trust, Slade’s Ferry Statutory Trust I, a Connecticut statutory trust, Central Bancorp Capital Trust I, a Delaware statutory trust, and Central Bancorp Statutory Trust II, a Connecticut statutory trust, each of which was formed to issue trust preferred securities. As a result of the MNB Bancorp acquisition, the Company became the sponsor of East Main Street Trust I, a Delaware statutory trust. Subsequent to year end, the Company redeemed all outstanding debentures issued by East Main Street Trust I and is in the process of dissolving the entity. These statutory trusts are not included in the Company’s consolidated financial statements in accordance with the requirements of the consolidation topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”).

As of December 31, 2018, the Bank had the following corporate subsidiaries, all of which were wholly owned by the Bank and included in the Company’s consolidated financial statements:

Five Massachusetts security corporations, namely Rockland Borrowing Collateral Securities Corp., Rockland Deposit Collateral Securities Corp., Taunton Avenue Securities Corp., Goddard Ave Securities Corp. and MFLR Securities Corporation;

Rockland Trust Community Development Corporation, which has two wholly-owned subsidiaries, Rockland Trust Community Development LLC and Rockland Trust Community Development Corporation II, and which also serves as the manager of three Limited Liability Company subsidiaries wholly-owned by the Bank, Rockland Trust Community Development III LLC, Rockland Trust Community Development IV LLC, and Rockland Trust Community Development V LLC, which are all qualified as community development entities under federal New Markets Tax Credit Program criteria;

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Rockland MHEF Fund LLC, established as a wholly-owned subsidiary of Rockland Trust, created with Massachusetts Housing Equity Fund, Inc. as the third party nonmember manager and established to invest in certain low-income housing tax credit projects;

• RTC LIHTC Investments LLC, established to invest primarily in Massachusetts-based low-income housing tax credit projects;

• Rockland Trust Phoenix LLC, formed for the purpose of holding, maintaining, and disposing of certain foreclosed properties;

4

Table of Contents

Bright Rock Capital Management LLC, which was established to act as a registered investment advisor under the Investment Advisors Act of 1940; and

Compass Exchange Advisors LLC, which provides like-kind exchange services pursuant to section 1031 of the Internal Revenue Code.

Periodically, Compass Exchange Advisors LLC, a wholly owned subsidiary of the Bank, acts as an Exchange Accommodation Titleholder (“EAT”) in connection with customers' like-kind exchanges under Section 1031 of the Internal Revenue Code. When Compass Exchange Advisors LLC provides EAT services, it establishes an EAT entity to hold title to property for its customers for up to 180 days in accordance with Internal Revenue Service guidelines. EAT entities are considered the property owner solely for federal income tax purposes, and in no other instances, in order to facilitate a customer's like kind exchange. A typical EAT entity is a Massachusetts corporation whose directors are all Rockland Trust officers and which has Compass Exchange Advisors LLC as its sole shareholder. The EAT entity owns all of the membership interest in a LLC which holds title to the property and is managed by the customer. All financial benefits and burdens of property ownership are borne by the customer. EAT entities are therefore not consolidated onto Compass Exchange Advisors LLC's balance sheet in accordance with requirements of the consolidation topic of the ASC.

Market Area and Competition

The Bank contends with considerable competition both in generating loans and attracting deposits. The Bank's competition for generating loans is primarily from other commercial banks, savings banks, credit unions, mortgage banking companies, finance companies, online lenders or online banks, and other institutional lenders. Competitive factors considered for loan generation include interest rates, terms offered, loan fees charged, loan products offered, services provided, and geographic locations.

In attracting deposits, the Bank's primary competitors are savings banks, commercial and co-operative banks, credit unions, internet banks, as well as other nonbank institutions that offer financial alternatives such as brokerage firms and insurance companies. Competitive factors considered in attracting and retaining deposits include deposit and investment products and their respective rates of return, brand awareness, liquidity, and risk, among other factors, such as convenient branch locations and hours of operation, personalized customer service, online and mobile access to accounts and automated teller machines.

The Bank's market area is attractive and entry into the market by financial institutions previously not competing in the market area may continue to occur which could impact the Bank's growth or profitability. The Bank's market area is generally comprised of Eastern Massachusetts, including Greater Boston, the South Shore, Cape Cod and the Islands, as well as Worcester County and Rhode Island.

Lending Activities

The Bank's gross loan portfolio (loans before allowance for loan losses) amounted to \$6.9 billion on December 31, 2018, or 78.0% of total assets. The Bank classifies loans as commercial, consumer real estate, or other consumer.

Commercial loans consist of commercial and industrial loans, asset-based loans, commercial real estate, commercial construction, and small business loans. Commercial and industrial loans generally consist of loans to customers with credit needs in excess of \$250,000 and revenue in excess of \$2.5 million, and are made for working capital and other business-related purposes and floor plan financing. Asset-based loans consist primarily of revolving lines of credit but also include term loans. Asset-based revolving lines of credit are typically structured as committed lines with terms of three to five years, have variable rates of interest, and are collateralized by accounts receivable and inventory.

Asset-based term loans are typically secured by owner occupied commercial real estate and machinery and equipment. Commercial real estate loans are comprised of commercial mortgages, including mortgages for construction purposes that are secured by nonresidential properties, multifamily properties, or one-to-four family rental properties. Small business loans, including real estate loans, generally consist of loans to businesses with commercial credit needs of

less than or equal to \$250,000 and revenues of less than \$2.5 million. Consumer real estate consists of residential mortgages and home equity loans and lines of credit that are secured primarily by owner-occupied residences and mortgages for the construction of residential properties. Other consumer loans are mainly personal loans.

The Bank's borrowers consist of small-to-medium sized businesses and consumers. Substantially all of the Bank's commercial, consumer real estate, and other consumer loan portfolios consist of loans made to residents of and businesses located in the Bank's market area. The majority of the real estate loans in the Bank's loan portfolio are secured by properties located within this market area.

Interest rates charged on loans may be fixed or variable and vary with the degree of risk, loan term, underwriting and servicing costs, loan amount, and the extent of other banking relationships maintained with customers. Rates are further subject to competitive pressures, the current interest rate environment, availability of funds, and government regulations.

Table of Contents

The Bank's principal earning assets are its loans. Although the Bank judges its borrowers' creditworthiness, the risk of deterioration in borrowers' abilities to repay their loans in accordance with their existing loan agreements is inherent in any lending function. Participating as a lender in the credit market requires a strict underwriting and monitoring process to minimize credit risk. This process requires substantial analysis of the loan application, an evaluation of the customer's capacity to repay according to the loan's contractual terms, and an objective determination of the value of the collateral. The Bank also utilizes the services of an independent third-party to provide loan review services, which consist of a variety of monitoring techniques performed after a loan becomes part of the Bank's portfolio.

The Bank's Controlled Asset and Consumer Collections departments are responsible for the management and resolution of nonperforming loans. Nonperforming loans consist of nonaccrual loans and loans that are more than 90 days past due but still accruing interest. In the course of resolving nonperforming loans, the Bank may choose to foreclose on the loan or restructure the contractual terms of certain loans, by modifying the terms of the loan to fit the ability of the borrower to repay in line with its current financial status.

Other Real Estate Owned ("OREO") includes real estate properties, which have primarily served as collateral to secure loans, that are controlled or owned by the Bank.

Origination and Sale of Loans Commercial and industrial, asset-based, commercial real estate, and construction loan applications are obtained through existing customers, solicitation by Bank personnel, referrals from current or past customers, or walk-in customers. Small business loan applications are typically originated by the Bank's retail staff, through a dedicated team of business officers, by referrals from other areas of the Bank, by referrals from current or past customers, or through walk-in customers. Consumer loan applications primarily result from referrals by real estate brokers, branch referrals, homebuilders, advertising, direct mail, and existing or walk-in customers who have been made aware of the Bank's consumer loan services through advertising, direct mail, and other media.

Loans are approved based upon a hierarchy of authority, predicated upon the size of the loan. Levels within the hierarchy of lending authorities range from individual lenders to the Executive Committee of the Board of Directors.

In accordance with governing banking statutes, the Bank is permitted, with certain exceptions, to make loans and commitments to any one borrower, including related entities, in the aggregate amount of not more than 20% of the Bank's stockholders' equity, or \$225.2 million, at December 31, 2018, which is the Bank's legal lending limit.

Notwithstanding the foregoing, the Bank has established a more restrictive limit of not more than 75% of the Bank's legal lending limit, or \$168.9 million, at December 31, 2018, which may only be exceeded with the approval of the Board of Directors. There were no borrowers whose total indebtedness in aggregate exceeded the Bank's self-imposed restrictive limit. The Bank's largest relationship as of December 31, 2018 consisted of 53 loans with an aggregate exposure of \$88.6 million.

The Bank's residential mortgage loans are originated in compliance with terms, conditions and documentation which permit the sale of such loans to investors in the secondary market. Loan sales in the secondary market provide funds for additional lending and other banking activities. Currently, the Bank sells the servicing of the sold loans for a servicing released premium, simultaneous with the sale of the loan. In the past, the Bank may have opted to sell loans and retain the servicing. In these instances, a mortgage servicing rights asset would have been recognized. As part of its asset/liability management strategy, the Bank may opt to retain certain adjustable rate and fixed rate residential real estate loan originations for its portfolio. During 2018, the Bank originated \$372.6 million in residential real estate loans of which \$182.4 million were retained in its portfolio.

Participation Loans From time to time, the Bank may purchase or sell participating interests in commercial loans to reposition its loan portfolio with the objectives of diversifying credit risk, growing earning assets and/or increasing liquidity. The Bank's approach to underwriting and approving participation loans, both purchased and sold, is consistent with its underwriting and approval policies and procedures for non-participated loans originated by the Bank. For participation loans purchased by the Bank, prior to deciding to purchase a participating interest in the loan, the Bank completes its own credit analysis that is independent of the lead or agent bank's analysis of the offering. For loans originated by the Bank where it sells participating interests, the Bank will generally retain the lead servicing position for the loan. As of December 31, 2018, the unamortized balance of participation loans purchased was \$491.7 million, while the sold portion of the unamortized balance of participation loans originated and sold totaled \$137.6 million.

Table of Contents

Loan Portfolio The following table shows the balance of the loans, the percentage of the gross loan portfolio, and the percentage of total interest income that the loans generated, by category, for the fiscal years indicated:

	As of December 31, 2018	% of Total Loans	% of Total Interest Income Generated For the Years Ended December 31,		
			2018	2017	2016
(Dollars in thousands)					
Commercial	\$ 4,874,718	70.6 %	67.1 %	67.0 %	66.8 %
Consumer real estate	2,015,378	29.2 %	23.6 %	24.0 %	23.7 %
Other consumer	16,098	0.2 %	0.3 %	0.3 %	0.5 %
Total	\$ 6,906,194	100.0 %	91.0 %	91.3 %	91.0 %

Commercial Loans Commercial loans consist of commercial and industrial loans, asset-based loans, commercial real estate loans, commercial construction loans and small business loans. The Bank offers secured and unsecured commercial loans for business purposes. Commercial loans may be structured as term loans or as revolving/nonrevolving lines of credit, and include overdraft protection, credit cards, and automatic clearinghouse (“ACH”) exposure. These loans may be collateralized by either owner or nonowner-occupied commercial mortgages. The following pie chart shows the diversification of the commercial and industrial portfolio as of December 31, 2018:
Select Statistics Regarding the Commercial and Industrial Portfolio

Average loan size	(Dollars in thousands) \$275
Largest individual commercial and industrial loan outstanding	\$24,275
Commercial and industrial nonperforming loans/commercial and industrial loans	2.41 %

Commercial and industrial term loans generally have a repayment schedule of five years or less and, although the Bank occasionally originates some commercial term loans with interest rates which float in accordance with a designated index rate, the majority of commercial term loans have fixed rates of interest and are collateralized by equipment, machinery or other corporate assets. In addition, the Bank generally obtains personal guarantees from the principal owners of the borrower for its commercial loans. At December 31, 2018, there were \$371.6 million of term loans in the commercial and industrial loan portfolio.

Table of Contents

Collateral for commercial and industrial revolving lines of credit, including asset based lines, may consist of accounts receivable, inventory, or both, as well as other business assets. Commercial revolving lines of credit and asset based lines generally are reviewed on an annual basis and usually require either a borrowing base formula or substantial repayment of principal during the course of a year. The vast majority of these revolving lines of credit have variable rates of interest. At December 31, 2018, there were \$722.0 million of revolving lines of credit in the commercial and industrial loan portfolio.

Also included in the commercial and industrial portfolio are automobile and, to a lesser extent, boat, recreational vehicle, and other vehicle floor plan financing. Floor plan loans are secured by the automobiles, boats, or other vehicles, which constitute the dealer's inventory. Upon the sale of a floor plan unit, the proceeds of the sale are applied to reduce the loan balance. In the event a unit financed under a floor plan line of credit remains in the dealer's inventory for an extended period, the Bank requires the dealer to pay-down the outstanding balance associated with such unit. Contractors hired by the Bank make unannounced periodic inspections of each dealer to review the condition of the underlying collateral and ensure that each unit that the Company has financed is accounted for. At December 31, 2018, there were \$93.0 million in floor plan loans, all of which have variable rates of interest.

Small business lending caters to all of the banking needs of businesses with commercial credit requirements and revenues typically less than or equal to \$250,000 and \$2.5 million, respectively, and uses partially automated loan underwriting capabilities. Additionally, the Company makes use of the Bank's authority as a preferred lender with the U.S. Small Business Administration ("SBA"). At December 31, 2018, there were \$30.8 million of SBA guaranteed loans in the commercial and industrial and commercial real estate loan categories, and \$12.8 million of SBA guaranteed loans in the small business loan category.

The Bank's commercial real estate portfolio, inclusive of commercial construction, is the Bank's largest loan type concentration. The Bank believes this portfolio is well-diversified with loans secured by a variety of property types, such as owner-occupied and nonowner-occupied commercial, retail, office, industrial, warehouse, industrial development bonds, and other special purpose properties, such as hotels, motels, nursing homes, restaurants, churches, recreational facilities, marinas, and golf courses. Commercial real estate also includes loans secured by certain residential-related property types including multi-family apartment buildings, residential development tracts and condominiums.

Table of Contents

The following pie chart shows the diversification of the commercial real estate portfolio as of December 31, 2018:

Select Statistics Regarding the Commercial Real Estate Portfolio

	(Dollars in thousands)
Average loan size	\$858
Largest individual commercial real estate mortgage outstanding	\$29,000
Commercial real estate nonperforming loans/commercial real estate loans	0.09 %
Owner occupied commercial real estate loans/commercial real estate loans	16.2 %

Although terms vary, commercial real estate loans typically are underwritten with maturities of five to ten years. These loans generally have amortization periods of 20 to 25 years, with interest rates that float in accordance with a designated index or that are fixed during the origination process. For loans with terms greater than five years, with certain exceptions, interest rates may be fixed for no longer than five years and are reset typically on the fifth anniversary of the loan. It is the Bank's practice to obtain personal guarantees from the principals of the borrower on commercial real estate loans and to obtain financial statements at least annually from all actively managed commercial and multi-family borrowers.

Commercial real estate lending entails additional risks as compared to residential real estate lending. Commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers. Development of commercial real estate projects also may be subject to numerous land use and environmental issues. The payment experience on such loans is typically dependent on the successful operation of the real estate project, which can be significantly impacted by supply and demand conditions within the markets for commercial, retail, office, industrial/warehouse and multi-family tenancy.

Also included in the commercial real estate portfolio are industrial developmental bonds. The Bank owns certain bonds issued by various state agencies, municipalities and nonprofit organizations that it categorizes as loans. This categorization is made on the basis that another entity (i.e. the Bank's customer), not the issuing agency, is responsible for the payment to the Bank of the principal and interest on the debt. Furthermore, credit underwriting is based solely on the credit of the customer (and guarantors, if any), the banking relationship is with the customer and not the agency, there is no active secondary market for the bonds, and the bonds are not available for sale, but are intended to be held by the Bank until maturity. Therefore, the Bank believes that such bonds are more appropriately characterized as loans, rather than securities. At December 31, 2018, the balance of industrial development bonds was \$77.0 million. Construction loans are intended to finance the construction of residential and commercial properties, including loans for the acquisition and development of land or rehabilitation of existing properties. Nonpermanent construction loans generally have terms of at least six months, but not more than two years. They usually do not provide for amortization of the loan balance during

Table of Contents

the construction term. The majority of the Bank's commercial construction loans have floating rates of interest. At December 31, 2018, the commercial construction portfolio amounted to \$365.2 million.

Construction loans are generally considered to present a higher degree of risk than permanent real estate loans and may be affected by a variety of factors, such as adverse changes in interest rates and the borrower's ability to control costs and adhere to time schedules. Other construction-related risks may include market risk, that is, the risk that "for-sale" or "for-lease" units may not be absorbed by the market within a developer's anticipated time-frame or at a developer's anticipated price. When the Company enters into a loan agreement with a borrower on a construction loan, an interest reserve may be included in the amount of the loan commitment to the borrower and it allows the lender to periodically advance loan funds to pay interest charges on the outstanding balance of the loan. The interest may be capitalized and added to the loan balance. Management actively tracks and monitors these accounts.

Consumer Real Estate Loans The Bank's consumer real estate loans consist of loans and lines secured by one-to-four family residential properties.

The Bank originates both fixed-rate and adjustable-rate residential real estate loans. The Bank will lend up to 97% of the lesser of the appraised value of the residential property securing the loan or the purchase price, and generally requires borrowers to obtain private mortgage insurance when the amount of the loan exceeds 80% of the value of the property. In certain instances for loans that qualify for the Fannie Mae Home Affordable Refinance Initiative and other similar programs, the Bank will lend up to 125% of the appraised value of the residential property, and such loans are then subsequently sold by the Bank. The rates of these loans are typically competitive with market rates. The Bank's residential real estate loans are generally originated only under terms, conditions and documentation which permit sale in the secondary market. In order to protect the properties securing its residential and other real estate loans, the Bank requires title insurance protecting the priority of its mortgage lien, as well as fire, extended casualty, and flood insurance, when necessary. Independent appraisers assess properties securing all of the Bank's first mortgage real estate loans, as required by regulatory standards.

Home equity loans and lines may be made as fixed rate term loans or under variable rate revolving lines of credit secured by a first or second mortgage on the borrower's residence or second home. At December 31, 2018, 59.9% of the home equity portfolio was in first lien position and 40.1% of the portfolio was in a subordinate position. At December 31, 2018, \$415.6 million, or 38.1%, of the home equity portfolio was comprised of term loans and \$676.5 million, or 61.9%, of the home equity portfolio was comprised of revolving lines of credit. The Bank will typically originate home equity loans and lines in an amount up to 80% of the appraised value or on-line valuation, reduced for any loans outstanding that are secured by such collateral. Home equity loans and lines are underwritten in accordance with the Bank's loan policy, which includes a combination of credit history, loan-to-value ("LTV") ratio, employment history and debt-to-income ratio.

The Bank periodically supplements performance data with current Fair Isaac Corporation ("FICO") and LTV estimates. Current FICO data is purchased and typically appended to all consumer loans on a quarterly basis. In addition, automated valuation services and broker opinions of value are used to supplement original value data for the residential and home equity portfolios. Use of re-score and re-value data enables the Bank to better understand the current credit risk associated with these loans, but is not the only factor relied upon in determining a borrower's creditworthiness. See *Note 4*, "Loans, Allowance for Loan Losses and Credit Quality" within Notes to the Consolidated Financial Statements included in Item 8 hereof for more information regarding FICO and LTV estimates.

Other Consumer Loans Consumer loans primarily consist of investment management secured lines of credit, installment loans and overdraft protection.

Table of Contents**Investment Activities**

The Bank's securities portfolio primarily consists of U.S. Government agency securities, agency mortgage-backed securities, agency collateralized mortgage obligations, and small business administration pooled securities. Also included in the Company's security portfolio are trading and equity securities related to certain employee benefit programs. The majority of these securities are investment grade debt obligations with average lives of five years or less. U.S. Government Agency securities entail a lesser degree of risk than loans made by the Bank by virtue of the guarantees that back them, require less capital under risk-based capital rules than noninsured or nonguaranteed mortgage loans, are more liquid than individual mortgage loans, and may be used to collateralize borrowings or other obligations of the Bank. The Bank views its securities portfolio as a source of income and liquidity. Interest and principal payments generated from securities provide a source of liquidity to fund loans and meet short-term cash needs. The Bank's securities portfolio is managed in accordance with the Rockland Trust Company Investment Policy ("Investment Policy") approved by the Board of Directors. Two members of the Asset-Liability Committee of the Bank ("ALCO"), one of whom must be the Chief Executive Officer or the Chief Financial Officer, must approve purchases or sales, between meetings. These purchases are subject to limits on the type, size and quality of all investments, which are specified in the Investment Policy. The Bank's ALCO, or its appointee, is required to evaluate any purchase from the standpoint of overall diversification of the portfolio. At December 31, 2018, the Company's securities totaled \$1.1 billion, and generated interest and dividends of 8.2%, 8.1%, and 8.5% of total interest income for the fiscal years ended December 31, 2018, 2017, and 2016, respectively. The Company reviews its security portfolio for impairment and to evaluate collection of principal and interest. If any securities are deferring interest payments, as they may be contractually entitled to do, the Company would place these securities on nonaccrual status and reverse any accrued but uncollected interest.

Sources of Funds

Deposits At December 31, 2018, total deposits were \$7.4 billion. Deposits obtained through the Bank's branch banking network have traditionally been the principal source of the Bank's funds for use in lending and for other general business purposes. The Bank has built a stable base of in-market core deposits from consumers, businesses, and municipalities. The Bank offers a range of demand deposits, interest checking, money market accounts, savings accounts, and time certificates of deposit. Interest rates on deposits are based on factors that include loan demand, deposit maturities, alternative costs of funds, and interest rates offered by competing financial institutions in the Bank's market area. The Bank believes it has been able to attract and maintain satisfactory levels of deposits based on the level of service it provides to its customers, the convenience of its banking locations, its electronic banking options, and its interest rates, all of which are generally competitive with those of competing financial institutions. Additionally, the Bank has a municipal banking department that focuses on providing core depository services to local municipalities. Municipal deposits totaled \$545.0 million as of December 31, 2018.

The Company also participates in the Promontory Interfinancial Network, allowing the Bank to provide easy access to multi-million dollar Federal Deposit Insurance Corporation ("FDIC") deposit insurance protection on certificate of deposit and money market investments for consumers, businesses and public entities. This channel allows the Company to seek additional funding in potentially large quantities by attracting deposits from outside the Bank's core market and amounted to \$180.5 million and \$48.5 million, at December 31, 2018 and December 31, 2017, respectively, including approximately \$141.2 million of funds transferred from the Company's discontinued customer repurchase agreements. During the second quarter of 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRRCPA") was promulgated and determined that reciprocal deposits, such as those acquired through the Promontory Interfinancial Network, were no longer to be treated as brokered deposits. Accordingly, these amounts are no longer included in the total brokered amounts reported by the Company.

In addition, the Company may occasionally raise funds through the use of brokered deposits outside of the Promontory Interfinancial Network, which amounted to \$6.0 million at both December 31, 2018 and December 31, 2017.

Rockland Trust's eighty-nine branch locations are supplemented by the Bank's internet and mobile banking services as well as automated teller machine ("ATM") cards and debit cards which may be used to conduct various banking

transactions at ATMs maintained at each of the Bank's full-service offices and eleven additional remote ATM locations. The ATM cards and debit cards also allow customers access to a variety of national and international ATM networks. The Bank's mobile banking services give customers the ability to use a variety of mobile devices to check balances, track account activity, pay bills, search transactions, and set up alerts for text or e-mail messages for changes in their account. Customers can also transfer funds between Rockland Trust accounts, deposit checks into their account, and identify the nearest branch or ATM directly from their mobile device.

Borrowings As of December 31, 2018, total borrowings were \$258.7 million. Borrowings consist of short-term and long-term obligations and may consist of Federal Home Loan Bank ("FHLB") advances, federal funds purchased, securities sold under repurchase agreements, and junior subordinated debentures.

Rockland is a member of the FHLB of Boston. The primary reason for FHLB membership is to gain access to a reliable source of wholesale funding, particularly term funding, as a tool to manage liquidity and interest rate risk. As a member of the

Table of Contents

FHLB of Boston, the Bank is required to purchase stock in the FHLB. Accordingly, the Company had invested \$15.7 million in FHLB stock and had \$147.8 million outstanding in FHLB borrowings with original maturities ranging from less than 3 months to 20 years at December 31, 2018. In addition, the Bank had \$953.5 million of borrowing capacity remaining with the FHLB at December 31, 2018, inclusive of a \$5.0 million line of credit.

Also included in borrowings at December 31, 2018 were \$76.2 million of junior subordinated debentures, which are inclusive of unamortized fair value marks associated with previous acquisitions and net of unamortized issuance costs. Total borrowings also includes \$34.7 million of subordinated debt, net of unamortized issuance costs. These instruments provide long-term funding as well as regulatory capital benefits.

The Company also has access to other forms of borrowing, such as securities repurchase agreements. In a security repurchase agreement transaction, the Bank will generally sell a security, agreeing to repurchase either the same or a substantially identical security on a specified later date, at a price greater than the original sales price. The difference between the sale price and purchase price is the cost of the proceeds, which is recorded as interest expense. Payments on such borrowings are interest only until the scheduled repurchase date. In a repurchase agreement, the Bank is subject to the risk that the purchaser may default at maturity and not return the securities underlying the agreements. In order to minimize this risk, the Bank either deals with established firms when entering into these transactions or with customers whose agreements stipulate that the securities underlying the agreement are not delivered to the customer and instead are held in segregated safekeeping accounts by the Bank's safekeeping agents. As of December 31, 2018, the Bank discontinued its customer repurchase sweep product and had no repurchase agreements with investment brokerage firms.

See *Note 8*, "Borrowings" within Notes to the Consolidated Financial Statements included in Item 8 hereof for more information regarding borrowings.

Investment Management

The Rockland Trust Investment Management Group provides investment management and trust services to individuals, institutions, small businesses, and charitable institutions throughout the Bank's geographical footprint. Accounts maintained by the Rockland Trust Investment Management Group consist of managed and nonmanaged accounts. Managed accounts are those for which the Bank is responsible for administration and investment management and/or investment advice, while nonmanaged accounts are those for which the Bank acts solely as a custodian or directed trustee. The Bank receives fees dependent upon the level and type of service(s) provided. For the year ended December 31, 2018, the Investment Management Group generated gross fee revenues of \$23.4 million. Total assets under administration as of December 31, 2018 were \$3.6 billion, of which \$3.3 billion was related to managed accounts. Included in these amounts as of December 31, 2018 were assets under administration of \$268.0 million, relating to the Company's registered investment advisor, Bright Rock Capital Management, LLC, which provides institutional quality investment management services to both institutional and high net worth clients.

The administration of trust and fiduciary accounts is monitored by the Trust Committee of the Bank's Board of Directors. The Trust Committee has delegated administrative responsibilities to three committees, one for investments, one for administration, and one for operations, all of which are comprised of Investment Management Group officers who meet no less than quarterly.

The Bank has an agreement with LPL Financial ("LPL") and its affiliates and their insurance subsidiary, LPL Insurance Associates, Inc., to offer the sale of mutual fund shares, unit investment trust shares, general securities, fixed and variable annuities and life insurance. Registered representatives who are both employed by the Bank and licensed and contracted with LPL are onsite to offer these products to the Bank's customer base. These same agents are also approved and appointed with various other Broker General Agents for the purposes of processing insurance solutions for clients. For the year ended December 31, 2018, the retail investments and insurance group generated gross fee revenues of \$2.7 million.

Regulation

The following discussion sets forth certain material elements of the regulatory framework applicable to bank holding companies and their subsidiaries and provides certain specific information relevant to the Company. To the extent that

the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. A change in applicable statutes, regulations or regulatory policy may have a material effect on the Company's business. The laws and regulations governing the Company and the Bank that are described in the following discussion generally have been promulgated to offer protection to depositors and not for the purpose of protecting stockholders.

General The Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended ("BHCA"), and as such is subject to regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve"). Rockland Trust is subject to regulation and examination by the Commissioner of Banks of the Commonwealth of Massachusetts (the "Commissioner") and the FDIC.

Table of Contents

The Bank Holding Company Act The BHCA prohibits the Company from acquiring direct or indirect ownership or control of 5% or more of any class of voting shares of any bank, or increasing such ownership or control of any bank, without prior approval of the Federal Reserve. The BHCA also prohibits the Company from, with certain exceptions, acquiring 5% or more of any class of voting shares of any company that is not a bank and from engaging in any business other than banking or managing or controlling banks.

Under the BHCA, the Federal Reserve is authorized to approve the ownership by the Company of shares in any company, the activities of which the Federal Reserve has determined to be so closely related to banking or to managing or controlling banks as to be a proper incident thereto. The Federal Reserve has, by regulation, determined that some activities are closely related to banking within the meaning of the BHCA. These activities include, but are not limited to, operating a mortgage company, finance company, credit card company, factoring company, trust company or savings association; performing data processing operations; providing some securities brokerage services; acting as an investment or financial adviser; acting as an insurance agent for types of credit-related insurance; engaging in insurance underwriting under limited circumstances; leasing personal property on a full-payout, nonoperating basis; providing tax planning and preparation services; operating a collection agency and a credit bureau; and providing consumer financial counseling and courier services. The Federal Reserve also has determined that other activities, including real estate brokerage and syndication, land development, property management and, except under limited circumstances, underwriting of life insurance not related to credit transactions, are not closely related to banking and are not a proper incident thereto.

Financial Services Modernization Legislation The Gramm-Leach-Bliley Act of 1999, as amended (“GLB”), repealed provisions of the Glass-Steagall Act which restricted the affiliation of Federal Reserve member banks with firms “engaged principally” in specified securities activities, and which restricted officer, director, or employee interlocks between a member bank and any company or person “primarily engaged” in specified securities activities.

In addition, the GLB preempts any state law restricting the establishment of financial affiliations, primarily related to insurance. The general effect of the law has been to establish a comprehensive framework permitting affiliations among commercial banks, insurance companies, securities firms and other financial service providers, by revising and expanding the BHCA framework to permit a holding company to engage in a full range of financial activities through an entity known as a “financial holding company.” “Financial activities” is broadly defined to include not only banking, insurance and securities activities, but also merchant banking and additional activities that the Federal Reserve, in consultation with the Secretary of the Treasury, determines to be financial in nature, incidental to such financial activities or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

Because the GLB permits banks, securities firms and insurance companies to affiliate, the financial services industry has experienced further consolidation, which has increased the amount of competition that the Company faces from larger institutions and other types of companies offering financial products, many of which may have substantially more financial resources than the Company.

Interstate Banking The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended by the Riegle-Neal Amendments Act of 1997, as amended (the “Interstate Banking Act”), permits bank holding companies to acquire banks in states other than their home state without regard to state laws that previously restricted or prohibited such acquisitions except for any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company, after the proposed acquisition, controls no more than 10 percent of the total amount of deposits of insured depository institutions in the United States and no more than 30 percent or such lesser or greater amount set by state law of such deposits in that state. The Interstate Banking Act also facilitates the operation by state-chartered banks of branch networks across state lines.

Pursuant to Massachusetts law, no approval to acquire a banking institution, acquire additional shares in a banking institution, acquire substantially all the assets of a banking institution, or merge or consolidate with another bank holding company, may be given if the bank being acquired has been in existence for a period less than three years or, as a result of an acquisition, merger or consolidation, the bank holding company would control in excess of 30% of the total deposits of all state and federally chartered banks in Massachusetts, unless waived by the Commissioner.

With the prior written approval of the Commissioner, Massachusetts also permits the establishment of de novo branches in Massachusetts to the full extent permitted by the Interstate Banking Act, provided the laws of the home state of such out-of-state bank expressly authorize, under conditions no more restrictive than those of Massachusetts, Massachusetts' banks to establish and operate de novo branches in such state.

Capital Requirements The Federal Reserve has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the BHCA. In July 2013, the Federal Reserve published final rules establishing a new comprehensive capital framework for U.S. banking organizations, referred to herein as the "Rules". The FDIC has adopted substantially identical rules (as interim final rules).

Table of Contents

Under the Rules, the minimum capital ratios for the Company and the Bank are as follows:

- 4.5% Common Equity Tier 1 ("CET1") to risk-weighted assets.
- 6.0% Tier 1 capital (i.e., CET1 plus Additional Tier 1) to risk-weighted assets.
- 8.0% Total capital (i.e., Tier 1 plus Tier 2) to risk-weighted assets.
- 4.0% Tier 1 leverage capital ratio.

Fully phased in as of January 1, 2019, the Rules also require the Company and the Bank to maintain a “capital conservation buffer” in an amount greater than 2.5%, composed entirely of CET1, on top of the minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions that meet the minimum capital requirements of 4.5%, 6.0% and 8.0% for CET1, Tier 1 and Total capital, respectively, but fall below the capital conservation buffer, will face constraints on capital distributions and discretionary bonus payments to executive officers based on the amount of the shortfall. The capital conservation buffer effectively increases the minimum CET1 capital ratio to 7.0%, the minimum Tier 1 risk-based capital ratio to 8.5%, and the minimum total risk-based capital ratio to 10.5%, for banking organizations seeking to avoid the limitations on capital distributions and discretionary bonus payments to executive officers. As of January 1, 2019, the Company and the Bank maintained the required capital conservation buffer of 2.5%.

The Rules provided for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income, and significant investments in common equity issued by nonconsolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. In addition, the effects of certain accumulated other comprehensive items are not excluded; however, certain banking organizations could make a one-time permanent election to continue to exclude these items effective as of January 1, 2015. The Company and the Bank each made such an election.

The deductions and other adjustments to CET1 were previously scheduled to be phased in incrementally between January 1, 2015 and January 1, 2018. In November 2017, banking regulations provided that the phase-in of certain of these adjustments for non-advanced approaches organizations such as the Bank was frozen.

With respect to the Bank, the Rules also revised the “prompt corrective action” regulations pursuant to Section 38 of the Federal Deposit Insurance Act, by: (i) introducing a CET1 ratio requirement at each capital quality level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the previous 6%); and (iii) requiring a leverage ratio of 5% to be well-capitalized (as compared to the previously required leverage ratio of 3 or 4%). The Rules did not change the total risk-based capital requirement for any “prompt corrective action” category. When the capital conservation buffer is fully phased in, the capital ratios applicable to depository institutions under the Rules will exceed the ratios to be considered well-capitalized under the "prompt corrective action" regulations.

The Rules prescribed a standardized approach for calculating risk-weighted assets.

The revised minimum capital levels under the Rules are set forth below:

Bank				Holding Company			
Total Risk-Based Ratio	Tier 1 Risk-Based Ratio	Common Equity Tier 1 Capital	Tier 1 Leverage Capital Ratio	Total Risk-Based Ratio	Tier 1 Risk-Based Ratio	Common Equity Tier 1 Capital	Tier 1 Leverage Capital Ratio

Category

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Well capitalized	≥ 10%	and ≥ 8%	and ≥ 6.5%	≥ 5%	n/a	n/a	≥ 6.5%	n/a
Adequately capitalized	≥ 8%	and ≥ 6%	and ≥ 4.5%	≥ 4%	≥ 8%	and ≥ 6%	and ≥ 4.5%	≥ 4%
Undercapitalized	< 8%	or < 6%	or < 4.5%	< 4%	< 8%	or < 6%	or n/a	< 4%
Significantly undercapitalized	< 6%	or < 4%	or < 3%	< 3%	n/a	n/a	n/a	n/a

The Company is currently in compliance with the above-described regulatory capital requirements. See *Note 20*, “Regulatory Matters” within Notes to the Consolidated Financial Statements included in Item 8 hereof for more information.

Table of Contents

Commitments to Affiliated Institutions Under Federal Reserve policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank. This support may be required at times when the Company may not be able to provide such support. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, in the event of a loss suffered or anticipated by the FDIC - either as a result of default of a banking or thrift subsidiary of a bank holding company such as the Company or related to FDIC assistance provided to a subsidiary in danger of default - the other banking subsidiaries of such bank holding company may be assessed for the FDIC's loss, subject to certain exceptions.

Limitations on Acquisitions of Common Stock The federal Change in Bank Control Act, as amended ("CBCA") prohibits a person or group of persons from acquiring control of a bank holding company or bank unless the appropriate federal bank regulator has been given 60 days prior written notice of such proposed acquisition and, within that time period, such regulator has not issued a notice disapproving the proposed acquisition or extending for up to another 30 days the period during which such a disapproval may be issued. The acquisition of 25% or more of any class of voting securities constitutes the acquisition of control under the CBCA. In addition, under a rebuttal presumption established under the CBCA regulations, the acquisition of 10% or more of a class of voting stock of a bank holding company or a FDIC insured bank, with a class of securities registered under or subject to the requirements of Section 12 of the Securities Exchange Act of 1934, as amended, would, under the circumstances set forth in the presumption, constitute the acquisition of control.

Any company would be required to obtain the approval of the Federal Reserve under the BHCA before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of the outstanding common stock of the Company, or such lesser number of shares as constitute control over the Company. Such approval would be contingent upon, among other things, the acquirer registering as a bank holding company, divesting all impermissible holdings and ceasing any activities not permissible for a bank holding company. The Company does not own more than 5% voting stock in any banking institution other than the Bank.

FDIC Deposit Insurance The Bank's deposit accounts are insured to the maximum extent permitted by law by the Deposit Insurance Fund, which is administered by the FDIC. The FDIC offers insurance coverage on deposits up to the federally insured limit of \$250,000.

The Bank is currently assessed a deposit insurance charge from the FDIC based upon the Bank's overall assessment base multiplied by an assessment rate, determined in part from five established risk categories. The Bank's assessment base is defined as average consolidated total assets minus average tangible equity, adjusted for the impact of the risk category factors. During 2018, the Company expensed \$2.8 million related to this assessment.

Community Reinvestment Act ("CRA") Pursuant to the CRA and similar provisions of Massachusetts law, regulatory authorities review the performance of the Company and the Bank in meeting the credit needs of the communities served by the Bank. The applicable regulatory authorities consider compliance with this law in connection with applications for, among other things, approval of new branches, branch relocations, the engagement in certain additional financial activities under the GLBA, and acquisitions of banks and bank holding companies. The FDIC and the Massachusetts Division of Banks have assigned the Bank a CRA rating of 'Satisfactory' as of the latest examination.

Bank Secrecy Act The Bank Secrecy Act requires financial institutions to monitor account activity, keep records and file reports that are determined to have a high degree of usefulness in criminal, tax and regulatory matters, and to implement anti-money laundering programs and compliance procedures.

USA Patriot Act of 2001 The Patriot Act strengthens U.S. law enforcement's and the intelligence communities' abilities to work cohesively to combat terrorism on a variety of fronts. The impact of the Patriot Act on financial institutions of all kinds is significant and wide-ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and imposes various regulations, including standards for verifying client identification at account opening, and rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

Office of Foreign Assets Control Regulation The U.S. Treasury Department's OFAC administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws,

including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries. The Company and the Bank are responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

Table of Contents

Sarbanes-Oxley Act of 2002 The Sarbanes-Oxley Act of 2002, as amended (“SOX”), implemented a broad range of corporate governance and accounting measures to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at public companies, and to protect investors by improving the accuracy and reliability of disclosures under federal securities laws. Among other things, SOX and/or its implementing regulations have established new membership requirements and additional responsibilities for the Company’s audit committee, imposed restrictions on the relationship between the Company and its external auditors (including restrictions on the types of non-audit services the external auditors may provide), imposed additional responsibilities for the external financial statements on the Chief Executive Officer and Chief Financial Officer, expanded the disclosure requirements for corporate insiders, required management to evaluate disclosure controls and procedures, as well as internal control over financial reporting, and required the auditors to issue a report on the Company’s internal control over financial reporting.

Regulation W Transactions between a bank and its “affiliates” are quantitatively and qualitatively restricted under the Federal Reserve Act. The Federal Deposit Insurance Act applies Sections 23A and 23B to insured nonmember banks in the same manner and to the same extent as if they were members of the Federal Reserve System. The Federal Reserve has also issued Regulation W, which codifies prior regulations under Sections 23A and 23B of the Federal Reserve Act and interpretative guidance with respect to affiliate transactions. Regulation W incorporates the exemption from the affiliate transaction rules, but expands the exemption to cover the purchase of any type of loan or extension of credit from an affiliate. Affiliates of a bank include, among other entities, the bank’s holding company and companies that are under common control with the bank. The Company is considered to be an affiliate of the Bank. In general, subject to certain specified exemptions, a bank and its subsidiaries are limited in their ability to engage in “covered transactions” with affiliates:

- to an amount equal to 10% of the bank’s capital and surplus, in the case of covered transactions with any one affiliate;
- and

- to an amount equal to 20% of the bank’s capital and surplus, in the case of covered transactions with all affiliates.

In addition, a bank and its subsidiaries may engage in covered transactions and other specified transactions only on terms and under circumstances that are substantially the same, or at least as favorable to the bank or its subsidiary, as those prevailing at the time for comparable transactions with nonaffiliated companies. A “covered transaction” includes:

- a loan or extension of credit to an affiliate;
- a purchase of, or an investment in, securities issued by an affiliate;
- a purchase of assets from an affiliate, with some exceptions;
- the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any party; and
- the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

In addition, under Regulation W:

- a bank and its subsidiaries may not purchase a low-quality asset from an affiliate;
- covered transactions and other specified transactions between a bank or its subsidiaries and an affiliate must be on terms and conditions that are consistent with safe and sound banking practices; and
- with some exceptions, each loan or extension of credit by a bank to an affiliate must be secured by collateral with a market value ranging from 100% to 130%, depending on the type of collateral, of the amount of the loan or extension of credit.

Regulation W generally excludes all nonbank and nonsavings association subsidiaries of banks from treatment as affiliates, except to the extent that the Federal Reserve decides to treat these subsidiaries as affiliates.

New Markets Tax Credit Program The New Markets Tax Credit Program was created in December 2000 under federal law to provide federal tax incentives to induce private-sector, market-driven investment in businesses and real estate development projects located in low-income urban and rural communities across the nation. The New Markets Tax Credit Program is part of the United States Department of the Treasury Community Development Financial Institutions Fund. The New Markets Tax Credit Program enables investors to acquire federal tax credits by making equity investments for a period of at least seven years in qualified community development entities, which have been awarded tax credit allocation authority by, and entered into an allocation agreement with, the United States Treasury. Community development entities must use equity investments to make loans to, or other investments in, qualified

businesses and individuals in low-income communities in accordance with New Markets Tax Credit Program criteria. Investors receive an overall tax credit equal to 39% of their total equity investment, credited at a rate of 5% in each of the first 3 years and 6% in each of the final 4 years. More information on the New Markets Tax Credit Program

Table of Contents

may be obtained at www.cdfifund.gov. (The Company has included the web address only as inactive textual references and does not intend it to be an active link to the New Markets Tax Credit Program's website.) For further details about the Bank's New Markets Tax Credit Program, see the paragraph entitled "Income Taxes" included in Item 7 below.

Dodd-Frank Wall Street Reform and Consumer Protection Act During 2010, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). This significant law affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies.

Key provisions of the Dodd-Frank Act are as follows:

- eliminated the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest-bearing checking accounts.

- broadened the base for Federal Deposit Insurance Corporation insurance assessments. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor.

- requires publicly traded companies to give stockholders a nonbinding vote on executive compensation and so-called "golden parachute" payments. The Company provides its shareholders with the opportunity to vote on executive compensation every year.

- broadened the scope of derivative instruments, and the Company is subject to increased regulation of its derivative business, including record-keeping, reporting requirements, and heightened supervision.

- created a new Consumer Financial Protection Bureau ("CFPB") with broad powers to supervise and enforce consumer protection laws. If and when the Bank exceeds \$10 billion in assets, it will become subject to supervision by the CFPB. Until such time, the Bank, and other banks and savings institutions with \$10 billion or less in assets, will continue to be examined for compliance with consumer laws by their primary bank regulators. The Bank anticipates that it will cross the \$10 billion threshold upon the closing of the merger of Blue Hills Bank with and into the Bank and will thus become subject to regulation by the CFPB.

- debit card and interchange fees must be reasonable and proportional to the issuer's cost for processing the transaction. Under the Durbin Amendment contained in the Dodd-Frank Act, the Federal Reserve adopted rules that apply to banks with more than \$10 billion in assets, which established a maximum permissible interchange fee equal to no more than 21 cents plus 5 basis points of the transaction value for many types of debit interchange transactions. The Federal Reserve also adopted a rule to allow a debit card issuer to recover 1 cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. The Federal Reserve also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product. If and when the Bank exceeds \$10 billion in assets, it will become subject to the interchange fee cap. The Bank anticipates that it will cross the \$10 billion threshold upon the closing of the merger of Blue Hills Bank with and into the Bank and will thus become subject to the interchange fee cap.

On May 24, 2018, the EGRRCPA was signed into law, making certain limited amendments to the Dodd-Frank Act, as well as certain targeted modifications to other post-financial crisis regulations. While the EGRRCPA eased some regulatory obligations imposed by the Dodd-Frank Act, including the requirement to conduct stress testing if and when the Company exceeds the \$10 billion asset threshold, it had minimal impact on the Company's operations.

Incentive Compensation The Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, with at least \$1 billion in total assets such as the Company and the Bank, that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity.

In June 2010, the Federal Reserve, OCC and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of

a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the

Table of Contents

organization's board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Volcker Rule On December 10, 2013, the Federal Reserve, the Office of the Comptroller of the Currency, the FDIC, the CFTC and the SEC (collectively, the "Volcker Rule Agencies") issued final rules to implement the Volcker Rule contained in section 619 of the Dodd-Frank Act. The Volcker Rule prohibits an insured depository institution and its affiliates from: (i) engaging in "proprietary trading" and (ii) investing in or sponsoring certain types of funds (defined as "Covered Funds") subject to certain limited exceptions. The rule also effectively prohibits short-term trading strategies by any U.S. banking entity if those strategies involve instruments other than those specifically permitted for trading and prohibits the use of some hedging strategies. The Company has no investments that met the definition of Covered Funds under the foregoing rules.

In addition, The EGRRCPA exempts from the Volcker Rule all banks with (i) total assets less than \$10 billion, and (ii) trading assets and liabilities that comprise no more than 5% of total assets. The Bank anticipates that it will cross the \$10 billion threshold upon the closing of the merger of Blue Hills Bank with and into the Bank and will thus become subject to the Volcker Rule. In mid-2018, the Volcker Rule Agencies proposed new rules modifying certain aspects of the Volcker Rule, including the establishment of a new tiered compliance regime (based on the size of a bank's trading assets and liabilities) and changes to the proprietary trading rules and Covered Funds rules, among other things. These proposed new rules have not been adopted yet.

Consumer Protection Regulations The Bank is subject to federal consumer protection statutes and regulations, including, but not limited to the following:

- Truth-In-Lending Act and Regulation Z, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act and Regulation C, requiring financial institutions to provide certain information about home mortgage and refinanced loans;
- Equal Credit Opportunity Act and Regulation B, prohibiting discrimination on the basis of race, sex, or other prohibited factors in extending credit;
- Fair Credit Reporting Act and Regulation V, governing the provision of consumer information to credit reporting agencies and the use of consumer information; and
- Fair Debt Collection Practices Act, governing the manner in which consumer debts may be collected by collection agencies.

The Bank's deposit operations are also subject to the following federal statutes and regulations, among others:

- The Truth in Savings Act and Regulation DD, which requires disclosure of deposit terms to consumers;
- Regulation CC, which relates to the availability of deposit funds to consumers;
-

The Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and Electronic Funds Transfer Act and Regulation E, governing automatic deposits to, and withdrawals from, deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Many of the foregoing laws and regulations are subject to change resulting from provisions in the Dodd-Frank Act, which in many cases calls for revisions to implementing regulations, such as the amendments described above in the discussion on the Dodd-Frank Act.

Regulation E Federal Reserve Regulation E governs electronic fund transfers and provides a basic framework that establishes the rights, liabilities, and responsibilities of participants in electronic fund transfer systems such as automated teller machine transfers, telephone bill-payment services, point-of-sale terminal transfers in stores, and preauthorized transfers from or to a consumer's account (such as direct deposit and social security payments). The term "electronic fund transfer" generally refers to a transaction initiated through an electronic terminal, telephone, computer, or magnetic tape that instructs a financial institution

Table of Contents

either to credit or to debit a consumer's asset account. Regulation E describes the disclosures that financial institutions are required to make to consumers who engage in electronic fund transfers and generally limits a consumer's liability for unauthorized electronic fund transfers, such as those arising from loss or theft of an access device, to \$50 for consumers who notify their bank in a timely manner.

London Interbank Offered Rate Central banks around the world, including the Federal Reserve, have commissioned working groups of market participants and official sector representatives with the goal of finding suitable replacements for the London Interbank Offered Rate ("LIBOR") based on observable market transactions because of the probable phase-out of LIBOR. It is expected that a transition away from the widespread use of LIBOR to alternative rates will occur over the course of the next few years. Although the full impact of a transition, including the potential or actual discontinuance of LIBOR publication, remains unclear, this change may have an adverse impact on the value of, return on and trading markets for a broad array of financial products, including any LIBOR-based securities, loans and derivatives that are included in the Company's financial assets and liabilities. A transition away from LIBOR may also require extensive changes to the contracts that govern these LIBOR-based products, as well as the Company's systems and processes.

Employees As of December 31, 2018, the Bank had 1,188 full-time equivalent employees. None of the Company's employees are represented by a labor union and management considers its relationship with employees to be good.

Statistical Disclosure by Bank Holding Companies

The statistical disclosure relating to Independent Bank Corp. required under the SEC's Industry Guide 3, "Statistical Disclosure by Bank Holding Companies," is included in the section of Independent Bank Corp.'s 2018 SEC Form 10-K captioned, *Selected Financial Data* in Item 6 hereof, *Management's Discussion and Analysis of Financial Condition and Results of Operations* in Item 7 hereof and *Note 8, "Borrowings"* within Notes to the Consolidated Financial Statements included in Item 8 hereof, if applicable.

Available Information

Under Section 13 and 15(d) of the Securities Exchange Act of 1934 the Company must file periodic and current reports with the SEC. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, at www.sec.gov, in which all reports filed electronically may be accessed. Additionally, the Company's SEC filings and additional shareholder information are available free of charge on the Company's website: www.RocklandTrust.com (within the Investor Relations section). Information contained on the Company's website and the SEC website is not incorporated by reference into this Form 10-K. (The Company has included its web address and the SEC website address only as inactive textual references and does not intend them to be active links to the Company's website or the SEC website.) The Company's Code of Ethics and other Corporate Governance documents are also available on the Company's website in the Investor Relations section of the website.

ITEM 1A. RISK FACTORS

Changes in interest rates and other factors could adversely impact the Company's financial condition and results of operations. The Company's ability to make a profit, like that of most financial institutions, substantially depends upon its net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and investment securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. However, certain assets and liabilities may react differently to changes in market interest rates. Further, interest rates on some types of assets and liabilities may fluctuate prior to changes in broader market interest rates, while rates on other types of assets and liabilities may lag behind. Additionally, some assets such as adjustable-rate mortgages have features, such as rate caps and floors, which restrict changes in applicable interest rates. The Federal Reserve acted to increase interest rates four times in 2018 and may act to implement additional rate increases in the coming year.

Factors such as inflation, recession, unemployment, money supply, global disorder, instability in domestic and foreign financial markets, political uncertainty, and other factors beyond the Company's control, may affect interest rates.

Changes in market interest rates also affect the level of voluntary prepayments on loans and the receipt of payments on mortgage-backed securities, which can impact the expected timing of receipt of proceeds. Particularly in a decreasing interest rate environment, prepayments may result in proceeds having to be reinvested at a lower rate than the loan or mortgage-backed security being prepaid.

Potential sovereign debt defaults may severely impact global and domestic economies and may lead to significantly tighter liquidity and impact the availability of credit. Economic growth may slow down and the national or global economy may experience additional downturns, including recessionary periods. Market disruption, including potential disruption resulting from Great Britain's decision to exit the European Union, government and central bank policy actions designed to counteract the effects of recession, changes in investor expectations regarding compensation for market risk, credit risk and liquidity risk and changing

Table of Contents

economic data could impact both the volatility and magnitude of the directional movements of interest rates. Although the Company pursues an asset/liability management strategy designed to manage its risk arising from changes in interest rates, the Company's strategy may not be fully effective, or may be effective in part, and changes in market interest rates can have a material adverse effect on the Company's profitability.

If the Company experiences loan losses at a level higher than anticipated in the Company's models, its earnings could materially decrease. The Company's loan customers may not repay loans according to their terms, and the collateral securing the payment of loans may be insufficient to assure repayment or cover losses. If loan customers fail to repay loans according to the terms of the loans, the Company may experience significant credit losses that could have a material adverse effect on its operating results and capital ratios. The Company makes various assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of borrowers, the value of the real estate and other assets serving as collateral for the repayment of loans, and the enforceability of its loan documents. In determining the amount of the allowance for loan losses, the Company, in addition to assessing the collectability of its loan portfolio, relies on experience and evaluation of economic conditions. If the assumptions underlying the determination of its allowance for loan losses prove to be incorrect, the current allowance for loan losses may not be sufficient to cover losses inherent in its loan portfolio and an adjustment may be necessary to allow for different economic conditions or adverse developments in its loan portfolio. A problem with one or more loans could require the Company to significantly increase the level of its allowance for loan losses. In addition, federal and state regulators periodically review the Company's allowance for loan losses and may require it to increase its allowance for loan losses or recognize further loan charge-offs. Material additions to the allowance would materially decrease the Company's net income.

A significant amount of the Company's loans are concentrated in the Bank's geographic footprint and adverse conditions in this geographic footprint could negatively impact its results of operations. Substantially all of the loans the Company originates are secured by properties located in, or are made to businesses that operate in, Massachusetts and, to a lesser extent, Rhode Island. Because of the current concentration of the Company's loan origination activities in its geographic footprint, in the event of adverse economic conditions impacting the region (including, but not limited to, increased unemployment, downward pressure on the value of residential or commercial real estate, or political or business developments that may affect the ability of property owners and businesses to make payments of principal and interest on the underlying loans in the Bank's geographic footprint), the Company would likely experience higher rates of loss and delinquency on its loans than if its loan portfolio were more geographically diversified, which could have an adverse effect on the Company's results of operations or financial condition.

A significant portion of the Company's loan portfolio is secured by real estate, and events that negatively impact the real estate market could adversely affect the Company's asset quality and the profitability of loans secured by real property and increase the number of defaults and the level of losses within the Company's loan portfolio. The real estate collateral securing the Company's loans provides an alternate source of repayment in the event of default by the borrower. Should real estate values deteriorate during the time the credit is extended, the Company is potentially exposed to greater losses. A downturn in the real estate market in the Company's primary market areas could result in an increase in the number of borrowers who default on loans and a reduction in the value of the collateral securing loans, which in turn could have an adverse effect on the Company's profitability and asset quality. Further if the Company is required to liquidate collateral securing a loan to satisfy the related debt during a period of reduced real estate values, the Company may experience higher loan losses than expected and its earnings and shareholders' equity could be adversely affected. Any declines in real estate prices in the Company's primary markets may also result in increases in delinquencies and losses in its loan portfolios. Unanticipated decreases in real estate prices coupled with a prolonged economic downturn and elevated levels of unemployment could drive loan losses beyond the level provided for in the Company's allowance for loan losses. If this occurs, the Company's earnings could be adversely affected.

The Company operates in a highly regulated environment and may be adversely impacted by changes in law, regulations, and accounting policies. The Company is subject to extensive regulation, supervision and examination. See "Regulation" in Item 1 hereof, *Business*. Any change in the laws or regulations or failure by the Company to comply with applicable law and regulation, or a change in regulators' supervisory policies or examination

procedures, whether by the Massachusetts Commissioner of Banks, the FDIC, the Federal Reserve, other state or federal regulators, the United States Congress, or the Massachusetts legislature could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows. Changes in accounting policies, practices and standards, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, and other accounting standard setters, could also impact the Company's financial results.

The impact of changes to the Internal Revenue Code or federal, state or local taxes may adversely affect the Company's financial results or business. The Company is subject to changes in tax law that could impact the Company's effective tax rate. Tax law changes may or may not be retroactive to previous periods and could negatively affect the current and future financial performance of the Company. The full impact of the Tax Cuts and Jobs Act (the "Tax Act") which was enacted in 2017 will be subject to interpretations and assumptions made by the Company, further guidance or regulations that may be promulgated, and other actions that the Company may take as a result of the Tax Act. The Company's customers are likely to experience varying

Table of Contents

effects from both the individual and business tax provisions of the Tax Act and those effects, whether positive or negative, may have a corresponding impact on the Company's business and the economy as a whole. Some customers may elect to use their additional cash flow from lower taxes to fund their existing levels of activity, decreasing borrowing needs. In addition, certain limitations on the federal income tax deductibility of business interest expense for certain customers could effectively increase the cost of borrowing and make equity or hybrid funding relatively more attractive, which could have a long-term negative impact on the Company's lending volume.

Changes to and replacement of the LIBOR Benchmark Interest Rate may adversely affect the Company's business, financial condition, or results of operations. On July 27, 2017, the Financial Conduct Authority (FCA), a regulator of financial services firms in the United Kingdom, announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. The FCA and the submitting LIBOR banks have indicated they will support the LIBOR indices through 2021 to allow for an orderly transition to an alternative reference rate. In the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee of the Federal Reserve. Other financial services regulators and industry groups are evaluating the possible phase-out of LIBOR and the development of alternate reference rate indices or reference rates. Some of the Company's assets and liabilities are indexed to LIBOR. The Company is evaluating the potential impact of the possible replacement of the LIBOR benchmark interest rate, but is not able to predict whether LIBOR will cease to be available after 2021, whether the alternative rates the Federal Reserve proposes to publish will become market benchmarks in place of LIBOR, or what the impact of such a transition will have on the Company's business, financial condition, or results of operations.

The Company has strong competition within its market area which may constrain the Company's ability to grow and achieve profitability. The Company faces significant competition both in attracting deposits and in the origination of loans. See "Market Area and Competition" in Item 1 hereof, *Business*. Mergers and acquisitions of financial institutions within the Company's market area may occur, which could add more competitive pressure as the Company would be competing with the resultant larger financial institutions with greater financial resources on a combined basis. Additionally, the Company's market share and income may be adversely affected by its inability to successfully compete against larger and more diverse financial service providers. If the Company is unable to compete effectively, it may lose market share or fail to maintain its market share, and income generated from loans, deposits, and other financial products may decline.

The success of the Company is dependent on the Company's ability to attract, hire and retain certain key personnel. The Company's business is complex and specialized and performance is largely dependent on the knowledge, talents and efforts of highly skilled individuals. The Company relies on key personnel to manage and operate its business, including major revenue producing functions, such as loan and deposit generation. The loss of key personnel could adversely affect the Company's ability to maintain and manage these functions effectively, which could negatively affect the Company's net income. In addition, loss of key personnel could result in increased recruiting and hiring expenses, which could adversely impact the Company's net income. The Company's continued ability to compete effectively depends on its ability to attract new employees and to retain and motivate its existing key employees.

Part of the Company's business strategy is growth through acquisitions and the failure to execute effectively on acquisitions could have an impact on its earnings and results of operations. While focusing on organic growth, the Company's strategy also includes, in part, growth through acquisitions. The Company may not be able to identify suitable acquisition candidates, or complete acquisitions. Further, the success of any acquisition depends on the ability to effectively integrate the acquired business, including integrating operations and achieving synergies and cost efficiencies. Acquisitions can be disruptive as they result in diversion of management's attention from other business activities and can consume significant executive and employee resources as the Company integrates the target's operations and functional business into its operations and business. The Company may experience complications or delays while integrating. In addition, once integrated, acquired businesses may not achieve levels of expected profitability or profitability comparable to those achieved by the Company's existing operations, or otherwise may not perform as expected. Further acquisitions involve numerous risks, including lower than expected performance or higher than expected costs, potential dilution of stockholder value, changes in relationships with customers, and the

potential loss of key employees. In addition, the Company may not be successful in mitigating deposit erosion or loan quality deterioration at acquired institutions. Competition for acquisitions can be highly competitive, and the Company may not be able to acquire other institutions on acceptable terms. The ability to grow may be limited if the Company is unable to successfully make acquisitions in the future.

The Company's securities portfolio performance in difficult market conditions could have adverse effects on the Company's results of operations. Under U.S. Generally Accepted Accounting Principles ("GAAP"), the Company is required to review its investment portfolio periodically for the presence of other-than-temporary impairment of its 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, the Company's ability and intent to hold investments until a recovery of amortized cost, as well as other factors. Adverse developments with respect to one or more of these factors could require the Company to deem particular securities to be other-than-temporarily impaired, with the credit related portion of the reduction in the value required

Table of Contents

to be recognized as a charge to the Company's earnings. Market volatility can make it extremely challenging to accurately value certain securities the Company holds. Subsequent periodic valuations of securities, taking into consideration then prevailing factors, may result in changes to valuations. Significant negative changes to valuations could result in impairments in the value of the Company's securities portfolio, which could have an adverse effect on the Company's results of operations or financial conditions.

Impairment of goodwill and/or intangible assets could require charges to earnings, which could result in a negative impact on the Company's results of operations. Goodwill arises when the Company acquires a business for an amount greater than the net fair value of the assets of the acquired business. The Bank has recognized goodwill as an asset on the balance sheet in connection with several acquisitions (see Note 6, "Goodwill and Other Intangible Assets" within Notes to the Consolidated Financial Statements included in Item 8 hereof). Goodwill is an intangible asset. When an intangible asset is determined to have an indefinite useful life, it is not amortized, and instead is evaluated for impairment. The Company conducts goodwill impairment tests annually, or more frequently if necessary. The Company evaluates goodwill using a qualitative or two-step impairment testing approach. A significant and sustained decline in the Company's stock price and market capitalization, a significant decline in the Company's expected future cash flows, a significant adverse change in the business climate, slower growth rates or other factors could result in a finding of impairment of goodwill or other intangible assets. If the Company were to conclude that a future write-down of goodwill or other intangible assets is necessary, then the Company would record the appropriate charge to earnings, which could have material adverse effect on the Company's results of operations or financial condition.

Deterioration in the performance or financial position of the Federal Home Loan Bank ("FHLB") of Boston might restrict the FHLB of Boston's ability to meet the funding needs of its members, cause a suspension of its dividend, and cause its stock to be determined to be impaired. Significant components of the Bank's liquidity needs are met through its access to funding pursuant to its membership in the FHLB of Boston. The FHLB of Boston is a cooperative that provides services to its member banking institutions. The primary reason for joining the FHLB of Boston is to obtain funding. The purchase of stock in the FHLB of Boston is a requirement for a member to gain access to funding. Any deterioration in the FHLB of Boston's performance or financial condition may affect the Company's ability to access funding and/or require the Company to deem the required investment in FHLB of Boston stock to be impaired. If the Company is not able to access funding, it may not be able to meet its liquidity needs, which could have an adverse effect on the results of operations or financial condition. Similarly, if the Company deems all or part of its investment in FHLB of Boston stock impaired, such action could have a material adverse effect on the Company's results of operations or financial condition.

Reductions in the value of the Company's deferred tax assets could adversely affect the Company's results of operations. A deferred tax asset is created by the tax effect of the differences between an asset's book value and its tax basis. The Company assesses the deferred tax assets periodically to determine the likelihood of the Company's ability to realize the benefits. These assessments consider the performance of the associated business and its ability to generate future taxable income. If the information available to the Company at the time of assessment indicates there is a greater than 50% chance that the Company will not realize the deferred tax asset benefit, the Company is required to establish a valuation allowance for the deferred tax asset and reduce its future deferred tax assets to the amount the Company believes could be realized. Recording such a valuation allowance could have a material adverse effect on the results of operations or financial condition. Additionally, the deferred tax assets are determined using effective tax rates expected to apply to the Company's taxable income in the years in which the temporary differences are expected to be recovered or settled. Accordingly, a change in statutory tax rates may result in a decrease/increase to the Company's deferred tax assets. A decrease in the Company's deferred tax assets could have a material adverse effect on the Company's results of operations or financial condition.

Evolving information technologies, the need to mitigate against and react to cyber-security risks, and electronic fraud risks require significant resources, and notwithstanding the Company's investment in resources, the Company remains subject to cyber-security risks and electronic fraud. The risk of electronic fraudulent activity within the financial services industry, especially in the commercial banking sector, due to cyber-attacks (crime committed through or involving the internet, such as phishing, hacking, denial of service attacks, stealing information,

unauthorized intrusions into internal systems or the systems of the Company's third party vendors) could adversely impact the Company's operations or damage its reputation. The Company's information technology infrastructure and systems may be vulnerable to cyber-terrorism, computer viruses, system failures and other intentional or unintentional interference, fraud and other unauthorized attempts to access or interfere with the systems.

The Company regularly collects, processes, transmits and stores confidential information regarding its customers and employees. In some cases, this confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on the Company's behalf.

Information security risks have increased because of the proliferation of new technologies and the increased sophistication and activities of perpetrators of cyber-attacks. Many financial institutions and companies engaged in data processing have reported

Table of Contents

significant 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, denial-of-service, or sabotage systems, often through the introduction of computer viruses or malware, cyber-attacks and other means.

Although the Company frequently experiences attempted cyber-security attacks against its systems, to date, none of these incidents have resulted in material losses, known breaches of customer data or significant disruption of services to the Company's customers. However, there can be no assurance that the Company will not incur such issues in the future, exposing it to significant on-going operational costs and reputational harm.

Additionally, risk exposure to cyber-security matters will remain elevated or increase in the future due to, among other things, the increasing size and prominence of the Company in the financial services industry, its expansion of Internet and mobile banking tools and products based on customer needs, and the system and customer account conversions associated with the integration of merger targets.

In managing the Company's cyber- risks, when entering a new vendor relationship, the Company reviews and gages the cyber-security risk of such third-party service providers. A successful cyber-security attack on one of the Company's third-party service providers could adversely affect its business and result in the disclosure or misuse of the Company's confidential information. While the Company believes it is taking reasonable, risk-based precautions to manage the risk of cyber-attacks against third party service providers, there can be no assurance that the Company's third-party service providers will not suffer a cyber-attack that exposes the Company to significant operational costs and damages.

While the Company believes it has risk-based technology reasonably capable of discovering cyber-attacks, and personnel who are qualified to monitor the technology and systems to detect cyber-attacks, the Company can offer no assurance that it will be able to identify successful cyber-attacks when they occur. Significant damage may occur if the Company fails to identify, or there is a delay in identifying, a cyber-attack on its systems, or those of its third-party service providers.

The Company may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose it to additional liability and could have a material adverse effect on the Company. The Company is required to comply with anti-money laundering, anti-terrorism and other laws and regulations in the United States. These laws and regulations require the Company, among other things, to adopt and enforce "know-your-customer" policies and procedures and to report suspicious and large transactions to applicable regulatory authorities. These laws and regulations have become increasingly complex and detailed, require improved systems and sophisticated monitoring and compliance personnel and have become the subject of enhanced government supervision.

While the Company has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering and related activities, those policies and procedures may not completely eliminate instances in which the Company may be used by customers to engage in money laundering and other illegal or improper activities. To the extent the Company fails to fully comply with applicable laws and regulations, banking agencies have the authority to impose fines and other penalties on the Company. In addition, the Company's business and reputation could suffer if customers use its banking network for money laundering or illegal or improper purposes.

The Company's business depends on maintaining the trust and confidence of customers and other market participants, and the Company's reputation is critical to its business. The Company's ability to originate and maintain accounts and business is highly dependent upon the perceptions of borrowers and deposit holders and other external perceptions of the Company's business practices and financial health. The Company's reputation is vulnerable to threats that can be difficult or impossible to control, and costly or impossible to remediate. Regulatory inquiries, actual or alleged incidents of employee misconduct and rumors, among other things, can substantially damage the Company's reputation, even if the inquiries, allegations, or rumors are baseless or satisfactorily addressed. Adverse perceptions regarding the Company's reputation in the consumer, commercial and funding markets could result in difficulties in generating and maintaining accounts and business, as well as in financing accounts and the Company's business. Further, adverse perceptions can result in decreases in the levels of deposits that customers and potential customers choose to maintain with the Company, any of which could have a material adverse effect on the Company's

results of operations or financial condition.

Claims and litigation could result in losses and damage to the Company's reputation. From time to time as part of the Company's normal course of business, customers, bankruptcy trustees, former customers, contractual counterparties, third parties and former employees make claims and take legal action against the Company based on its actions or inactions. If such claims and legal actions are not resolved in a manner favorable to the Company, they may result in financial liability and/or adversely affect the market perception of the Company and its products and services. This may also impact customer demand for the Company's products and services. Any financial liability could have a material adverse effect on the Company's financial condition and results of operations. Any reputation damage could have a material adverse effect on the Company's business. See

23

Table of Contents

the "Other Contingencies" section under *Note 19 "Commitments and Contingencies"* to the consolidated financial statements for additional information and significant pending lawsuits, if applicable.

If the Company's risk management framework does not effectively identify or mitigate the Company's risks, the Company could suffer unexpected losses and the results of operations and financial condition could be materially adversely affected.

The Company's risk management framework seeks to mitigate risk and appropriately balance risk and return. The Company has established processes and procedures intended to identify, measure, monitor and report the types of risk to which it is subject, including credit risk, operations risk, compliance risk, reputation risk, strategic risk, market risk and liquidity risk. The Company seeks to monitor and control its risk exposure through a framework of policies, procedures and reporting requirements. Management of the Company's risks in some cases depends upon the use of analytical and/or forecasting models, which, in turn, rely on assumptions and estimates. If the models used to mitigate these risks are inadequate, or the assumption or estimates are inaccurate or otherwise flawed, the Company may fail to adequately protect against risks and may incur losses. In addition, there may be risks that exist, or that develop in the future, that the Company has not appropriately anticipated, identified or mitigated, which could lead to unexpected losses and the Company's results of operations or financial condition could be materially adversely affected.

Some of the Company's accounting policies require the use of estimates and assumptions that affect the value of its assets and liabilities and results of operations and if actual events differ from the Company's estimates and assumptions, the Company's results of operations and financial condition could be materially adversely affected.

Certain accounting policies require the use of estimates and assumptions that may affect the value of the Company's assets and liabilities and results of operations. The Company identified the accounting policies regarding the allowance for loan losses, security valuations and impairments, goodwill and other intangible assets, and income taxes to be critical because these policies require management to make difficult, subjective and complex judgments, estimates and assumptions about matters that are inherently uncertain. Under each of these policies, it is possible that materially different values and results of operations would be reported under different conditions, different judgments, or different estimates or assumptions. Further, as new information becomes available, the Company may make a determination to refine or change its judgments, estimates and assumptions, any of which could materially adversely affect the value of the Company's assets and liabilities or its results of operations.

From time to time, the FASB and the SEC change applicable guidance governing the form and content of the Company's financial statements. In addition, accounting standard setters and those who interpret U.S. GAAP, such as the FASB, SEC, and banking regulators, may change or even reverse their previous interpretations or positions on how these standards should be applied. Such changes are expected to continue, and may accelerate, dependent upon the FASB and International Accounting Standards Boards commitment to achieving convergence between U.S. GAAP and International Financial Reporting Standards. Changes in U.S. GAAP and current interpretations are beyond the Company's control, can be hard to predict and could materially impact how the Company reports its financial results and condition. In certain cases, the Company could be required to apply new or revised guidance retroactively or apply existing guidance differently (also retroactively), which may result in the Company restating prior period financial statements for material amounts. Additionally, significant changes to U.S. GAAP may require costly technology changes, additional training and personnel, and other expenses that could materially adversely affect the Company's results of operations.

The Company may be required to increase its allowance for credit losses as a result of changes to an accounting standard.

In 2016, the FASB released a new standard for determining the amount of the allowance for credit losses. The new standard will be effective for the Company for reporting periods beginning January 1, 2020. The new credit loss model will be a significant change from the standard in place today, as it requires the allowance for credit losses to be calculated based on current expected credit losses (commonly referred to as the "CECL model") rather than losses inherent in the portfolio as of a point in time. When adopted, the CECL model may increase the Company's allowance for credit losses, which could materially affect its financial condition and future results of operations. The extent of the increase and its impact to the Company's financial condition is under evaluation, but will ultimately depend upon the nature and characteristics of the Company's portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date; therefore, the potential financial impact is currently unknown.

The Company may be unable to adequately manage its liquidity risk, which could affect its ability to meet its obligations as they become due, capitalize on growth opportunities, or pay dividends on its common stock.

Liquidity risk refers to managing the Company's liquidity so that it can meet its obligations as the obligations become due, opportunistically capitalize on potential growth opportunities as they arise, or pay dividends on its common stock. The Company's liquidity arises from its ability to liquidate assets or obtain adequate funding in a timely basis, at a reasonable cost and within acceptable risk tolerances. Liquidity is also required to fund various obligations, including credit commitments to borrowers, mortgage and other loan originations, withdrawals by depositors, repayment of borrowings, dividends to shareholders, operating expenses and capital expenditures. The Company's liquidity is derived primarily from funding obtained from the FHLB of Boston; retail deposit growth and retention; principal and interest payments on loans; principal and interest payments on investment securities the Company issues; sale, maturity and prepayment of investment securities the Company holds; net cash provided from operations; and access

Table of Contents

to other funding sources. Any substantial, unexpected or prolonged changes in the level or cost of liquidity could have a material adverse effect on the Company's business.

The Company is subject to environmental liability risk associated with lending activities which could have a material adverse effect on its financial condition and results of operations. A significant portion of the Company's loan portfolio is secured by real property. During the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expenses and may materially reduce the affected property's value or limit the Company's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Company's exposure to environmental liability. Although the Company has policies and procedures regarding performance of an environmental review prior to originating certain commercial real estate loans, as well as before initiating any foreclosure action on real property, these reviews may not detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Company's financial condition or results of operations.

Changes in debt and equity markets or economic downturns could affect the level of assets under management and the demand for other fee-based services. Economic downturns could affect the volume of income earned from and demand for fee-based services. Revenues from the investment management business depend in large part on the level of assets under management and administration. Market volatility that results in customers liquidating investments, as well as lower asset values, can reduce the level of assets under management and administration and decrease the Company's investment management and administration revenues, which could materially adversely affect the Company's results of operations.

The Company relies on its systems, employees and certain service providers, and if the Company experiences a system failure or if the Company's security measures are compromised or inadequate, the operations could be disrupted or the customer data could be improperly divulged. The Company faces the risk that the design of its controls and procedures, including those designed to mitigate the risk of fraud by employees or outside third parties, may be inadequate or be circumvented, thereby causing delays or failures in detection of errors or inaccuracies in data and information. The Company regularly reviews and updates the Company's 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 Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations and financial condition. The Company may also be subject to disruptions of the systems arising or originating from third party services providers or from events that are wholly or partially beyond the Company's control (including, for example, electrical, internet or telecommunications outages), which may adversely impact the Company's ability to provide service to customers and result in loss, cost and expense or liability. Additionally, the Company's risk exposure to security matters may increase in the future if the Company increases in size and prominence in the financial services industry, as the Company expands internet based and mobile banking tools and products and services, and as a consequence of the risk inherent in system and customer account conversions associated with the integration of acquisition targets. The Company is further exposed to the risk that external service providers may be unable to fulfill their contractual obligations on matters of internet security and adequacy of services. (The Company's third party service providers are subject to many, if not all, of the same risks, including internet vulnerability and fraud operational errors by their respective employees.) While the Company conducts due diligence on service providers and engages in other vendor management risk migration activities designed to mitigate service provider risk, no set of risk management protocols can provide full protection against all risks, and the Company's (or service providers) business continuity plans, risk management processes and procedures or security systems (including security against cyber-crime) could be inadequate. While the Company maintains a control framework designed to monitor service provider risks, the failure of a service provider to perform in accordance with

the contracted arrangements and, if applicable, under service level agreements could be disruptive to the Company's operations, which could have a material adverse impact on the Company's financial condition or results of operations.

The Company's ability to make opportunistic acquisitions is contingent on regulators granting any requisite approvals. Part of the Company's business strategy includes seeking to make opportunistic whole or partial acquisitions of other banks, branches, financial institutions, or related businesses from time to time. Any possible acquisition may be subject to regulatory approval, and there can be no assurance that the Company will be able to obtain any such approval in a timely manner or at all.

The Company's effective income tax rate would be adversely affected if the Company's community development entity subsidiaries do not receive additional New Markets Tax Credit awards. As indicated in Item 7

"Management's Discussion and Analysis of Financial Condition and Results of Operations", the Company's effective tax rate is determined by a number of factors, including the recognition of federal tax credits in connection with New Markets Tax Credit awards. In 2018, the Company recognized \$4.0 million in federal tax credits through New Markets Tax Credit award deployment. Federal

Table of Contents

government agencies periodically determine New Markets Tax Credit award recipients through a nationwide application process that is highly competitive. While the Company's community development entity subsidiaries have received four prior New Markets Tax Credit awards, it may not be successful in any current or future New Markets Tax Credit applications. The Company applied for but did not receive a New Markets Tax Credit award in 2017. Further, the New Markets Tax Credit Program is subject to periodic renewal by Congress and it is possible the proposed changes to the Internal Revenue Code may reduce or eliminate the program altogether. If the Company does not obtain additional awards the Company's effective tax rate will increase substantially in the future, adversely affecting net income, as existing federal tax credits run off.

The Company may experience losses and expenses if security interests granted for loans are not enforceable.

When the Bank makes loans, it sometimes obtains liens, such as real estate mortgages or other asset pledges, to provide the Bank with a security interest in collateral. If there is a loan default the Bank may seek to foreclose upon collateral and enforce the security interests to obtain repayment and eliminate or mitigate the Company's loss. Drafting errors, recording errors, other defects or imperfections in the security interests granted to the Bank and/or changes in law may render liens granted to the Bank unenforceable. The Company may incur losses or expenses if security interests granted to the Bank are not enforceable.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

At December 31, 2018 the Bank conducted its business from its main office located at 288 Union Street, Rockland, Massachusetts, eighty-six banking offices, and two limited service branches located within Barnstable, Bristol, Dukes, Middlesex, Norfolk, Plymouth, Suffolk and Worcester counties in Eastern Massachusetts. In addition to its main office, the Bank leased fifty-six of its branches and owned the remaining thirty-two branches. Also, the Bank had eleven remote ATM locations, all of which were leased.

The Bank's executive administration offices are located in Hanover, Massachusetts while the remaining administrative and operations locations are housed in several different campuses. Additionally, there are a number of sales offices not associated with a branch location throughout the Bank's footprint.

For additional information regarding the Bank's premises and equipment and lease obligations, see *Notes* 5, "Bank Premises and Equipment" and 19, "Commitments and Contingencies," respectively, within Notes to Consolidated Financial Statements included in Item 8 hereof.

ITEM 3. LEGAL PROCEEDINGS

At December 31, 2018, Rockland Trust was involved in pending lawsuits that arose in the ordinary course of business. Management has reviewed these pending lawsuits with legal counsel and has taken into consideration the view of counsel as to their outcome. In the opinion of management, the final disposition of pending lawsuits is not expected to have a material adverse effect on the Company's financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

Table of Contents**PART II****ITEM 5. MARKET FOR INDEPENDENT BANK CORP.'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

(a.) Independent Bank Corp.'s common stock trades on the NASDAQ Global Select Market under the symbol INDB. The Company declared cash dividends of \$1.52 and \$1.28 per share in 2018 and in 2017, respectively. The ratio of dividends paid to earnings in 2018 and 2017 was 33.03% and 39.04%, respectively.

Payment of dividends by the Company on its common stock is subject to various regulatory restrictions and guidelines. Since substantially all of the funds available for the payment of dividends are derived from the Bank, future dividends will depend on the earnings of the Bank, its financial condition, its need for funds, applicable governmental policies and regulations, and other such matters as the Board of Directors deems appropriate. Management believes that the Bank will continue to generate adequate earnings to continue to pay common dividends on a quarterly basis.

The following schedule summarizes the closing price range of common stock and the cash dividends paid for the fiscal years 2018 and 2017:

2018			
	High	Low	Dividend
4th Quarter	\$84.39	\$67.22	\$ 0.38
3rd Quarter	92.40	78.50	0.38
2nd Quarter	82.90	70.10	0.38
1st Quarter	75.55	68.60	0.38

2017			
	High	Low	Dividend
4th Quarter	\$76.15	\$67.90	\$ 0.32
3rd Quarter	74.65	66.15	0.32
2nd Quarter	67.35	60.45	0.32
1st Quarter	71.45	60.35	0.32

As of December 31, 2018, there were 28,080,408 shares of common stock outstanding which were held by approximately 2,516 holders of record. The number of record-holders may not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms, and other nominees. The closing price of the Company's common stock on December 31, 2018 was \$70.31.

The information required by S-K Item 201(d) is incorporated by reference from Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters* hereof.

Comparative Stock Performance Graph

The stock performance graph below and associated table compare the cumulative total shareholder return of the Company's common stock from December 31, 2013 to December 31, 2018 to the cumulative total return of the NASDAQ Composite Index (U.S. Companies) and the SNL Bank NASDAQ Index. The lines in the graph and the numbers in the table below represent yearly index levels derived from compounded daily returns that include reinvestment or retention of all dividends. If the yearly interval, based on the last day of a fiscal year, was not a trading day, the preceding trading day was used. The index value for all of the series was set to 100.00 on December 31, 2013 (which assumes that \$100.00 was invested in each of the series on December 31, 2013).

The following information in this Item 5 of this Annual Report on Form 10-K is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates it by reference into such a filing. The stock price performance shown on the stock performance graph and associated table below is not necessarily indicative of future price performance. Information used in the graph and table was obtained from a third party provider, a source believed to be reliable, but the Company

is not responsible for any errors or omissions in such information.

Table of Contents

The following chart depicts the total return performance of the Company

Source: S&P Global Market Intelligence

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(b.) Not applicable

(c.) The following table sets forth information regarding the Company's repurchases of its common stock during the three months ended December 31, 2018:

<u>Period</u>	Issuer Purchases of Equity Securities			
	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program(2)	Maximum Number of Shares That May Yet Be Purchased Under the Plan or Program
October 1 to October 31, 2018	108	\$ 81.85	—	—
November 1 to November 30, 2018	135	79.10	—	—
December 1 to December 31, 2018	108	74.68	—	—
Total	351		—	—

(1) Shares repurchased relate to the surrendering of mature shares for the exercise and/or vesting of stock compensation grants and related tax withholding.

(2) The Company does not currently have a stock repurchase program or plan in place.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The selected consolidated financial and other data of the Company set forth below does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by, the more detailed information, including the Consolidated Financial Statements and related notes, appearing elsewhere herein.

	As of or for the Years Ended December 31					
	2018	2017	2016	2015	2014	
	(Dollars in thousands, except per share data)					
Financial condition data						
Securities	\$ 1,075,223	\$ 946,510	\$ 851,524	\$ 845,112	\$ 724,007	
Loans	6,906,194	6,355,553	5,999,605	5,547,721	4,970,733	
Allowance for loan losses	(64,293)	(60,643)	(61,566)	(55,825)	(55,100)	
Goodwill and other intangibles	271,355	241,147	231,374	212,909	180,306	
Total assets	8,851,592	8,082,029	7,709,375	7,209,469	6,364,318	
Deposits	7,427,120	6,729,253	6,412,253	5,990,703	5,210,466	
Borrowings	258,707	323,698	335,474	343,933	406,061	
Stockholders' equity	1,073,490	943,809	864,690	771,463	640,527	
Nonperforming loans	45,418	49,638	57,407	27,690	27,512	
Nonperforming assets	45,418	50,250	61,580	29,849	38,894	
Operating data						
Interest income	\$ 323,701	\$ 277,194	\$ 246,637	\$ 235,545	\$ 216,459	
Interest expense	25,536	18,334	18,793	20,617	20,417	
Net interest income	298,165	258,860	227,844	214,928	196,042	
Provision for loan losses	4,775	2,950	6,075	1,500	10,403	
Noninterest income	88,505	82,994	82,428	75,888	69,943	
Noninterest expenses	225,969	204,359	192,122	197,138	171,838	
Net income	121,622	87,204	76,648	64,960	59,845	
Per share data						
Net income — basic	\$ 4.41	\$ 3.19	2.90	2.51	2.50	
Net income — diluted	4.40	3.19	2.90	2.50	2.49	
Cash dividends declared	1.52	1.28	1.16	1.04	0.96	
Book value	38.23	34.38	32.02	29.40	26.69	
Tangible book value (1)	28.57	25.60	23.45	21.29	19.18	
Performance ratios						
Return on average assets	1.46	% 1.11	% 1.04	% 0.93	% 0.95	%
Return on average common equity	12.31	% 9.55	% 9.43	% 8.79	% 9.66	%
Net interest margin (on a fully tax equivalent basis)	3.91	% 3.60	% 3.40	% 3.42	% 3.45	%
Dividend payout ratio	33.03	% 39.04	% 38.76	% 40.29	% 37.50	%
Asset quality ratios						
Nonperforming loans as a percent of gross loans	0.66	% 0.78	% 0.96	% 0.50	% 0.55	%
Nonperforming assets as a percent of total assets	0.51	% 0.62	% 0.80	% 0.41	% 0.61	%
Allowance for loan losses as a percent of total loans	0.93	% 0.95	% 1.03	% 1.01	% 1.11	%
Allowance for loan losses as a percent of nonperforming loans	141.56	% 122.17	% 107.24	% 201.61	% 200.28	%
Capital ratios						
Equity to assets	12.13	% 11.68	% 11.22	% 10.70	% 10.06	%
Tangible equity to tangible assets (1)	9.35	% 8.96	% 8.47	% 7.98	% 7.44	%
Tier 1 leverage capital ratio	10.69	% 10.04	% 9.77	% 9.33	% 8.84	%
Common equity tier 1 capital ratio	11.92	% 11.20	% 10.82	% 10.44	% n/a	%
Tier 1 risk-based capital ratio	12.99	% 12.31	% 11.99	% 11.71	% 10.88	%
Total risk-based capital ratio	14.45	% 13.82	% 13.60	% 13.36	% 13.15	%

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(1) Represents a non-GAAP measurement. For reconciliation to GAAP measurement, see Item 7 "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Executive Level Overview - Non-GAAP Measures*".

29

Table of Contents

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

The Company is a state chartered, federally registered bank holding company, incorporated in 1985. The Company is the sole stockholder of Rockland Trust, a Massachusetts trust company chartered in 1907. For a full list of corporate entities see *Item 1 "Business — General."*

All material intercompany balances and transactions have been eliminated in consolidation. When necessary, certain amounts in prior year financial statements have been reclassified to conform to the current year's presentation. The following should be read in conjunction with the Consolidated Financial Statements and related notes.

Executive Level Overview

Management evaluates the Company's operating results and financial condition using measures that include net income, earnings per share, return on assets and equity, return on tangible common equity, net interest margin, tangible book value per share, asset quality indicators, and many others. These metrics are used by management to make key decisions regarding the Company's balance sheet, liquidity, interest rate sensitivity, and capital resources and assist with identifying opportunities for improving the Company's financial position and operating results. The Company is focused on organic growth, but will also consider acquisition opportunities that can provide a satisfactory financial return, including the recent acquisitions of MNB Bancorp Inc. ("MNB Bancorp") in the fourth quarter of 2018 and Island Bancorp, Inc ("Island Bancorp") in the second quarter of 2017 and the pending acquisition of Blue Hills Bancorp, Inc. ("Blue Hills Bancorp")

Interest-Earning Assets

Management's balance sheet strategy emphasizes commercial and home equity lending. The results depicted in the following table reflect an overall increase in total loans over the past five years due to the results of that strategy, as well as the impact from recent acquisitions. Organic loan growth in 2018 was driven primarily by increases in the commercial and industrial, small business, residential, and home equity categories, partly offset by a decline in commercial construction related balances.

Management strives to be disciplined about loan pricing and considers interest rate sensitivity when generating loan assets. The Company has gradually and intentionally shifted its balance sheet composition so that its interest-rate risk position is fundamentally asset-sensitive. Management takes a disciplined approach to credit underwriting, seeking to avoid undue credit risk and loan losses.

Table of Contents

Funding and the Net Interest Margin

The Company's overall sources of funding reflect strong business and retail deposit growth, supporting management's emphasis on core deposit growth to fund loans, as depicted by the following chart:

As of December 31, 2018, core deposits comprised 88.7% of total deposits. The continued emphasis on core deposits has resulted in a cost of deposits of 0.29% for the year ended 2018, which is an increase of ten basis points when compared to the prior year.

The Company's net interest margin was 3.91% for the year ended December 31, 2018, a thirty-one basis point increase from the prior year, reflecting the Company's asset sensitive position, as shown by the following chart:

Table of Contents

Noninterest Income

Management continues to focus on noninterest income growth, which is primarily comprised of investment management fees, deposit account fees, interchange and ATM fees and mortgage banking income. The following chart shows the components of noninterest income over the past five years:

Expense Control

Management seeks to take a balanced approach to noninterest expense control by monitoring ongoing operating expenses while making needed capital expenditures and prudently investing in growth initiatives. The Company's primary expenses arise from Rockland Trust's employee salaries and benefits, as well as expenses associated with buildings and equipment. The following chart depicts the Company's efficiency ratio on a GAAP basis (calculated by dividing noninterest expense by the sum of noninterest income and net interest income), as well as the Company's efficiency ratio on a non-GAAP operating basis, if applicable, (calculated by dividing noninterest expense, excluding certain noncore items, by the sum of noninterest income, excluding certain noncore items, and net interest income) over the past five years:

*See "Non-GAAP Measures" below for a reconciliation to GAAP financial measures.

Table of Contents

Tax Effectiveness

The Company participates in federal and state tax credit programs designed to promote economic development, affordable housing, and job creation. The Company continues to participate in the federal New Markets Tax Credit program and has also made low-income housing tax credit investments. The Company has also established security corporation subsidiaries and, through its subsidiaries, purchased tax-exempt bonds. Federal and state tax credit program participation and other tax strategies help the Company operate in a more tax effective manner and sometimes also create a competitive advantage for Rockland Trust and its community development subsidiaries. During 2018, the Company's effective tax rate was 22.00%.

Capital

The Company's disciplined approach with respect to revenue, expense, and tax effectiveness is designed to promote long-term earnings growth. Strong earnings growth has resulted in healthy capital growth. Book value per share increased 11.2% in 2018 and has increased 43.2% over the past four years. In addition, tangible book value per share rose 11.6% in 2018 compared to the prior year and has increased 49.0% over the past four years. Stockholders' equity as a percentage of total assets was 12.13% at December 31, 2018, compared to 11.68% in the prior year. Tangible common equity as a percentage of tangible assets increased to 9.35% at December 31, 2018, as compared to 8.96% in the prior year (see "Non-GAAP Measures" below for a reconciliation to GAAP financial measures). The following chart shows the Company's book value and tangible book value per share over the past five years:

*See "Non-GAAP Measures" below for a reconciliation to GAAP financial measures.

The Company's strong growth in capital enables the payment of cash dividends, which increased from \$1.28 per share in 2017 to \$1.52 per share in 2018, an increase of 18.8%.

2018 Results

Net income for 2018 computed in accordance with GAAP was \$121.6 million, or \$4.40 on a diluted earnings per share basis, as compared to \$87.2 million, or \$3.19 per diluted share, for the prior year. Net income for 2018 and 2017 included items that are considered noncore, which are excluded for purposes of assessing operating earnings. Net operating earnings for 2018 were \$129.8 million, or \$4.69 on a diluted earnings per share basis, an increase of 41.5% and 40.0%, respectively, when compared to net operating earnings of \$91.7 million, or \$3.35 per diluted share, for the year ended December 31, 2017. See "Non-GAAP Measures" below for a reconciliation of net operating earnings and diluted earnings per share to GAAP net income and earnings per share, respectively.

2019 Outlook

During the Company's fourth quarter 2018 earnings call, the Company stated that it anticipated the following for the full year ending December 31, 2019 excluding the impact of the Blue Hills Bancorp acquisition (as compared with the year ending December 31, 2018):

Table of Contents

Loan and deposit growth, barring significant competitive changes, in line with recent experience of mid-single digit growth and generally consistent with economic growth;

Assuming no further rate increases the full year NIM should be 10 to 15 basis points higher than 2018, with deposit costs increasing another 3 to 5 basis points in the first quarter;

Both non-interest income and non-interest expense are expected to increase at a low to mid-single digit rate when excluding noncore items;

Regarding credit quality, while management expects the credit picture for the Company to remain benign in the short term, eventual deterioration is likely inevitable;

Excluding the impact of noncore items, the tax rate is expected to increase to approximately 25% in 2019.

As for the Blue Hills Bancorp acquisition assuming an early second quarter closing, we expect 2019 earnings accretion of approximately 4%, net interest margin contraction beginning in Q2 of approximately 20 basis points, barring a likely deleveraging of the balance sheet and modest accretion to tangible book value per share.

Non-GAAP Measures

When management assesses the Company's financial performance for purposes of making day-to-day and strategic decisions, it does so based upon the performance of its core banking business, which is primarily derived from the combination of net interest income and noninterest or fee income, reduced by operating expenses, the provision for loan losses, and the impact of income taxes and other noncore items shown in the table that follows. There are items that impact the Company's results that management believes are unrelated to its core banking business such as gains or losses on the sales of securities, merger and acquisition expenses, loss on extinguishment of debt, impairment, and other items, such as one-time adjustments as a result of changes in laws and regulations. Management, therefore, excludes items management considers to be noncore when computing the Company's non-GAAP operating earnings and operating EPS, noninterest income on an operating basis and efficiency ratio on an operating basis. Management believes excluding these items facilitates greater visibility into the Company's core banking business and underlying trends that may, to some extent, be obscured by inclusion of such items.

Management also supplements its evaluation of financial performance with an analysis of tangible book value per share (which is computed by dividing stockholders' equity less goodwill and identifiable intangible assets, or tangible common equity, by common shares outstanding) and with the Company's tangible common equity ratio (which is computed by dividing tangible common equity by tangible assets) which are non-GAAP measures. The Company has included information on these tangible ratios because management believes that investors may find it useful to have access to the same analytical tools used by management to assess performance and identify trends. The Company has recognized goodwill and other intangible assets in conjunction with merger and acquisition activities. Excluding the impact of goodwill and other intangibles in measuring asset and capital values for the ratios provided, along with other bank standard capital ratios, facilitates comparison of the capital adequacy of the Company to other companies in the financial services industry.

These non-GAAP measures should not be viewed as a substitute for financial results determined in accordance with GAAP. An item which management deems to be noncore and excludes when computing these non-GAAP measures can be of substantial importance to the Company's results for any particular period. The Company's non-GAAP performance measures are not necessarily comparable to similarly named non-GAAP performance measures which may be presented by other companies.

Table of Contents

The following table summarizes the impact of noncore items recorded for the time periods indicated below and reconciles them in accordance with GAAP:

	Net Income		Diluted Earnings Per Share	
	2018	2017	2018	2017
	(Dollars in thousands, except per share data)			
Net income available to common shareholders (GAAP)	\$ 121,622	\$ 87,204	\$ 4.40	\$ 3.19
Non-GAAP adjustments				
Noninterest expense components				
Merger and acquisition expenses	11,168	3,393	0.40	0.12
Total impact of noncore items	11,168	3,393	0.40	0.12
Less - net tax benefit associated with noncore items (1)	(2,967)	(1,241)	(0.11)	(0.05)
2017 Tax Act: revaluation of net deferred tax assets	—	1,895	\$—	0.07
2017 Tax Act: revaluation of LIHTC investments	—	466	\$—	0.02
Total tax impact	(2,967)	1,120	\$(0.11)	0.04
Noncore items, net of tax	\$ 8,201	\$ 4,513	\$ 0.29	\$ 0.16
Net operating earnings (Non-GAAP)	\$ 129,823	\$ 91,717	\$ 4.69	\$ 3.35

(1) The net tax benefit associated with noncore items is determined by assessing whether each noncore item is included or excluded from net taxable income and applying the Company's combined marginal tax rate only to those items included in net taxable income.

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Table of Contents

The following table summarizes the impact of noncore items with respect to the Company's total revenue, noninterest income as a percentage of total revenue, and the efficiency ratio for the periods indicated:

	Years Ended December 31					(1)
	2018	2017	2016	2015	2014	
	(Dollars in thousands)					
Net interest income	\$298,165	\$258,860	\$227,844	\$214,928	\$196,042	(a)
Noninterest income (GAAP)	\$88,505	\$82,994	\$82,428	\$75,888	\$69,943	(b)
Less:						
Gain on sale of fixed income securities	—	—	—	798	121	
Noninterest income on an operating basis (non-GAAP)	\$88,505	\$82,994	\$82,428	\$75,090	\$69,822	(c)
Noninterest expense (GAAP)	\$225,969	\$204,359	\$192,122	\$197,138	\$171,838	(d)
Less:						
Impairment on acquired facilities	—	—	—	109	524	
Loss on extinguishment of debt	—	—	437	122	—	
Loss on sale of fixed income securities	—	—	—	1,124	21	
Loss on termination of derivatives	—	—	—	—	1,122	
Merger & acquisition expenses	11,168	3,393	5,455	10,501	1,339	
Noninterest expense on an operating basis (non-GAAP)	\$214,801	\$200,966	\$186,230	\$185,282	\$168,832	(e)
Total revenue (GAAP)	\$386,670	\$341,854	\$310,272	\$290,816	\$265,985	(a+b)
Total operating revenue (non-GAAP)	\$386,670	\$341,854	\$310,272	\$290,018	\$265,864	(a+c)
Ratios						
Efficiency ratio (GAAP)	58.44	% 59.78	% 61.92	% 67.79	% 64.60	% (d/(a+b))
Efficiency ratio on an operating basis (non-GAAP)	55.55	% 58.79	% 60.02	% 63.89	% 63.50	% (e/(a+c))

When previously reported, 2014 amounts included a noninterest income adjustment for gains on life insurance benefits of \$2.0 million. In 2018, management (1) determined that these amounts should be considered part of the core earnings of the business, therefore 2014 amounts have been adjusted to align with current period presentation.

Table of Contents

The following table summarizes the calculation of the Company's tangible common equity ratio and tangible book value per share for the periods indicated:

	Years Ended December 31					
	2018	2017	2016	2015	2014	
	(Dollars in thousands, except per share data)					
Tangible common equity						
Stockholders' equity	\$ 1,073,490	\$ 943,809	\$ 864,690	\$ 771,463	\$ 640,527	(a)
Less: Goodwill and other intangibles	271,355	241,147	231,374	212,909	180,306	
Tangible common equity (Non-GAAP)	802,135	702,662	633,316	558,554	460,221	(b)
Tangible assets						
Assets (GAAP)	8,851,592	8,082,029	7,709,375	7,209,469	6,364,318	(c)
Less: Goodwill and other intangibles	271,355	241,147	231,374	212,909	180,306	
Tangible assets (Non-GAAP)	\$ 8,580,237	\$ 7,840,882	\$ 7,478,001	\$ 6,996,560	\$ 6,184,012	(d)
Common shares	28,080,408	27,450,190	27,005,813	26,236,352	23,998,738	(e)
Common equity to assets ratio (GAAP)	12.13	% 11.68	% 11.22	% 10.70	% 10.06	%(a/c)
Tangible common equity to tangible assets ratio (Non-GAAP)	9.35	% 8.96	% 8.47	% 7.98	% 7.44	%(b/d)
Book value per share (GAAP)	\$ 38.23	\$ 34.38	\$ 32.02	\$ 29.40	\$ 26.69	(a/e)
Tangible book value per share (Non-GAAP)	\$ 28.57	\$ 25.60	\$ 23.45	\$ 21.29	\$ 19.18	(b/e)

Table of Contents**Financial Position**

Securities Portfolio The Company's securities portfolio consists of trading securities, equity securities, securities available for sale and securities which management intends to hold until maturity. Securities increased by \$128.7 million, or 13.6%, at December 31, 2018 as compared to December 31, 2017. The increase was attributable to periodic purchases throughout the year, as well as the MNB Bancorp acquisition, partially offset by paydowns. The ratio of securities to total assets as of December 31, 2018 was 12.15%, compared to 11.71% at December 31, 2017. The Company monitors investment securities for the presence of other-than-temporary impairment ("OTTI"). For debt securities, the primary consideration in determining whether impairment is OTTI is whether or not the Bank expects to collect all contractual cash flows. Further details regarding the Company's analysis of potential OTTI can be found in Note 3, "Securities" within Notes to Consolidated Financial Statements included in Item 8 hereof.

The following table sets forth the fair value of available for sale securities and the amortized cost of held to maturity securities along with the percentage distribution:

Table 1 - Securities Portfolio Composition

	December 31 2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Fair value of securities available for sale						
U.S. government agency securities	\$32,038	7.2 %	\$35,430	7.9 %	\$24,244	6.7 %
Agency mortgage-backed securities	220,105	49.7 %	215,764	48.2 %	175,384	48.2 %
Agency collateralized mortgage obligations	134,911	30.5 %	122,012	27.3 %	99,868	27.5 %
State, county and municipal securities	1,735	0.4 %	2,274	0.5 %	3,793	1.0 %
Single issuer trust preferred securities issued by banks	707	0.2 %	2,016	0.4 %	2,311	0.6 %
Pooled trust preferred securities issued by banks and insurers	1,329	0.3 %	1,640	0.4 %	1,584	0.4 %
Small business administration pooled securities	51,927	11.7 %	47,778	10.7 %	37,189	10.2 %
Equity securities(1)	—	— %	20,584	4.6 %	19,271	5.4 %
Total fair value of securities available for sale	442,752	100.0 %	447,498	100.0 %	363,644	100.0 %
Amortized Cost of Securities Held to Maturity						
U.S. treasury securities	1,004	0.2 %	1,006	0.2 %	1,007	0.2 %
Agency mortgage-backed securities	252,484	41.3 %	204,768	41.1 %	156,088	32.0 %
Agency collateralized mortgage obligations	332,775	54.4 %	262,998	52.9 %	297,445	61.1 %
Single issuer trust preferred securities issued by banks	1,500	0.2 %	1,500	0.3 %	1,500	0.3 %
Small business administration pooled securities	23,727	3.9 %	27,416	5.5 %	31,036	6.4 %
Total amortized cost of securities held to maturity	611,490	100.0 %	497,688	100.0 %	487,076	100.0 %
Total	\$1,054,242		\$945,186		\$850,720	

(1) These securities are no longer classified as available for sale due to a change in accounting guidance effective January 1, 2018.

The Company's available for sale securities are carried at fair value and are categorized within the fair value hierarchy based on the observability of model inputs. Securities which require inputs that are both significant to the fair value measurement and unobservable are classified as level 3 within the fair value hierarchy. As of December 31, 2018, the Company had \$1.3 million of securities categorized as level 3 within the fair value hierarchy. As of December 31, 2017 and 2016, the Company had \$1.6 million of securities categorized as level 3 within the fair value hierarchy.

Table of Contents

The following tables set forth contractual maturities of the Bank's securities portfolio at December 31, 2018. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Weighted average yields in the table below have been calculated based on the amortized cost of the security.

Table 2 - Securities Portfolio, Amounts Maturing

	Within One Year		One Year to Five Years		Five Years to Ten Years		Over Ten Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
(Dollars in thousands)										
Fair value of securities available for sale										
U.S. government agency securities	\$—	— %	\$19,903	2.1 %	\$12,135	2.6 %	\$—	— %	\$32,038	2.3 %
Agency mortgage-backed securities	90	4.5 %	51,761	2.4 %	88,402	2.7 %	79,852	2.9 %	220,105	2.7 %
Agency collateralized mortgage obligations	—	— %	—	— %	—	— %	134,911	2.5 %	134,911	2.5 %
State, county and municipal securities	—	— %	771	3.4 %	964	2.8 %	—	— %	1,735	3.1 %
Single issuer trust preferred securities issued by banks	—	— %	—	— %	—	— %	707	6.0 %	707	6.0 %
Pooled trust preferred securities issued by banks and insurers	—	— %	—	— %	—	— %	1,329	2.8 %	1,329	2.8 %
Small business administration pooled securities	—	— %	—	— %	—	— %	51,927	2.7 %	51,927	2.7 %
Total fair value of securities available for sale	90	4.5 %	72,435	2.4 %	101,501	2.7 %	268,726	2.7 %	442,752	2.7 %
Amortized cost of securities held to maturity										
U.S. Treasury securities	—	— %	1,004	3.0 %	—	— %	—	— %	1,004	3.0 %
Agency mortgage-backed securities	—	— %	12,098	2.3 %	35,703	2.5 %	204,683	3.0 %	252,484	2.9 %
Agency collateralized mortgage obligations	—	— %	—	— %	735	3.0 %	332,040	2.6 %	332,775	2.6 %
Single issuer trust preferred securities issued by banks	—	— %	—	— %	1,500	8.3 %	—	— %	1,500	8.3 %
Small business administration pooled securities	—	— %	—	— %	—	— %	23,727	2.6 %	23,727	2.6 %
Total amortized cost of securities held to maturity	—	— %	13,102	2.4 %	37,938	2.7 %	560,450	2.8 %	611,490	2.7 %
Total	\$90	4.5 %	\$85,537	2.4 %	\$139,439	2.7 %	\$829,176	2.7 %	\$1,054,242	2.7 %

As of December 31, 2018, the weighted average life of the securities portfolio was 4.9 years and the modified duration was 4.3 years.

At December 31, 2018, the aggregate book value of securities issued by Fannie Mae and Freddie Mac exceeded 10% of stockholders' equity. The aggregate book value and market value of securities issued by Fannie Mae at December 31, 2018 was \$581.9 million and \$573.6 million, respectively. The aggregate book value and market value of securities issued by Freddie Mac at December 31, 2018 was \$316.0 million and \$310.7 million, respectively.

Table of Contents

Residential Mortgage Loan Sales The Company's primary loan sale activity arises from the sale of government sponsored enterprise eligible residential mortgage loans. During 2018 and 2017, the Bank originated residential loans with the intention of selling them in the secondary market or to hold in the Company's residential portfolio. When a loan is sold, the Company enters into agreements that contain representations and warranties about the characteristics of the loans sold and their origination. The Company may be required to either repurchase mortgage loans or to indemnify the purchaser from losses if representations and warranties are breached. The Company has incurred no losses during the year ended December 31, 2018 and minimal losses during 2017 and 2016 related to these activities.

The following table shows the total residential loans that were closed and whether the amounts were held in the portfolio or sold/held for sale in the secondary market during the period indicated:

Table 3 - Closed Residential Real Estate Loans

	Years Ended December 31		
	2018	2017	2016
	(Dollars in thousands)		
Held in portfolio	\$182,401	\$144,482	\$118,735
Sold or held for sale in the secondary market	190,192	231,437	304,402
Total closed loans	\$372,593	\$375,919	\$423,137

The Company sold \$192.8 million and \$234.2 million in residential loans during the years ended December 31, 2018 and 2017, respectively. All loans sold during these periods were sold with servicing rights released.

Currently, the Bank sells the servicing of sold loans for a servicing release premium, simultaneous with the sale of the loan. In the past, the Bank may have opted to sell loans and retain the servicing. In the event of a sale with servicing rights retained, a mortgage servicing asset is established, which represents the then current estimated fair value based on market prices for comparable mortgage servicing contracts, when available, or alternatively is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Servicing rights are recorded in other assets in the consolidated balance sheets, are amortized in proportion to and over the period of estimated net servicing income, and are assessed for impairment based on fair value at each reporting date. Impairment is determined by stratifying the rights based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the capitalized amount. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income. The principal balance of loans serviced by the Bank on behalf of investors amounted to \$240.2 million at December 31, 2018 and \$277.8 million at December 31, 2017.

Table of Contents

The following table shows the adjusted cost of the servicing rights associated with these loans and the changes for the periods indicated:

Table 4 - Mortgage Servicing Asset

	2018	2017
	(Dollars in thousands)	
Beginning balance	\$ 1,697	\$ 2,048
Acquired portfolio	37	28
Amortization	(301)	(404)
Change in valuation allowance	12	25
Ending balance	\$ 1,445	\$ 1,697

Forward sale contracts of mortgage loans, considered derivative instruments for accounting purposes, may be utilized by the Company in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans held for sale. Prior to closing and funding certain one-to-four family residential mortgage loans, an interest rate lock commitment is generally extended to the borrower. During the period from commitment date to closing date, the Company is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans, resulting in a reduction in the gain on sale of the loans or, possibly, a loss. In an effort to mitigate such risk, forward delivery sales commitments are executed, under which the Company agrees to deliver whole mortgage loans to investors which economically hedges this market risk. See *Note 11, "Derivatives and Hedging Activities"* within Notes to Consolidated Financial Statements included in Item 8 hereof for more information on mortgage activity and mortgage related derivatives.

Loan Portfolio Management continues to focus on growth in the commercial and home equity lending categories. Management believes this emphasis is prudent, given the prevailing interest rate and economic environment, as well as strategic priorities. The Company's loan portfolio increased by \$550.6 million during 2018 due in part to the acquired loan portfolio from the MNB Bancorp acquisition and continued organic growth in various portfolios.

Excluding the effects of the MNB Bancorp acquisition, the Company has experienced organic loan growth across most major loan categories, with the exception of commercial construction. The following table summarizes loan growth/decline during the periods indicated:

Table 5 - Components of Loan Growth/(Decline)

	December 31	December 31	Milford Bancorp	Organic	Organic	
	2018	2017	Acquisition	Growth/(Decline)	Growth/(Decline)	
	(Dollars in thousands)			\$	%	
Commercial and industrial	\$ 1,093,629	\$ 888,528	\$ 44,929	\$ 160,172	18.0	%
Commercial real estate	3,251,248	3,116,561	112,922	21,765	0.7	%
Commercial construction	365,165	401,797	16,497	(53,129)	(13.2)	%
Small business	164,676	132,370	12,589	19,717	14.9	%
Residential real estate	923,294	754,329	95,705	73,260	9.7	%
Home equity	1,092,084	1,052,088	7,692	32,304	3.1	%
Other consumer	16,098	9,880	3,164	3,054	30.9	%
Total loans	\$ 6,906,194	\$ 6,355,553	\$ 293,498	\$ 257,143	4.0	%

Table of Contents

The following table sets forth information concerning the composition of the Bank's loan portfolio by loan type at the dates indicated:

Table 6 - Loan Portfolio Composition

	December 31		2017	2016	2015	2014				
	2018						Amount	Percent	Amount	Percent
	(Dollars in thousands)									
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial and industrial	\$ 1,093,629	15.8 %	\$ 888,528	14.0 %	\$ 902,053	15.0 %	\$ 843,276	15.2 %	\$ 860,839	17.3 %
Commercial real estate	3,251,248	47.1 %	3,116,561	48.9 %	3,010,798	50.3 %	2,653,434	47.8 %	2,347,323	47.2 %
Commercial construction	365,165	5.3 %	401,797	6.3 %	320,391	5.3 %	373,368	6.7 %	265,994	5.4 %
Small business	164,676	2.4 %	132,370	2.1 %	122,726	2.0 %	96,246	1.7 %	85,247	1.7 %
Residential real estate	923,294	13.4 %	754,329	11.9 %	644,426	10.7 %	638,606	11.5 %	530,259	10.7 %
Home equity	1,092,084	15.8 %	1,052,088	16.6 %	988,147	16.5 %	927,803	16.8 %	863,863	17.4 %
Other consumer	16,098	0.2 %	9,880	0.2 %	11,064	0.2 %	14,988	0.3 %	17,208	0.3 %
Gross loans	6,906,194	100.0 %	6,355,553	100.0 %	5,999,605	100.0 %	5,547,721	100.0 %	4,970,733	100.0 %
Allowance for loan losses	(64,293)		(60,643)		(61,566)		(55,825)		(55,100)	
Net loans	\$ 6,841,901		\$ 6,294,910		\$ 5,938,039		\$ 5,491,896		\$ 4,915,633	

The following table sets forth the scheduled contractual amortization of the Bank's loan portfolio at December 31, 2018. Loans having no schedule of repayments or no stated maturity are reported as being due in greater than five years. The following table also sets forth the rate structure of loans scheduled to mature after one year:

Table 7 - Scheduled Contractual Loan Amortization

	December 31, 2018							Total
	Commercial	Commercial Real Estate	Commercial Construction (1)	Small Business	Residential Real Estate	Home Equity	Consumer Other	
	(Dollars in thousands)							
Amounts due in:								
One year or less	\$ 213,148	\$ 683,894	\$ 116,213	\$ 48,703	\$ 45,608	\$ 28,212	\$ 11,605	\$ 1,147,383
After one year through five years	522,066	1,506,851	166,903	62,829	118,786	115,436	2,335	2,495,206
Beyond five years	358,415	1,060,503	82,049	53,144	758,900	948,436	2,158	3,263,605
Total	\$ 1,093,629	\$ 3,251,248	\$ 365,165	\$ 164,676	\$ 923,294	\$ 1,092,084	\$ 16,098	\$ 6,906,194
Interest rate terms on amounts due after one year:								
Fixed rate	\$ 485,562	\$ 765,083	\$ 80,435	\$ 64,596	\$ 674,830	\$ 383,410	\$ 4,493	\$ 2,458,409
Adjustable rate	\$ 394,919	\$ 1,802,271	\$ 168,517	\$ 51,377	\$ 202,856	\$ 680,462	\$ —	\$ 3,300,402

(1) Includes certain construction loans that will convert to commercial mortgages and will be reclassified to commercial real estate upon the completion of the construction phase.

As of December 31, 2018, \$29.1 million of loans scheduled to mature within one year were nonperforming. Generally, the actual maturity of loans is substantially shorter than their contractual maturity due to prepayments and, in the case of real estate loans, due-on-sale clauses, which generally give the Bank the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells the property subject to the mortgage and the loan is not repaid. The average life of real estate loans tends to increase when current real estate loan rates are higher than rates on mortgages in the portfolio and, conversely, tends to decrease when rates on mortgages in the portfolio are higher than current real estate loan rates.

Table of Contents

Due to the fact that the Bank may, consistent with industry practice, renew a significant portion of commercial and commercial real estate loans at or immediately prior to their maturity by renewing the loans on substantially similar or revised terms, the principal repayments actually received by the Bank are anticipated to be significantly less than the amounts contractually due in any particular period. In other circumstances, a loan, or a portion of a loan, may not be repaid due to the borrower's inability to satisfy the contractual obligations of the loan.

Asset Quality The Company continually monitors the asset quality of the loan portfolio using all available information. Based on this assessment, loans demonstrating certain payment issues or other weaknesses may be categorized as delinquent, impaired, nonperforming and/or put on nonaccrual status. Additionally, in the course of resolving such loans, the Company may choose to restructure the contractual terms of certain loans to match the borrower's ability to repay the loan based on their current financial condition. If a restructured loan meets certain criteria, it may be categorized as a troubled debt restructuring ("TDR").

Delinquency The Company's philosophy toward managing its loan portfolios is predicated upon careful monitoring, which stresses early detection and response to delinquent and default situations. The Company seeks to make arrangements to resolve any delinquent or default situation over the shortest possible time frame. Generally, the Company requires that a delinquency notice be mailed to a borrower upon expiration of a grace period (typically no longer than 15 days beyond the due date). Reminder notices may be sent and telephone calls may be made prior to the expiration of the grace period. If the delinquent status is not resolved within a reasonable time frame following the mailing of a delinquency notice, the Bank's personnel charged with managing its loan portfolios contacts the borrower to ascertain the reasons for delinquency and the prospects for payment. Any subsequent actions taken to resolve the delinquency will depend upon the nature of the loan and the length of time that the loan has been delinquent. The borrower's needs are considered as much as reasonably possible without jeopardizing the Bank's position. A late charge is usually assessed on loans upon expiration of the grace period.

Nonaccrual Loans As a general rule, loans more than 90 days past due with respect to principal or interest are classified as nonaccrual loans. However, certain loans that are more than 90 days past due may be kept on an accruing status if the loans are well secured and/or in the process of collection. The Company may also put a junior lien mortgage on nonaccrual status as a result of delinquency with respect to the first position, which is held by another financial institution, while the junior lien is currently performing. Income accruals are suspended on all nonaccrual loans and all previously accrued and uncollected interest is reversed against current income. A loan remains on nonaccrual status until it becomes current with respect to principal and interest (and in certain instances remains current for up to six months), the loan is liquidated, or when the loan is determined to be uncollectible and is charged-off against the allowance for loan losses.

Troubled Debt Restructurings In the course of resolving problem loans, the Company may choose to restructure the contractual terms of certain loans. The Company attempts to work out an alternative payment schedule with the borrower in order to avoid or cure a default. Loans that are modified are reviewed by the Company to identify if a TDR has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include adjustments to interest rates, extensions of maturity, consumer loans where the borrower's obligations have been effectively discharged through Chapter 7 Bankruptcy and the borrower has not reaffirmed the debt to the Bank, and other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. If such efforts by the Bank do not result in satisfactory performance, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Bank may terminate foreclosure proceedings if the borrower is able to work out a satisfactory payment plan.

It is the Company's policy to have any restructured loans which are on nonaccrual status prior to being modified remain on nonaccrual status for six months, subsequent to being modified, before management considers their return to accrual status. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. Loans that are considered TDRs are classified as performing, unless they are on nonaccrual status or greater than 90 days delinquent. Loans classified as TDRs remain classified as such

for the life of the loan, except in limited circumstances, when it may be determined that the borrower is performing under modified terms and the restructuring agreement specified an interest rate greater than or equal to an acceptable market rate for a comparable new loan at the time of the restructuring.

Purchased Credit Impaired Loans Purchased Credit Impaired ("PCI") loans are acquired loans which had evidence of deterioration in credit quality at the purchase date and for which it is probable that all contractually required payments will not be collected. PCI loans are recorded at fair value without any carryover of the allowance for loan losses. The excess cash flows expected to be collected over the carrying amount of the loans, referred to as the "accretable yield," is accreted into interest income over the life of the loans using the effective yield method. Accordingly, PCI loans are not subject to classification as nonaccrual in the same manner as originated loans, rather they are generally considered to be accruing loans because their interest income recognized relates to the accretable yield and not to contractual interest payments. See *Note 4, "Loans, Allowance for Loan Losses and Credit Quality"* within Notes to Consolidated Financial Statements included in Item 8 hereof for more information.

Table of Contents

Nonperforming Assets Nonperforming assets are comprised of nonperforming loans and other real estate owned (“OREO”). Nonperforming loans consist of nonaccrual loans and loans that are more than 90 days past due but still accruing interest.

OREO consists of real estate properties, which have primarily served as collateral to secure loans, that are controlled or owned by the Bank. These properties are recorded at fair value less estimated costs to sell at the date control is established, resulting in a new cost basis. The amount by which the recorded investment in the loan exceeds the fair value (net of estimated costs to sell) of the foreclosed asset is charged to the allowance for loan losses. Subsequent declines in the fair value of the foreclosed asset below the new cost basis are recorded through the use of a valuation allowance. Subsequent increases in the fair value are recorded as reductions in the valuation allowance, but not below zero. All costs incurred thereafter in maintaining the property are generally charged to noninterest expense. In the event the real estate is utilized as a rental property, net rental income and expenses are recorded as incurred within noninterest expense.

The following table sets forth information regarding nonperforming assets held by the Bank at the dates indicated:

Table 8 - Nonperforming Assets

	December 31				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Loans accounted for on a nonaccrual basis (1)					
Commercial and industrial	\$26,310	\$32,055	\$37,455	\$3,699	\$2,822
Commercial real estate	3,326	3,123	6,266	8,160	7,590
Small business	235	230	302	239	246
Residential real estate	8,251	8,129	7,782	8,795	8,697
Home equity	7,278	6,022	5,553	6,742	8,038
Other consumer	13	71	47	55	—
Total	45,413	49,630	57,405	27,690	27,393
Loans past due 90 days or more but still accruing					
Residential real estate (2)	—	—	—	—	106
Other consumer	5	8	2	—	13
Total	5	8	2	—	119
Total nonperforming loans	45,418	49,638	57,407	27,690	27,512
Nonaccrual securities (3)	—	—	—	—	3,639
Other real estate owned	—	612	4,173	2,159	7,743
Total nonperforming assets	\$45,418	\$50,250	\$61,580	\$29,849	\$38,894
Nonperforming loans as a percent of gross loans	0.66	% 0.78	% 0.96	% 0.50	% 0.55
Nonperforming assets as a percent of total assets	0.51	% 0.62	% 0.80	% 0.41	% 0.61

Included in these amounts were TDRs on nonaccrual of \$29.3 million at December 31, 2018, \$6.1 million at December 31, 2017, and \$5.2 million at

(1) December 31, 2016, 2015, and 2014. During the fourth quarter of 2018, nonaccrual loans associated with a large commercial loan customer that had previously declared bankruptcy were modified when a court confirmed the customer's bankruptcy reorganization plan. That revision to loan terms required the Company to deem loans associated with the customer as troubled debt restructures as of December 31, 2018 which amounted to \$25.9 million.

(2) Represents purchased credit impaired loans that are accruing interest due to expectations of future cash collections.

(3) Amounts represent the fair value of nonaccrual securities. The Company had no nonaccrual securities in 2018, 2017, 2016, and 2015 and five nonaccrual securities in 2014.

Table of Contents

The following table summarizes the changes in nonperforming assets for the periods indicated:

Table 9 - Activity in Nonperforming Assets

	2018	2017
	(Dollars in thousands)	
Nonperforming assets beginning balance	\$50,250	\$61,580
New to nonperforming	16,386	13,503
Loans charged-off	(2,597)	(6,209)
Loans paid-off	(14,286)	(11,440)
Loans transferred to other real estate owned/other assets	—	(564)
Loans restored to accrual status	(3,731)	(3,197)
New to other real estate owned	—	564
Valuation write down	(120)	(372)
Sale of other real estate owned	(324)	(3,700)
Other	(160)	85
Nonperforming assets ending balance	\$45,418	\$50,250

The following table sets forth information regarding troubled debt restructured loans as of the dates indicated:

Table 10 - Troubled Debt Restructurings

	December 31					
	2018	2017	2016	2015	2014	
	(Dollars in thousands)					
Performing troubled debt restructurings	\$23,849	\$25,852	\$27,093	\$32,849	\$38,382	
Nonaccrual troubled debt restructurings (1)	29,348	6,067	5,199	5,225	5,248	
Total	\$53,197	\$31,919	\$32,292	\$38,074	\$43,630	
Performing troubled debt restructurings as a % of total loans	0.35	% 0.41	% 0.45	% 0.59	% 0.77	%
Nonaccrual troubled debt restructurings as a % of total loans	0.42	% 0.10	% 0.09	% 0.09	% 0.11	%
Total troubled debt restructurings as a % of total loans	0.77	% 0.50	% 0.54	% 0.69	% 0.88	%

(1) During the fourth quarter of 2018 nonaccrual loans associated with a large commercial loan customer that had previously declared bankruptcy were modified when a court confirmed the customer's bankruptcy reorganization plan. That revision to loan terms required the Company to deem loans associated with the customer as troubled debt restructures as of December 31, 2018 which amounted to \$25.9 million.

Table of Contents

The following table summarizes changes in TDRs for the periods indicated:

Table 11 - Activity in Troubled Debt Restructurings

	2018	2017
	(Dollars in thousands)	
TDRs beginning balance	\$31,919	\$32,292
New to TDR status	28,020	4,943
Transfer to OREO	—	(322)
Paydowns	(6,244)	(4,975)
Charge-offs	(498)	(19)
TDRs ending balance	\$53,197	\$31,919

Income accruals are suspended on all nonaccrual loans and all previously accrued and uncollected interest is reversed against current income. The table below shows interest income that was recognized or collected on all nonaccrual loans and TDRs as of the dates indicated:

Table 12 - Interest Income - Nonaccrual Loans and Troubled Debt Restructurings

	Years Ended December 31		
	2018	2017	2016
	(Dollars in thousands)		
The amount of incremental gross interest income that would have been recorded if nonaccrual loans had been current in accordance with their original terms	\$2,583	\$2,461	\$1,131
The amount of interest income on nonaccrual loans and performing TDRs that was included in net income	\$1,478	\$1,826	\$1,872

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impaired loans include all commercial and industrial loans, commercial real estate loans, commercial construction and small business loans that are on nonaccrual status, TDRs, and other loans that have been categorized as impaired. Impairment is measured on a loan by loan basis by comparing the loan's value to either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. For impaired loans deemed collateral dependent, where impairment is measured using the fair value of the collateral, the Bank will either order a new appraisal or use another available source of collateral assessment such as a broker's opinion of value to determine a reasonable estimate of the fair value of the collateral.

Total impaired loans at December 31, 2018 and 2017 were \$59.1 million and \$72.8 million, respectively. For additional information regarding the Bank's asset quality, including delinquent loans, nonaccruals, TDRs, and impaired loans, see *Note 4, "Loans, Allowance for Loan Losses and Credit Quality"* within Notes to Consolidated Financial Statements included in Item 8 hereof.

Potential problem loans are any loans which are not included in nonaccrual or nonperforming loans, where known information about possible credit problems of the borrowers causes management to have concerns as to the ability of such borrowers to comply with present loan repayment terms. At December 31, 2018, there were 59 relationships, with an aggregate balance of \$52.8 million, deemed to be potential problem loans. These potential problem loans continued to perform with respect to payments. Management actively monitors these loans and strives to minimize

any possible adverse impact to the Company.

46

Table of Contents

Allowance for Loan Losses The allowance for loan losses is maintained at a level that management considers appropriate to provide for probable loan losses based upon evaluation of known and inherent risks in the loan portfolio. The allowance is increased by providing for loan losses through a charge to expense and by credits for recoveries of loans previously charged-off and is reduced by loans being charged-off.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on increases in nonperforming loans, changes in economic conditions, or for other reasons.

Additionally, various regulatory agencies, as an integral part of the Bank's examination process, periodically assess the adequacy of the allowance for loan losses to assess whether the allowance was determined in accordance with GAAP and applicable guidance.

The allowance for loan losses is allocated to loan types using both a formula-based approach applied to groups of loans and an analysis of certain individual loans for impairment. The formula-based approach emphasizes loss factors derived from actual historical portfolio loss rates, which are combined with an assessment of certain qualitative factors to determine the allowance amounts allocated to the various loan categories. Allowance amounts are determined based on an estimate of the historical average annual percentage rate of loan loss for each loan category, an estimate of the incurred loss emergence and confirmation period for each loan category, and certain qualitative risk factors considered in the computation of the allowance for loan losses. Additionally, the Company reviews numerous credit quality indicators when assessing the risk in its loan portfolio. For the commercial portfolio, the Company utilizes a 10-point commercial risk-rating system, which assigns a risk-grade to each borrower based on a number of quantitative and qualitative factors associated with a commercial loan transaction. Factors considered include industry and market conditions, position within the industry, earnings trends, operating cash flow, asset/liability values, debt capacity, guarantor strength, management and controls, financial reporting, collateral and other considerations.

As of December 31, 2018, the allowance for loan losses totaled \$64.3 million, or 0.93% of total loans, as compared to \$60.6 million, or 0.95% of total loans, at December 31, 2017.

Table of Contents

The following table summarizes changes in the allowance for loan losses and other selected statistics for the periods presented:

Table 13 - Summary of Changes in the Allowance for Loan Losses

	December 31					
	2018	2017	2016	2015	2014	
	(Dollars in thousands)					
Average total loans	\$6,489,910	\$6,191,099	\$5,670,427	\$5,394,464	\$4,871,197	
Allowance for loan losses, beginning of year	\$60,643	\$61,566	\$55,825	\$55,100	\$53,239	
Charged-off loans:						
Commercial and industrial	355	3,891	593	2,010	2,097	
Commercial real estate	82	39	414	330	5,454	
Small business	372	302	228	267	605	
Residential real estate	148	207	28	285	826	
Home equity	293	276	602	710	750	
Other consumer	1,347	1,494	1,607	1,316	1,215	
Total charged-off loans	2,597	6,209	3,472	4,918	10,947	
Recoveries on loans previously charged-off						
Commercial and industrial	182	615	859	1,593	462	
Commercial real estate	188	385	564	1,073	404	
Small business	46	114	195	264	275	
Residential real estate	12	31	299	133	424	
Home equity	156	198	141	356	249	
Other consumer	888	993	1,080	724	591	
Total recoveries	1,472	2,336	3,138	4,143	2,405	
Net loans charged-off (recoveries)						
Commercial and industrial	173	3,276	(266)	417	1,635	
Commercial real estate	(106)	(346)	(150)	(743)	5,050	
Small business	326	188	33	3	330	
Residential real estate	136	176	(271)	152	402	
Home equity	137	78	461	354	501	
Other consumer	459	501	527	592	624	
Total net loans charged-off	1,125	3,873	334	775	8,542	
Provision for loan losses	4,775	2,950	6,075	1,500	10,403	
Total allowances for loan losses, end of year	\$64,293	\$60,643	\$61,566	\$55,825	\$55,100	
Net loans charged-off as a percent of average total loans	0.02	% 0.06	% 0.01	% 0.01	% 0.18	%
Allowance for loan losses as a percent of total loans	0.93	% 0.95	% 1.03	% 1.01	% 1.11	%
Allowance for loan losses as a percent of nonperforming loans	141.56	% 122.17	% 107.24	% 201.61	% 200.28	%

Table of Contents

For purposes of the allowance for loan losses, management segregates the loan portfolio into the portfolio segments detailed in the table below. The allocation of the allowance for loan losses is made to each loan category using the analytical techniques and estimation methods described herein. While these amounts represent management’s best estimate of the distribution of probable losses at the evaluation dates, they are not necessarily indicative of either the categories in which actual losses may occur or the extent of such actual losses that may be recognized within each category. Each of these loan categories possess unique risk characteristics that are considered when determining the appropriate level of allowance for each segment. The total allowance is available to absorb losses from any segment of the loan portfolio.

The following table sets forth the allocation of the allowance for loan losses by loan category at the dates indicated:

Table 14 - Summary of Allocation of Allowance for Loan Losses

	December 31 2018		2017		2016		2015		2014	
	Amount	Percent of Loans To Total Loans	Amount	Percent of Loans To Total Loans	Amount	Percent of Loans To Total Loans	Amount	Percent of Loans To Total Loans	Amount	Percent of Loans To Total Loans
(Dollars in thousands)										
Allocated Allowance										
Commercial and industrial	\$ 15,760	15.8 %	\$ 13,256	14.0 %	\$ 16,921	15.0 %	\$ 13,802	15.2 %	\$ 15,573	17.3 %
Commercial real estate	32,370	47.1 %	31,453	48.9 %	30,369	50.2 %	27,327	47.8 %	25,873	47.2 %
Commercial construction	5,158	5.3 %	5,698	6.3 %	4,522	5.3 %	5,366	6.7 %	3,945	5.4 %
Small business	1,756	2.4 %	1,577	2.1 %	1,502	2.1 %	1,264	1.7 %	1,171	1.7 %
Residential real estate	3,219	13.4 %	2,822	11.9 %	2,621	10.7 %	2,590	11.5 %	2,834	10.7 %
Home equity	5,608	15.8 %	5,390	16.6 %	5,238	16.5 %	4,889	16.7 %	4,956	17.4 %
Other consumer	422	0.2 %	447	0.2 %	393	0.2 %	587	0.4 %	748	0.3 %
Total	\$ 64,293	100.0 %	\$ 60,643	100.0 %	\$ 61,566	100.0 %	\$ 55,825	100.0 %	\$ 55,100	100.0 %

To determine if a loan should be charged-off, all possible sources of repayment are analyzed. Possible sources of repayment include the potential for future cash flows, the value of the Bank’s collateral, and the strength of co-makers or guarantors. When available information confirms that specific loans or portions thereof are uncollectible, these amounts are promptly charged-off against the allowance for loan losses and any recoveries of such previously charged-off amounts are credited to the allowance.

Regardless of whether a loan is unsecured or collateralized, the Company charges off the amount of any confirmed loan loss in the period when the loans, or portions of loans, are deemed uncollectible. For troubled, collateral-dependent loans, loss-confirming events may include an appraisal or other valuation that reflects a shortfall between the value of the collateral and the carrying value of the loan or receivable, or a deficiency balance following the sale of the collateral.

For additional information regarding the Bank’s allowance for loan losses, see *Notes*, “Summary of Significant Accounting Policies” and *Notes*, “Loans, Allowance for Loan Losses and Credit Quality” within Notes to Consolidated Financial Statements included in Item 8 hereof.

Federal Home Loan Bank Stock The Bank held an investment in Federal Home Loan Bank (“FHLB”) of Boston, of \$15.7 million and \$11.6 million at December 31, 2018 and December 31, 2017, respectively. The FHLB is a cooperative that provides services to its member banking institutions. The primary reason for the FHLB of Boston membership is to gain access to a reliable source of wholesale funding as a tool to manage interest rate risk. The purchase of stock in the FHLB is a requirement for a member to gain access to funding. The Company purchases and/or is subject to redemption of FHLB stock proportional to the volume of funding received and views the holdings as a necessary long-term investment for the purpose of balance sheet liquidity and not for investment return.

Goodwill and Other Intangible Assets Goodwill and Other Intangible Assets were \$271.4 million and \$241.1 million at December 31, 2018 and December 31, 2017, respectively. The increase is due to the MNB Bancorp

acquisition, partially offset by amortization of definite-lived intangibles.

The Company typically performs its annual goodwill impairment testing during the third quarter of the year, unless certain indicators suggest earlier testing to be warranted. Accordingly, the Company performed its annual goodwill impairment testing

Table of Contents

during the third quarter of 2018 and determined that the Company's goodwill was not impaired. Other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. There were no events or changes that indicated impairment of other intangible assets. For additional information regarding the goodwill and other intangible assets, see *Note 6, "Goodwill and Other Intangible Assets"* within Notes to Consolidated Financial Statements included in Item 8 hereof.

Cash Surrender Value of Life Insurance Policies The Bank holds life insurance policies for the purpose of offsetting its future obligations to its employees under its retirement and benefits plans. The cash surrender value of life insurance policies was \$160.5 million and \$151.5 million at December 31, 2018 and December 31, 2017, respectively, with \$6.1 million of the increase attributable to policies obtained in the MNB Bancorp acquisition. The Company recorded tax exempt income from life insurance policies in the amount of \$4.1 million in 2018, 2017 and 2016. The Company also received proceeds on life insurance policies which resulted in a gain of \$1.5 million during the third quarter of 2018.

Deposits As of December 31, 2018, total deposits were \$7.4 billion, representing a \$697.9 million, or 10.4%, increase from the prior year-end. The increase is due partially to the impact of the MNB Bancorp acquisition as shown in the table below. Also contributing to the increase is the discontinuance and transition of customer repurchase agreement balances into deposit product offerings. Core deposits represented 88.72% of total deposits at December 31, 2018 and the total cost of deposits was 0.29% for the year ended December 31, 2018, representing an increase from the prior year of 10 basis points.

Excluding the effects of the MNB Bancorp acquisition, the Company has experienced net organic deposit growth as summarized in the table below during the periods indicated:

Table 15 - Components of Deposit Growth/(Decline)

	December 31 2018	December 31 2017	MNB Bancorp Acquisition	Organic Growth/(Decline) \$	Organic Growth/(Decline) %	
	(Dollars in thousands)					
Demand deposits	\$2,450,907	\$2,159,396	\$77,786	\$ 213,725	9.9	%
Savings and interest checking	2,865,349	2,599,922	58,441	206,986	8.0	%
Money market	1,399,761	1,325,634	73,645	482	—	%
Time certificates of deposits	711,103	644,301	68,332	(1,530)	(0.2)	%
Total	\$7,427,120	\$6,729,253	\$278,204	\$ 419,663	6.2	%

The following table sets forth the maturities of the Bank's time certificates of deposits in the amount of \$100,000 or more as of December 31, 2018:

Table 16 - Maturities of Time Certificates of Deposits \$100,000 and Over

	Balance	Percentage
	(Dollars in thousands)	
1 to 3 months	\$54,475	15.5 %
4 to 6 months	71,042	20.2 %
7 to 12 months	136,348	38.8 %
Over 12 months	89,764	25.5 %
Total	\$351,629	100.0 %

Table of Contents

The Company also participates in the Promontory Interfinancial Network, allowing the Bank to provide easy access to multi-million dollar FDIC deposit insurance protection on certificate of deposit and money market investments for consumers, businesses and public entities. This channel allows the Company to seek additional funding in potentially large quantities by attracting deposits from outside the Bank's core market and amounted to \$180.5 million and \$48.5 million, at December 31, 2018 and December 31, 2017, respectively. The increase in this amount was driven primarily by the aforementioned transition of the customer repurchase agreements to deposit product offerings. Additionally, during the second quarter of 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act was promulgated and determined that reciprocal deposits, such as those acquired through the Promontory Interfinancial Network, were no longer to be treated as brokered deposits. Accordingly, these amounts are no longer included in the total brokered amounts reported by the Company.

In addition, the Company may occasionally raise funds through the use of brokered deposits outside of the Promontory Interfinancial Network, which amounted to \$6.0 million at both December 31, 2018 and December 31, 2017.

Borrowings The Company's borrowings consist of both short-term and long-term borrowings and provide the Bank with one of its primary sources of funding. Maintaining available borrowing capacity provides the Bank with a contingent source of liquidity.

The Company's total borrowings decreased during 2018 due primarily to the Company's discontinuance and transition of \$141.2 million in customer repurchase agreements, which were classified as borrowings in 2017, into deposits during the fourth quarter of 2018, offset by a \$122.0 million overnight borrowing position at December 31, 2018. Also, during 2018 the Company assumed \$3.1 million of junior subordinated debentures as a result of the MNB Bancorp acquisition. These debentures were subsequently redeemed by the Company in early 2019.

During 2017 the Company assumed, at fair value, \$2.5 million of FHLB borrowings as a result of the Island Bancorp acquisition.

The following table sets forth the balance of borrowings, net of applicable debt issuance costs, at the periods indicated:

Table 17 - Borrowings by Category

	December 31		% Change
	2018	2017	
	(Dollars in thousands)		
Federal Home Loan Bank borrowings	\$147,806	\$53,264	177.5 %
Customer repurchase agreements and other short-term borrowings	—	162,679	(100.0)%
Junior subordinated debentures	76,173	73,073	4.2 %
Subordinated debentures	34,728	34,682	0.1 %
Total	\$258,707	\$323,698	(20.1)%

See Note 8, "Borrowings" within Notes to Consolidated Financial Statements included in Item 8 hereof for more information regarding borrowings.

Capital Resources The Federal Reserve Board (Federal Reserve), the FDIC, and other regulatory agencies have established capital guidelines for banks and bank holding companies. Effective January 1, 2015, risk-based capital guidelines issued by the federal regulatory agencies require banks to meet a minimum Common Equity Tier 1 capital ratio of 4.5%, Tier 1 capital ratio of 6.0% and a total capital ratio of 8.0%. A minimum requirement of 4.0% Tier 1 leverage capital is also mandated. In addition, the Company is required to maintain a minimum capital conservation buffer, in the form of common equity, in order to avoid restrictions on capital distributions and discretionary bonuses. The required amount of the capital conservation buffer is 2.5%. At December 31, 2018, the Company and the Bank exceeded the minimum requirements for Common Equity Tier 1 capital, Tier 1 capital, total capital, and Tier 1 leverage capital, inclusive of the capital conservation buffer. See Note 20, "Regulatory Matters" within Notes to

Consolidated Financial Statements included in Item 8 hereof for more information regarding capital requirements.

Table of Contents**Results of Operations****Table 18 - Summary of Results of Operations**

	Years Ended December 31			
	2018	2017		
	(Dollars in thousands, except per share data)			
Net income	\$121,622	\$87,204		
Diluted earnings per share	\$4.40	\$3.19		
Return on average assets	1.46	%	1.11	%
Return on average equity	12.31	%	9.55	%
Stockholders' equity as % of assets	12.13	%	11.68	%
Net interest margin	3.91	%	3.60	%

Net Interest Income The amount of net interest income is affected by changes in interest rates and by the volume, mix, and interest rate sensitivity of interest-earning assets and interest-bearing liabilities.

On a fully tax-equivalent basis, net interest income was \$298.9 million in 2018, a 14.8% increase from 2017 net interest income of \$260.4 million. The overall increase is due in part to higher interest earning assets, which is driven by both recent acquisitions and organic growth, combined with the Company's sustained asset sensitive position. The following table presents the Company's average balances, net interest income, interest rate spread, and net interest margin for 2018, 2017 and 2016. Nontaxable income from loans and securities is presented on a fully tax-equivalent basis by adjusting tax-exempt income upward by an amount equivalent to the prevailing federal income taxes that would have been paid if the income had been fully taxable.

Table 19 - Average Balance, Interest Earned/Paid & Average Yields

	Years Ended December 31									
	2018			2017			2016			
	Average Balance	Interest Earned/Paid	Average Yield	Average Balance	Interest Earned/Paid	Average Yield	Average Balance	Interest Earned/Paid	Average Yield	
	(Dollars in thousands)									
Interest-earning assets										
Interest-earning deposits with banks, federal funds sold, and short term investments	\$ 136,140	\$ 2,676	1.97 %	\$ 124,014	\$ 1,418	1.14 %	\$ 228,861	\$ 1,190	0.52 %	
Securities										
Securities - trading	1,549	—	— %	1,223	—	— %	701	—	— %	
Securities - taxable investments	999,744	26,513	2.65 %	901,891	22,465	2.49 %	826,131	20,851	2.52 %	
Securities - nontaxable investments (1)	2,098	76	3.62 %	3,186	135	4.24 %	4,486	180	4.01 %	
Total securities	1,003,391	26,589	2.65 %	906,300	22,600	2.49 %	831,318	21,031	2.53 %	
Loans held for sale	5,396	159	2.95 %	4,760	92	1.93 %	9,213	235	2.55 %	
Loans(2)										
Commercial and industrial	958,414	45,754	4.77 %	875,056	36,048	4.12 %	848,434	33,206	3.91 %	
Commercial real estate (1)	3,128,659	144,045	4.60 %	3,067,077	127,512	4.16 %	2,748,337	111,977	4.07 %	
Commercial construction	385,771	19,615	5.08 %	365,277	16,387	4.49 %	365,590	15,094	4.13 %	
Small business	142,850	8,362	5.85 %	128,559	7,145	5.56 %	108,619	5,875	5.41 %	
Total commercial	4,615,694	217,776	4.72 %	4,435,969	187,092	4.22 %	4,070,980	166,152	4.08 %	
Residential real estate	794,735	31,768	4.00 %	713,608	28,179	3.95 %	633,313	25,487	4.02 %	
Home equity	1,067,365	44,505	4.17 %	1,030,881	38,388	3.72 %	952,736	32,889	3.45 %	
Total consumer real estate	1,862,100	76,273	4.10 %	1,744,489	66,567	3.82 %	1,586,049	58,376	3.68 %	
Other consumer	12,116	952	7.86 %	10,641	944	8.87 %	13,398	1,185	8.84 %	
Total loans	6,489,910	295,001	4.55 %	6,191,099	254,603	4.11 %	5,670,427	225,713	3.98 %	

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Table of Contents

Total Interest-Earning Assets	7,634,837	324,425	4.25 %	7,226,173	278,713	3.86 %	6,739,819	248,169	3.68 %
Cash and Due from Banks	103,911			97,694			91,107		
Federal Home Loan Bank Stock	13,200			12,781			12,831		
Other Assets	553,226			554,117			544,917		
Total Assets	\$8,305,174			\$7,890,765			\$7,388,674		
Interest-bearing liabilities									
Deposits									
Savings and interest checking accounts	\$2,658,798	\$5,582	0.21 %	\$2,541,845	\$3,656	0.14 %	\$2,399,147	\$3,173	0.13 %
Money market	1,367,743	7,465	0.55 %	1,298,598	4,224	0.33 %	1,178,262	2,996	0.25 %
Time certificates of deposits	655,983	6,948	1.06 %	622,909	4,822	0.77 %	649,678	4,971	0.77 %
Total interest bearing deposits	4,682,524	19,995	0.43 %	4,463,352	12,702	0.28 %	4,227,087	11,140	0.26 %
Borrowings									
Federal Home Loan Bank borrowings	59,932	1,083	1.81 %	59,204	1,385	2.34 %	61,398	1,653	2.69 %
Customer repurchase agreements and other short-term borrowings	129,890	248	0.19 %	166,152	257	0.15 %	149,042	208	0.14 %
Wholesale repurchase agreements	—	—	— %	—	—	— %	—	—	— %
Junior subordinated debentures	73,458	2,501	3.40 %	73,074	2,281	3.12 %	73,207	4,083	5.58 %
Subordinated debt	34,705	1,709	4.92 %	34,658	1,709	4.93 %	34,612	1,709	4.94 %
Total borrowings	297,985	5,541	1.86 %	333,088	5,632	1.69 %	318,259	7,653	2.40 %
Total interest-bearing liabilities	4,980,509	25,536	0.51 %	4,796,440	18,334	0.38 %	4,545,346	18,793	0.41 %
Demand deposits	2,252,006			2,098,501			1,924,173		
Other liabilities	84,671			82,840			106,766		
Total liabilities	7,317,186			6,977,781			6,576,285		
Stockholders' equity	987,988			912,984			812,389		
Total liabilities and stockholders' equity	\$8,305,174			\$7,890,765			\$7,388,674		
Net interest income(1)		\$298,889			\$260,379			\$229,376	
Interest rate spread(3)			3.74 %			3.48 %			3.27 %
Net interest margin(4)			3.91 %			3.60 %			3.40 %
Supplemental Information									
Total deposits, including demand deposits	\$6,934,530	\$19,995		\$6,561,853	\$12,702		\$6,151,260	\$11,140	
Cost of total deposits			0.29 %			0.19 %			0.18 %
Total funding liabilities, including demand deposits	\$7,232,515	\$25,536		\$6,894,941	\$18,334		\$6,469,519	\$18,793	
Cost of total funding liabilities			0.35 %			0.27 %			0.29 %

The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is \$724,000 for 2018 and \$1.5 million for both 2017 and (1)2016. The FTE adjustment relates to nontaxable investment securities with average balances of \$2.1 million, \$3.2 million, and \$4.5 million in 2018, 2017, and 2016, respectively, and nontaxable industrial development bonds with average balances of \$55.7 million at 2018 and \$69.9 million at both 2017 and 2016.

(2) Loans include portfolio loans and nonaccrual loans, however unpaid interest on nonaccrual loans has not been included for purposes of determining interest earned.

(3) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average costs of interest-bearing liabilities.

(4) Net interest margin represents net interest income as a percentage of average interest-earning assets.

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Table of Contents

The following table presents certain information on a fully-tax equivalent basis regarding changes in the Company's interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to (1) changes in rate (change in rate multiplied by prior year volume), (2) changes in volume (change in volume multiplied by prior year rate) and (3) changes in volume/rate (change in rate multiplied by change in volume) which is allocated to the change due to rate column:

Table 20 - Volume Rate Analysis

	Years Ended December 31								
	2018 Compared To 2017			2017 Compared To 2016			2016 Compared To 2015		
	Change Due to Rate	Change Due to Volume	Total Change	Change Due to Rate	Change Due to Volume	Total Change	Change Due to Rate	Change Due to Volume	Total Change
	(Dollars in thousands)								
Income on interest-earning assets									
Interest-earning deposits, federal funds sold and short term investments	\$ 1,119	\$ 139	\$ 1,258	\$ 773	\$ (545)	\$ 228	\$ 614	\$ 227	\$ 841
Securities									
Taxable securities	1,611	2,437	4,048	(298)	1,912	1,614	(248)	979	731
Nontaxable securities(1)	(13)	(46)	(59)	7	(52)	(45)	9	(24)	(15)
Total securities			3,989			1,569			716
Loans held for sale	55	12	67	(29)	(114)	(143)	11	(1)	10
Loans									
Commercial and industrial	6,272	3,434	9,706	1,800	1,042	2,842	13	(376)	(363)
Commercial real estate	13,973	2,560	16,533	2,548	12,987	15,535	(1,332)	6,508	5,176
Commercial construction	2,309	919	3,228	1,306	(13)	1,293	(317)	2,573	2,256
Small business	423	794	1,217	191	1,079	1,270	(33)	1,008	975
Total commercial			30,684			20,940			8,044
Residential real estate	385	3,204	3,589	(539)	3,231	2,692	200	(316)	(116)
Home equity	4,758	1,359	6,117	2,801	2,698	5,499	50	2,062	2,112
Total consumer real estate			9,706			8,191			1,996
Total other consumer	(123)	131	8	3	(244)	(241)	(113)	(366)	(479)
Loans(1)			40,398			28,890			9,561
Total			\$45,712			\$30,544			\$11,128
Expense of interest-bearing liabilities									
Deposits									
Savings and interest checking accounts	\$ 1,758	\$ 168	\$ 1,926	\$ 294	\$ 189	\$ 483	\$ (632)	\$ 249	\$ (383)
Money market	3,016	225	3,241	922	306	1,228	(79)	197	118
Time certificates of deposits	1,870	256	2,126	56	(205)	(149)	253	(424)	(171)
Total interest-bearing deposits			7,293			1,562			(436)
Borrowings									
Federal Home Loan Bank borrowings	(319)	17	(302)	(209)	(59)	(268)	382	(937)	(555)
Customer repurchase agreements and other short-term borrowings	47	(56)	(9)	25	24	49	(18)	16	(2)
Wholesale repurchase agreements	—	—	—	—	—	—	—	(746)	(746)
Junior subordinated debentures	208	12	220	(1,795)	(7)	(1,802)	68	(11)	57
Subordinated debt	(2)	2	—	(2)	2	—	53	(195)	(142)
Total borrowings			(91)			(2,021)			(1,388)
Total			\$7,202			\$ (459)			\$ (1,824)
Change in net interest income			\$38,510			\$31,003			\$12,952

(1) The table above reflects income determined on a fully tax equivalent basis. See footnotes to Table 19 above for the related adjustments.

Table of Contents

Provision For Loan Losses The provision for loan losses represents the charge to expense that is required to maintain an appropriate level of allowance for loan losses. The provision for loan losses totaled \$4.8 million in 2018, compared with \$3.0 million in 2017. The increase in provision was primarily due to organic loan growth throughout the year. The Company's allowance for loan losses, as a percentage of total loans, was 0.93% at December 31, 2018, as compared to 0.95% at December 31, 2017. Net charge-offs for the years ended December 31, 2018 and 2017 totaled \$1.1 million and \$3.9 million, respectively.

Management's periodic evaluation of the appropriate allowance for loan losses considers past loan loss experience, known and inherent risks within the loan portfolio, adverse situations which may affect the borrowers' ability to repay, the estimated value of the underlying collateral, if any, and current economic conditions. Regarding the estimated value of the underlying collateral, substantial portions of the Bank's loans are secured by real estate in Massachusetts and Rhode Island. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio is susceptible to changes in property values within those states.

In general, the national and local economies expanded at a moderate pace through much of 2018. The labor market in the New England market remains strong although certain industries such as restaurants reported labor shortages due to a tight supply. Wage increases appear mixed in the region while a recent mandated increase to the minimum wage in Massachusetts is leading to increases in some labor costs. Retailers reported generally favorable sales trends year-over-year and capital spending plans in 2019 are expected to be higher than those in 2018. Median sales prices on residential real estate remain strong and the volume of sales continues to climb, increasing over 2% as compared to the year ago period. Commercial real estate markets remained relatively strong within the Bank's footprint. Office leasing activity remained very robust while demand for industrial space continued to grow. Commercial construction activity in the Boston market is expected to remain healthy in the near term. The overall economic outlook for the near term remains generally positive for the New England region.

Noninterest Income The following table sets forth information regarding noninterest income for the periods shown:

Table 21 - Noninterest Income

	Years Ended December 31			
	2018	2017	Change Amount	%
	(Dollars in thousands)			
Deposit account fees	\$18,327	\$17,822	\$505	2.8 %
Interchange and ATM fees	18,916	17,291	1,625	9.4 %
Investment management	26,155	23,802	2,353	9.9 %
Mortgage banking income	4,071	4,960	(889)	(17.9)%
Increase in cash surrender value of life insurance policies	4,060	4,127	(67)	(1.6)%
Gain on life insurance benefits	1,463	—	1,463	— %
Loan level derivative income	2,373	3,836	(1,463)	(38.1)%
Other noninterest income	13,140	11,156	1,984	17.8 %
Total	\$88,505	\$82,994	\$5,511	6.6 %

The primary reasons for significant variances in the noninterest income category shown in the preceding table are noted below:

Deposit account fees increased due to overall increased household accounts, including the impact of recent acquisitions.

Interchange and ATM fees increased driven mainly by increased account activity and a larger customer base.

Investment management revenue increased primarily due to an increase in assets under administration, which grew from \$3.5 billion at December 31, 2017 to \$3.6 billion at December 31, 2018, inclusive of the acquired MNB Bancorp portfolio of \$160.9 million. The inclusion of the MNB Bancorp portfolio along with increased retail commissions helped offset the impact of weak equity markets that prevailed during the fourth quarter.

Mortgage banking income decreased, primarily driven by lower overall sold loan volume, as a higher percentage of closed loans were retained in the Company's portfolio during 2018 as compared to the prior year.
Loan level derivative income decreased due to lower customer demand during the year.

Table of Contents

Other noninterest income increased during the year, primarily due to a gain of \$1.1 million on the sale of a previously closed branch facility.

Noninterest Expense The following table sets forth information regarding noninterest expense for the periods shown:

Table 22 - Noninterest Expense

	Years Ended December 31		Change		
	2018	2017	Amount	%	
	(Dollars in thousands)				
Salaries and employee benefits	\$ 124,328	\$ 116,600	\$ 7,728	6.6	%
Occupancy and equipment	27,098	24,693	2,405	9.7	%
Data processing and facilities management	5,125	4,988	137	2.7	%
FDIC assessment	2,774	3,068	(294)	(-9.6)	%
Advertising	4,942	4,989	(47)	(0.9)	%
Consulting	3,891	4,038	(147)	(3.6)	%
Debit card expense	3,429	3,430	(1)	—	%
Merger & acquisitions	11,168	3,393	7,775	229.1	%
Software maintenance	4,202	3,636	566	15.6	%
Other noninterest expense	39,012	35,524	3,488	9.8	%
Total	\$ 225,969	\$ 204,359	\$ 21,610	10.6	%

The primary reasons for significant variances in the noninterest expense category shown in the preceding tables are noted below:

The increase in salaries and employee benefits reflects overall increases in the employee base during 2018 (including the recent acquisitions of MNB Bancorp and Island Bancorp) along with increases in expenses associated with incentives, medical insurance, payroll taxes and commissions.

Occupancy and equipment expense increases were attributable to added costs from the MNB Bancorp acquisition, as well as increases in building maintenance and repairs and utility costs.

FDIC assessment decreased due to a reduction in assessment rates combined with strong financial results driving further reductions.

Consulting expense decreased during 2018 due primarily to timing of strategic initiatives.

The majority of the merger and acquisition expenses in 2018 are associated with the fourth quarter 2018 closing of the MNB Bancorp acquisition and to a smaller degree, the Blue Hills Bancorp acquisition which is anticipated to close in the first half of 2019. The majority of these costs include contract terminations, severance and legal fees. The majority of merger and acquisition expense in 2017 was related to compensation and severance agreements, as well as contract termination costs, associated with the Island Bancorp acquisition which closed in the second quarter of 2017.

Software maintenance increases reflect additional investments in technology to support the Company's growth.

Other noninterest expenses increased due primarily to increases in the loss on equity securities, legal fees, director fees and internet banking expenses.

Table of Contents

Income Taxes The tax effect of all income and expense transactions is recognized by the Company in each year's consolidated statements of income, regardless of the year in which the transactions are reported for income tax purposes. The following table sets forth information regarding the Company's tax provision and applicable tax rates for the periods indicated:

Table 23 - Tax Provision and Applicable Tax Rates

	December 31			
	2018	2017	2016	
	(Dollars in thousands)			
Combined federal and state income tax provisions	\$34,304	\$47,341	\$35,427	
Effective income tax rates	22.00	% 35.19	% 31.61	%
Blended Statutory tax rate	28.23	% 40.93	% 40.90	%

The Company's blended statutory and effective tax rates in 2018 are lower as compared to the year ago period due primarily to the impact of the Tax Act, which decreased the maximum Federal corporate tax rate from 35% to 21%. Additionally, the effective tax rates in the table above are lower than the blended statutory tax rates due to certain tax preference assets such as life insurance policies and tax exempt bonds, as well as federal tax credits recognized primarily in connection with the New Markets Tax Credit program and investments in low income housing project investments. Lastly, the effective tax rate includes the impact of excess tax benefits associated with stock compensation transactions and other discrete items which can fluctuate year over year.

The Company's subsidiaries have received several awards of tax credit allocation authority under the federal New Markets Tax Credit program which enable the Company to recognize federal tax credits over a seven year period totaling 39.0% of the total award. The Company recognizes federal tax credits as capital investments that are made into its subsidiaries to fund below market interest rate loans to qualifying businesses in low income communities. The following table details the remaining tax credit recognition by year associated with this program:

Table 24 - New Markets Tax Credit Recognition Schedule

Year and Amount of Investment	2018	2019
	(Dollars in thousands)	
2012	\$21,400	\$1,285 \$—
2013	44,600	2,675 2,675
Total	\$66,000	\$3,960 \$2,675

The Company invests in various low income housing projects which are real estate limited partnerships that acquire, develop, own and operate low and moderate-income housing developments. As a limited partner in these operating partnerships, the Company will receive tax credits and tax deductions for losses incurred by the underlying properties. The investments are accounted for using the proportional amortization method and will be amortized over various periods through 2032, which represents the period that the tax credits and other tax benefits will be utilized. The total committed investment in these partnerships is \$50.2 million, of which \$46.3 million has been funded. The Company recognized a net tax benefit of approximately \$1.0 million for the 2018 calendar year, and anticipates additional net tax benefits of \$7.4 million over the remaining life of the investments from the combination of tax credits and operating losses.

For additional information related to the Company's income taxes see *Note 13, "Income Taxes"* and *Note 14, "Low Income Housing Project Investments"* within Notes to the Consolidated Financial Statements included in Item 8 hereof.

Dividends The Company declared cash dividends of \$1.52 per common share in 2018 and \$1.28 per common share in 2017. The 2018 and 2017 ratio of dividends paid to earnings was 33.03% and 39.04%, respectively. Since substantially all of the funds available for the payment of dividends are derived from the Bank, future dividends of the Company will depend on the earnings of the Bank, its financial condition, its need for funds, applicable

governmental policies and regulations, and other such matters as the Board of Directors deems appropriate.

Comparison of 2017 vs. 2016 In May of 2017, the Company completed the Island Bancorp acquisition, acquiring loans of \$155.6 million and deposits of \$159.6 million. In November of 2016, the Company completed the New England Bancorp, Inc.

Table of Contents

("NEB") acquisition, acquiring loans of \$225.7 million and deposits of \$175.7 million, at fair value. As of December 31, 2017, the Company's total assets were \$8.1 billion, which represented an increase of \$372.7 million, or 4.8%, as compared to December 31, 2016. Total average assets were \$7.9 billion and \$7.4 billion in 2017 and 2016, respectively. Total securities of \$946.5 million at December 31, 2017 increased \$95.0 million compared to the \$851.5 million reported on December 31, 2016. Total loans of \$6.4 billion at December 31, 2017 increased \$355.9 million compared to the prior year end. Total deposits of \$6.7 billion at December 31, 2017 reflected an increase of \$317.0 million, or 4.9%, as compared to December 31, 2016. Borrowings decreased by \$11.8 million, or 3.5%, during the year ended December 31, 2017. Stockholders' equity increased by \$79.1 million in 2017.

Net income for 2017 was \$87.2 million, or \$3.19 per diluted share, compared to \$76.6 million, or \$2.90 per diluted share, in 2016. Return on average assets and return on average common equity were 1.11% and 9.55%, respectively, for 2017 and 1.04% and 9.43%, respectively, for 2016.

On a fully tax-equivalent basis, net interest income was \$260.4 million in 2017, a 13.5% increase from 2016 net interest income of \$229.4 million. The overall increase is due in part to higher interest earning assets, which was driven by acquisitions and organic growth, as well as increased market rates on short-term indexed assets, lower borrowings cost, and the reinvestment of excess liquidity.

Interest expense for the year ended December 31, 2017 decreased to \$18.3 million from \$18.8 million recorded in 2016, driven by a decrease in the total cost of funds of two basis points to 0.27% for 2017, as compared to 0.29% for 2016. Average interest-bearing deposits increased \$236.3 million, or 5.6%, over the prior year while the cost of these deposits increased to 0.19% in 2017 from 0.18% in 2016.

The provision for loan losses totaled \$3.0 million in 2017, compared with \$6.1 million in 2016. The decrease in provision was primarily due to a specific reserve for one large commercial relationship which was placed on nonaccrual status in the fourth quarter of 2016. The Company's allowance for loan losses, as a percentage of total loans, was 0.95% at December 31, 2017, as compared to 1.03% at December 31, 2016.

The primary reasons for significant variances in the noninterest income category between 2017 and 2016 are noted below:

Deposit account fees decreased as a result of decreased overdraft fees.

Interchange and ATM fees increased as a result of the continued successful growth of core checking accounts, and to a lesser degree by the Island Bancorp acquisition.

Investment management revenue increased primarily due to an increase in assets under administration, which grew from \$2.9 billion at December 31, 2016 to \$3.5 billion at December 31, 2017, reflecting strong new business results as well as market appreciation.

Mortgage banking income decreased, primarily driven by overall sold loan volume, as a higher percentage of closed loans were retained in the Company's portfolio during 2017 as compared to the prior year.

Loan level derivative income decreased due to lower customer demand during the year.

Other noninterest income increased during the year, mainly due to increases in rental income related to an equipment leasing initiative entered into during the second quarter of 2017, as well as gains on the sale of loans.

The primary reasons for significant variances in the noninterest expense category between 2017 and 2016 are noted below:

The increase in salaries and employee benefits reflects overall increases in the employee base during 2017 (including the acquisition of Island Bancorp) along with increases in expenses associated with medical insurance, payroll taxes, commissions, and retirement benefits.

Occupancy and equipment expense increases were attributable to depreciation, including equipment associated with the Company's leasing initiative that started in the second quarter of 2017, as well as increases in snow removal, and equipment maintenance and repairs.

The FDIC assessment decreased due to a reduction in assessment rates effective July 1, 2016, combined with strong financial results driving further reductions in the rate.

Advertising expenses decreased during 2017 due to timing of various campaigns.

Consulting expense increased during 2017 due primarily to process improvement and strategic initiatives, as well as increased loan work out related costs.

Table of Contents

Debit card expense has increased driven mainly by increased volume/usage by customers.

The majority of merger and acquisition expense in 2017 was related to compensation and severance agreements, as well as contract termination costs, associated with the Island Bancorp acquisition which closed in the second quarter of 2017. The majority of the merger and acquisition expenses in 2016 related to compensation and severance agreements, as well as legal and consulting fees associated with the fourth quarter 2016 closing of the NEB acquisition.

Software maintenance increases reflect additional investments in technology to support the Company's growth.

Other noninterest expenses increased due primarily to increases in loan work out costs, the provision for unfunded commitments, internet banking expense and increased director fees.

Risk Management

The Company's Board of Directors and Executive Management have identified significant risk categories which affect the Company. The risk categories include: credit risk, operations risk, compliance risk, strategic and reputation risk, market risk and liquidity risk. The Board of Directors has approved an Enterprise Risk Management Policy that addresses each category of risk. The Senior Portfolio Risk Officer, Chief Financial Officer, Chief Information Officer, Director of Residential Lending, Compliance Officer, Executive Vice President of Commercial Lending and other members of management provide regular reports to the Board of Directors, identifying key risk issues and plans to mitigate key risks. The Board of Directors seeks to ensure the level of risk is maintained within limits established by both the Risk Management Policy and other previously approved policies.

Credit Risk Credit risk represents the possibility that the Company's borrowing customers or other counterparties may not repay loans or other contractual obligations according to their terms due to changes in the financial capacity, ability and/or willingness of such borrowing customers or counterparties to meet their obligations. In some cases, the collateral securing the payment of the loans may be sufficient to assure repayment, but in other cases the Company may experience significant credit losses which could have an adverse effect on its operating results. The Company makes various assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of its borrowers and counterparties and the value of the real estate and other assets serving as collateral for the repayment of loans. For further discussion regarding the credit risk and the credit quality of the Company's loan portfolio, see *Note 4, "Loans, Allowance for Loan Losses and Credit Quality"* within Notes to Consolidated Financial Statements included in Item 8 hereof.

Operations Risk Operations risk is the risk of loss due to human behavior, inadequate or failed internal systems and controls, and external influences such as market conditions, fraudulent activities, natural disasters and security risks. The potential for operational risk exposure exists throughout the organization. Integral to the Company's performance is the continued effectiveness of the Company's colleagues, technical systems, operational infrastructure and relationships with key third party service providers. Failure by any or all of these resources subjects the Company to risks that may vary in size, scale and scope. These risks include, but are not limited to, operational or technical failures, unlawful tampering with technical systems, cyber security, terrorist activities, ineffectiveness or exposure due to interruption in third party support, as well as the loss of key individuals or failure on the part of the key individuals to perform properly. The Bank maintains an Operations Risk Committee comprised of members of management whose purpose is to assess and mitigate levels of operations risk. The Committee apprises the Board quarterly of its assessment of the state of operations risk relevant to stated risk appetite guidelines.

Compliance Risk Compliance risk represents the risk of regulatory sanctions or financial loss resulting from the Company's failure to comply with rules and regulations issued by the various banking agencies, the U.S. Securities and Exchange Commission, the NASDAQ Stock Market, and standards of good banking practice. Activities which may expose the Company to compliance risk include, but are not limited to, those dealing with the prevention of money laundering, privacy and data protection, adherence to all applicable laws and regulations, community reinvestment initiatives and employment and tax matters. Compliance risk is mitigated through the use of written policies and procedures, training of staff, and monitoring of activities for adherence to those procedures. The Bank has a Compliance Committee that meets quarterly and updates the Board and management quarterly or more frequently if warranted. The Committee is chaired by the Director of Compliance, and members of the Committee include

representatives from each of the principal business lines as well as Enterprise Risk Management, Audit, Finance, Technology and Information Security.

Strategic and Reputation Risk Strategic and reputation risk represents the risk of loss due to impairment of reputation, failure to fully develop and execute business plans, and failure to assess current and new opportunities and threats in business, markets, and products. Management seeks to mitigate strategic and reputational risk through annual strategic planning, frequent executive strategic reviews, ongoing competitive and technological observation, assessment processes of new product, new branch, and new business initiatives, adherence to ethical standards, a philosophy of customer advocacy, a structured process of customer complaint resolution, and ongoing reputational monitoring, crisis management planning, and management tools.

Table of Contents

Market Risk Market risk is the sensitivity of income to changes in interest rates, foreign exchange rates, commodity prices and other market-driven rates or prices. Interest rate sensitivity is the most significant market risk to which the Company is exposed.

Interest rate risk is the sensitivity of income to changes in interest rates. Changes in interest rates, as well as fluctuations in the level and duration of assets and liabilities, affect net interest income, the Company's primary source of revenue. Interest rate risk arises directly from the Company's core banking activities. In addition to directly impacting net interest income, changes in the level of interest rates can also affect the amount of loans originated, the timing of cash flows on loans and securities, and the fair value of securities and derivatives, as well as other effects. The primary goal of interest rate risk management is to control this risk within limits approved by the Board of Directors. These limits reflect the Company's tolerance for interest rate risk over both short-term and long-term horizons. The Company attempts to manage interest rate risk by identifying, quantifying, and where appropriate, hedging its exposure. If assets and liabilities do not re-price simultaneously and in equal volume, the potential for interest rate exposure exists. It is the Company's objective to maintain stability in the growth of net interest income through the maintenance of an appropriate mix of interest-earning assets and interest-bearing liabilities and, when necessary, within limits management determines to be prudent, through the use of off-balance sheet hedging instruments such as interest rate swaps, floors and caps.

The Company quantifies its interest rate exposures using net interest income simulation models, as well as simpler gap analysis, and Economic Value of Equity analysis. Key assumptions in these simulation analyses relate to behavior of interest rates and behavior of the Company's deposit and loan customers. The most material assumptions relate to the prepayment of mortgage assets (including mortgage loans and mortgage-backed securities) and the life and sensitivity of nonmaturity deposits (e.g. DDA, NOW, savings and money market). In the case of prepayment of mortgage assets, assumptions are derived from published dealer median prepayment estimates for comparable mortgage loans. The risk of prepayment tends to increase when interest rates fall. Since future prepayment behavior of loan customers is uncertain, interest rate sensitivity of loans cannot be determined exactly and actual behavior may differ from assumptions.

Based upon the net interest income simulation models, the company currently forecasts that the Bank's assets re-price faster than the liabilities. As a result, the net interest income of the Bank will benefit as market rates increase. Conversely, if rates were to fall, the net interest margin of the Bank is expected to contract. The Company runs several scenarios to quantify and effectively assist in managing this position. These scenarios include instantaneous parallel shifts in market rates as well as gradual (12-24 months) shifts in market rates.

Table of Contents

The results of all scenarios are outlined in the table below:

Table 25 - Interest Rate Sensitivity

	Years Ended December 31			
	2018		2017	
	Year 1	Year 2	Year 1	Year 2
Parallel rate shocks (basis points)				
-200	(11.9)%	(17.8)%	n/a	n/a
-100	(5.3)%	(7.2)%	(8.6)%	(10.8)%
+100	3.5%	7.6%	5.4%	9.3%
+200	6.4%	12.6%	10.3%	16.4%
+300	9.3%	17.6%	15.3%	23.7%
+400	12.2%	22.6%	20.2%	30.8%
Gradual rate shifts (basis points)				
-200 over 12 months	(5.4)%	(15.3)%	n/a	n/a
-100 over 12 months	(2.2)%	(5.8)%	(3.7)%	(9.5)%
+200 over 12 months	3.2%	11.2%	5.0%	14.7%
+400 over 24 months	3.2%	14.2%	5.0%	19.5%
Alternative scenarios				
Flat up 200 basis points scenario	3.5%	12.1%	5.1%	14.1%

As previously noted, the results in the table above are dependent on material assumptions. For instance, asymmetrical rate behavior can have a material impact on the simulation results. If competition for deposits prompts the Company to raise rates on those liabilities more quickly than is assumed in the simulation analysis without a corresponding increase in asset yields, net interest income would be negatively impacted. Alternatively, if the Company is able to lag increases in deposit rates as loans re-price upward, net interest income would be positively impacted.

The most significant factors affecting market risk exposure of the Company's net interest income during the year ended December 31, 2018 were the shape of the U.S. Government securities and interest rate swap yield curve, the U.S. prime interest rate and LIBOR rates, and the interest rates being offered on long-term fixed rate loans.

The Company manages the interest rate risk inherent in both its loan and borrowing portfolios by utilizing interest rate swap agreements and interest rate caps and floors. An interest rate swap is an agreement whereby one party agrees to pay a floating rate of interest on a notional principal amount in exchange for receiving a fixed rate of interest on the same notional amount for a predetermined period of time from a second party. Interest rate caps and floors are agreements whereby one party agrees to pay a floating rate of interest on a notional principal amount for a predetermined period of time to a second party if certain market interest rate thresholds are realized. The amounts relating to the notional principal amount are not actually exchanged. Additionally, the Company may manage the interest rate risk inherent in its mortgage banking operations by entering into forward sales contracts. Prior to closing and funding certain 1- 4 family residential mortgage loans, an interest rate lock commitment is generally extended to the borrower. During the period from commitment date to closing date, the Company is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans resulting in a reduction in the gain on sale of the loans or, possibly, a loss. In an effort to mitigate such risk, forward delivery sales commitments are executed, under which the Company agrees to deliver whole mortgage loans to various investors. See Note 11., "Derivatives and Hedging Activities" within Condensed Notes to Consolidated Financial Statements included in Item 1 hereof for additional information regarding the Company's Derivative Financial Instruments.

The Company's earnings are not directly or materially impacted by movements in foreign currency rates or commodity prices. Movements in equity prices may have a modest impact on earnings by affecting the volume of activity or the

amount of fees from investment-related business lines. See *Note 3*, “Securities” within Condensed Notes to Consolidated Financial Statements included in Item 1 hereof.

61

Table of Contents

Liquidity Risk Liquidity risk is the risk that the Company will not have the ability to generate adequate amounts of cash in the most economical way for the institution to meet its ongoing obligations to pay deposit withdrawals, service borrowings, and to fund loan commitments. The Company's primary sources of funds are deposits, borrowings, and the amortization, prepayment and maturities of loans and securities. The Bank utilizes its extensive branch network to access retail customers who provide a base of in-market core deposits. These funds are principally comprised of demand deposits, interest checking accounts, savings accounts, and money market accounts. Deposit levels are greatly influenced by interest rates, economic conditions, and competitive factors.

The Company actively manages its liquidity position under the direction of the Asset-Liability Committee of the Bank ("ALCO"). The Company's primary measure of short-term liquidity is the Total Basic Surplus/Deficit as a percentage of assets. This ratio, which is an analysis of the relationship between liquid assets plus available funding at the FHLB less short-term liabilities relative to total assets, was within policy limits at December 31, 2018. The Total Basic Surplus/Deficit measure is affected primarily by changes in deposits, securities and short-term investments, loans and borrowings. An increase in deposits, without a corresponding increase in nonliquid assets, will improve the Total Basic Surplus/Deficit measure, whereas, an increase in loans, with no increase in deposits, will decrease the measure. Other factors affecting the Total Basic Surplus/Deficit measure include collateral requirements at the FHLB, changes in the securities portfolio, and the mix of deposits.

The Bank seeks to increase deposits without adversely impacting the weighted average cost of those funds. As part of a prudent liquidity risk management practice, the Company maintains various liquidity sources, some of which are only accessed on a contingency basis. Accordingly, management has implemented funding strategies that include FHLB advances, Federal Reserve Bank borrowing capacity and repurchase agreement lines. These nondeposit funds are also viewed as a contingent source of liquidity and, when profitable lending and investment opportunities exist, access to such funds provides a means to grow the balance sheet.

Borrowing capacity at the FHLB and the Federal Reserve is impacted by the amount and type of assets available to be pledged. For example, a prime, one-to-four family, residential loan may provide 75 cents of borrowing capacity for every \$1.00 pledged, whereas, a commercial loan may provide a lower amount. As a result, the Company's strategic lending decisions can also affect its liquidity position.

The Company can raise additional funds through the issuance of equity or unsecured debt privately or publicly and has done so in the past. Additionally, the Company is able to enter into additional repurchase agreements or acquire brokered deposits at its discretion. The availability and cost of equity or debt on an unsecured basis is dependent on many factors. Some factors that will impact this source of liquidity are the Company's financial position, the market environment, and the Company's credit rating. As such, the Company is careful to monitor the various factors that could impact its ability to raise liquidity through these channels.

The table below shows current and unused liquidity capacity from various sources as of the dates indicated:

Table 26 - Sources of Liquidity

	December 31		2017		
	2018	Additional Borrowing Capacity	2017	Additional Borrowing Capacity	
	Outstanding		Outstanding		
	(Dollars in thousands)				
Federal Home Loan Bank borrowings	\$147,806	\$ 953,539	(1) \$53,264	\$ 954,789	(1)
Federal Reserve Bank of Boston	—	705,242	(2) —	720,005	(2)
Unpledged securities	—	691,383	—	375,155	
Customer repurchase agreements	—	—	(3) 162,679	—	(3)
Junior subordinated debentures	76,173	—	(3) 73,073	—	(3)
Subordinated debt	34,728	—	(3) 34,682	—	