BROOKLINE BANCORP INC
Form 10-K
March 03, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K

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

for the Fiscal Year Ended December 31, 2013,
or

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

for the transition period from N/A to .
Commission File Number: 0-23695
BROOKLINE BANCORP, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation of organization)	04-3402944 (I.R.S. Employer Identification No.)
131 Clarendon Street, Boston, Massachusetts (Address of principal executive offices)	02117-9179 (Zip Code)

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

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

Securities registered pursuant to Section 12 (g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1934. YES o NO x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act of 1934. YES o NO x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirement for the past 90 days. YES x NO o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. o
Indicate by check mark whether the registrant (1) has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). YES x NO o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12-b of the Exchange Act (Check one).

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of common stock held by nonaffiliates of the registrant as of February 28, 2014 was 70,163,809 for an aggregate market value of $632.8 million. This excludes 284,952 shares held by Brookline Bank Employee Stock Ownership Plan and Trust.

At February 28, 2014, the number of shares of common stock, par value $0.01 per share, issued and outstanding were 75,744,445 and 70,572,460, respectively.

BROOKLINE BANCORP, INC. AND SUBSIDIARIES
2013 FORM 10-K
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FORWARD-LOOKING STATEMENTS

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

PART I

Item 1. Business

General

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

Brookline Bank, which includes its wholly-owned subsidiaries, BBS Investment Corp. and Longwood Securities Corp., and its 84.8%-owned subsidiary, Eastern Funding LLC ("Eastern Funding"), operates 23 full-service banking offices in Brookline, Massachusetts and the greater Boston metropolitan area. Brookline Bank was established as a savings bank in 1871 under the name Brookline Savings Bank. The Company was organized in November 1997 for the purpose of acquiring all of the capital stock of Brookline Savings Bank on completion of the reorganization of Brookline Savings Bank from a mutual savings bank into a mutual holding company structure and partial public offering. In 2002, the Company became fully public. In January 2003, Brookline Savings Bank changed its name to Brookline Bank.

On February 28, 2011, the Company acquired First Ipswich Bancorp, the holding company for First Ipswich, headquartered in Ipswich, Massachusetts. First Ipswich, which includes its wholly-owned subsidiaries, First Ipswich Securities II Corp., First Ipswich Insurance Agency, First Ipswich Realty and FNBI Realty, operates 6 full-service banking offices on the North Shore of eastern Massachusetts and in the Boston metropolitan area. In June 2012, the First National Bank of Ipswich changed its name to First Ipswich Bank.

On January 1, 2012, the Company acquired Bancorp Rhode Island, Inc., a Rhode Island corporation and holding company for BankRI, headquartered in Providence, Rhode Island. BankRI, which includes its wholly-owned subsidiaries, BRI Investment Corp., Macrolease Corporation ("Macrolease"), Acorn Insurance Agency and BRI Realty Corp., operates 18 full-service banking offices in Providence County, Kent County and Washington County, Rhode Island.

As a commercially focused financial institution with 47 full-service banking offices throughout Greater Boston, the North Shore of Massachusetts, and Rhode Island, the Company, through Brookline Bank, BankRI and First Ipswich (individually and

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collectively, the "Banks"), offers a wide range of commercial, business and retail banking services, including a full complement of cash management products, on-line banking services, consumer and residential loans and investment services designed to meet the financial needs of small- to mid-sized businesses and individuals throughout central New England. Specialty lending activities include indirect automobile loans as well as equipment financing in the New York/New Jersey metropolitan area and elsewhere.

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

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

The Company's headquarters and executive management are located at 131 Clarendon Street, Boston, Massachusetts 02117-9179 and its telephone number is 617-425-4600.

Total loans and leases increased $186.8 million, or 4.5%, at December 31, 2013, compared to 2012. Loan and lease growth from 2012 was driven by growth of $315.8 million, or 11.1%, in the commercial loan business. Indirect automobile loans decreased $141.8 million, or 26.1%, as a result of the Company's decision not to originate such loans at very low interest rates. During the year ended December 31, 2013, the Company's total deposits increased $218.7 million, or 6.0%, as compared to December 31, 2012. The year-over-year increase in total deposits was driven by an increase in commercial and municipal deposits as the Company continues its efforts to expand customer relationships by offering a full suite of products. Core (non-certificate of deposit) deposits increased $295.0 million, or 11.3%, to $2.9 billion as the Company strategically shifts from certificates of deposit to money market accounts in an effort to reduce its cost of funds.

Throughout 2013, the Company added $10.7 million to its allowance for loan and lease losses and experienced net charge-offs of $3.4 million to bring the balance to $48.5 million at December 31, 2013. The ratio of the allowance for loan and lease losses to total loans and leases was 1.11% at December 31, 2013, up from 0.99% at December 31, 2012. Excluding the loans acquired from BankRI and First Ipswich, the ratio of the allowance for loan and lease losses related to originated loans and leases was 1.32% at December 31, 2013 and 1.33% at December 31, 2012.

Nonperforming assets at December 31, 2013 were $18.1 million, down from $23.7 million at the end of 2012. This decrease is the result of the Company's successful resolution of several large nonperforming loans during 2013, as discussed in the "Allowance for Credit Losses—Allowance for Loan and Lease Losses—Commercial Loans and Leases" section beginning on page 44. Nonperforming assets were 0.34% of total assets at the end of 2013, compared to 0.46% at the end of 2012. The Company's credit quality is solid and compares favorably to its peers, and remains a top priority within the Company.

Net interest income decreased in 2013 by $1.2 million or 0.6% to $176.2 million compared to $177.4 million in 2012, reflecting the decline in the net interest margin to 3.64%, down 21 basis points from 2012. Net income for 2013 decreased $1.8 million, or 4.7%, to $35.4 million from $37.1 million for 2012. Basic and fully diluted earnings per common share ("EPS") decreased to $0.51 for 2013 from $0.53 for 2012.

Competition

The Company provides banking alternatives in the greater Boston, Massachusetts, and Providence, Rhode Island, metropolitan marketplaces, each of which are dominated by several large national banking institutions. Based on total deposits at June 30, 2013, the Company ranks twelfth in deposit market share among bank holding companies in the Massachusetts market area and fifth in deposit market share among bank holding companies in the Rhode Island

market area. The Company faces considerable competition in its market area for all aspects of banking and related service activities. Competition from both bank and non-bank organizations is expected to continue with the Company facing strong competition in generating loans and attracting deposits.

In addition to other commercial banks, the Company's main competition for generating loans includes savings banks, credit unions, mortgage banking companies, insurance companies, and other financial services companies. Competitive factors considered for loan generation include product offerings, interest rates, terms offered, services provided and geographic locations. Lending services for the Company are concentrated in the greater Boston, Massachusetts, and Providence, Rhode

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Island, metropolitan areas, eastern Massachusetts, southern New Hampshire, and Rhode Island, while the Company's equipment financing activities are concentrated in New York and New Jersey.

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

Market Area and Credit Risk Concentration

As of December 31, 2013, the Company, through its Banks, operated 47 full-service banking offices in greater Boston, Massachusetts, and greater Providence, Rhode Island. The Banks' deposits are gathered from the general public primarily in the communities in which its banking offices are located. The deposit market in Massachusetts and Rhode Island is highly concentrated. Based on June 30, 2013 FDIC statistics, the five largest banks in Massachusetts have an aggregate market share of approximately 62%, and the three largest banks in Rhode Island have an aggregate deposit market share of approximately 76%. The Banks' lending activities are concentrated primarily in the greater Boston, Massachusetts, and Providence, Rhode Island, metropolitan areas, eastern Massachusetts, southern New Hampshire and Rhode Island. In addition, the Company, through subsidiaries of Brookline Bank and BankRI, conducts equipment financing activities in the New York/New Jersey metropolitan area and elsewhere.

Commercial real estate loans. Multi-family and commercial real estate mortgage loans typically generate higher yields, but also involve greater credit risk. In addition, many of the Banks' borrowers have more than one multi-family or commercial real estate loan outstanding. The Banks manage this credit risk by limiting loan-to-value ratios at loan origination, lending to seasoned real estate owners/managers, using reasonable capitalization and vacancy ratios, cross-collateralizing loans to one borrower when deemed prudent, and limiting the amount and types of construction lending. At December 31, 2013, the largest commercial real estate loan in Brookline Bank's portfolio was $14.0 million, the largest commercial real estate loan in First Ipswich's portfolio was $3.7 million, and the largest commercial real estate loan in BankRI's portfolio was $8.9 million. Many of the Banks’ commercial real estate customers have other commercial borrowing relationships with the bank.

Commercial loans and equipment leasing. Brookline Bank and First Ipswich originate commercial loans and leases for working capital and other business-related purposes, and are concentrating such lending to companies located primarily in Massachusetts, and, in the case of Eastern Funding, in New York and New Jersey. BankRI originates commercial loans and lines of credit for various business-related purposes, and engages in equipment financing through its wholly-owned subsidiary, Macrolease.

Because commercial loans are typically made on the basis of the borrower's ability to make repayment from the cash flow of the business, the availability of funds for the repayment of commercial and industrial loans may be significantly dependent on the success of the business itself. Further, the collateral securing the loans may be difficult to value, may fluctuate in value based on the success of the business and may deteriorate over time. For this reason, these loans and leases involve greater credit risk. Loans and leases originated by Eastern Funding generally earn higher yields because the borrowers are typically small businesses with limited capital such as coin-operated laundries, dry cleaners, fitness centers, convenience stores and tow truck operators. The Macrolease equipment financing portfolio is comprised of small- to medium-sized businesses such as fitness centers, restaurants and other commercial equipment. The Banks manage the credit risk inherent in commercial lending by limiting industry concentrations, franchisee concentrations and duration of loan maturities; requiring strong debt service coverage ratios; limiting loan-to-value ratios; employing adjustable rates without interest rate caps; and securing personal guarantees from borrowers. At December 31, 2013, the largest commercial loan in Brookline Bank's portfolio was $20.1 million, the largest commercial loan in First Ipswich's portfolio was for $2.0 million, and the largest commercial loan in BankRI's portfolio was for $11.0 million.

Indirect auto loans. Most of Brookline Bank's indirect automobile loans are originated through automobile dealerships located in Massachusetts, Connecticut, Rhode Island and New Hampshire. At December 31, 2013, the largest indirect automobile loan in Brookline Bank's portfolio was $69,000. For regulatory purposes, Brookline Bank's indirect automobile loan portfolio is not classified as "subprime lending." Brookline Bank has established policies for loan

underwriting and the careful monitoring of its indirect auto loan portfolio performance and the effect of economic conditions on consumers and the automobile industry. First Ipswich and BankRI do not engage in indirect automobile lending.

Consumer loans. Brookline Bank's and First Ipswich's retail customers live and work in the Boston metropolitan area, are financially active and value personalized service and easy branch access. BankRI's retail customers live and work in the Providence, Rhode Island, metropolitan area and value easy branch access, personalized service, and knowledge of local communities. The Banks' consumer loan portfolio, which includes residential mortgage loans, home equity loans and lines of

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credit, and other consumer loans, caters to the borrowing needs of this customer base. Credit risk in these portfolios is managed by limiting loan-to-value ratios at loan origination and by requiring strong credit histories. At December 31, 2013, the largest consumer loan in Brookline Bank's portfolio was $4.0 million, the largest consumer loan in First Ipswich's portfolio was $1.5 million, and the largest consumer loan in BankRI's portfolio was $3.3 million.

Economic Conditions and Governmental Policies

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

Economic activity in the United States has shown continuous improvement since the latter half of 2009 after slowing significantly as a result of the 2008 financial crisis. According to the Department of Labor, the national unemployment rate peaked at 10.2% in October 2009. In December 2013, the unemployment rate was 6.7% nationally, down from 7.8% at the end of 2012.

The Company's primary geographic footprints are the Boston, Massachusetts, and Providence, Rhode Island, metropolitan areas. According to the Bureau of Labor Statistics, the largest employment sectors in both Massachusetts and Rhode island are, in order, education and health services, business and professional services, and trade, transportation and utilities, a sector that includes wholesale and retail trade. The unemployment rate in Massachusetts increased to 7.0% in December 2013 from 6.7% in December 2012, slightly higher than the national average. The unemployment rate in Rhode Island decreased to 9.1% in December 2013 from 10.2% in December 2012, but remains among the highest for any state in the nation.

Despite the positive trends in recent years, the economy has not fully recovered from the effects of the 2008-2009 recession, and unemployment rates remain elevated in relation to historic trends. Should there be any setback in the economy or increase in the unemployment rates in the Boston, Massachusetts, or Providence, Rhode Island, metropolitan areas, the resulting negative consequences could affect occupancy rates in the properties financed by the Company and cause certain individual and business borrowers to be unable to service their debt obligations.

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

Personnel

As of December 31, 2013, the Company had 670 full-time employees and 50 part-time employees. The employees are not represented by a collective bargaining unit and the Company considers its relationship with its employees to be good.

Access to Information

As a public company, Brookline Bancorp, Inc. is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith, files reports, proxy and information statements and other information with the Securities and Exchange Commission (the “SEC”). The Company makes available on or through its internet website, without charge, its annual reports on Form 10-K, proxy, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. The Company’s reports filed with, or furnished to, the SEC are also available at the SEC’s website at www.sec.gov and on the Company’s website at www.brooklinebank.com. Press releases are also maintained on the Company’s website. Additional information for BankRI and First Ipswich can be found at

www.bankri.com and www.firstipswich.com, respectively. Information on the Company's website is not incorporated by reference into this document and should not be considered part of this Report.

The Company's common stock is traded on the Nasdaq Global Select Market[SM] under the symbol "BRKL."

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Supervision and Regulation

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

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

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

The Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), enacted on July 21, 2010, comprehensively reformed the regulation of financial institutions, products and services. Among other things, the Dodd-Frank Act:

- granted the FRB increased supervisory authority and codified the source of strength doctrine, as discussed in more detail in "-Regulation of the Company-Source of Strength" below;
- provided for new capital standards applicable to the Company, as discussed in more detail in "-Capital Adequacy and Safety and Soundness-Regulatory Capital Requirements" below;
- modified deposit insurance coverage, as discussed in "-Regulation of the Banks-Deposit Insurance" below;
- permitted well capitalized and well managed banks to acquire other banks in any state, subject to certain deposit concentration limits and other conditions, as discussed in "-Regulation of the Banks-Acquisitions and Branching" below;
- permitted the payment of interest on business demand deposit accounts;
- established new minimum mortgage underwriting standards for residential mortgages, as discussed in "-Consumer Protection Regulation-Mortgage Reform" below;
- established the Bureau of Consumer Financial Protection (the "CFPB");
- barred banking organizations, such as the Company, from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain circumstances, as discussed in "-Regulation of Other Activities-Volcker Rule Restrictions on Proprietary Trading and Sponsorship of Hedge Funds and Private Equity Funds" below; and
- established the Financial Stability Oversight Council to designate certain activities as posing a risk to the U.S. financial system and recommend new or heightened standards and safeguards for financial institutions engaging in such activities.

Regulation of the Company

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

Source of Strength

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

Acquisitions and Activities

The BHCA prohibits a bank holding company from acquiring substantially all of the assets of a bank or acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank or bank holding company without prior

approval of the FRB. Further, as a Massachusetts bank holding company, the Company must obtain the prior approval of the Massachusetts Board of Bank Incorporation to acquire ownership or control of more than 5% of any voting stock in any other banking institution, acquire substantially all the assets of a bank, or merge with another bank holding company.

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

Limitations on Acquisitions of Company Common Stock

The Change in Bank Control Act prohibits a person or group of persons from acquiring "control" of a bank holding company unless the FRB has been notified and has not objected to the transaction. Under a rebuttable presumption established by the FRB, the acquisition of 10% or more of a class of voting securities of a bank holding company, such as the Company, with a class of securities registered under Section 12 of the Exchange Act, would, under the circumstances set forth in the presumption, constitute the acquisition of control of a bank holding company. In addition, any company would be required to obtain the approval of the FRB under the BHCA before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more, or otherwise obtaining control or a controlling influence over a bank holding company. In 2008, the FRB released guidance on minority investments in banks that relaxed the presumption of control for investments of greater than 10% of a class of outstanding voting securities of a bank holding company in certain instances discussed in the guidance.

Regulation of the Banks

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

Deposit Insurance

Substantially all of the deposits of the Banks are insured up to applicable limits by the FDIC's Depositors Insurance Fund ("DIF") and are subject to deposit insurance assessments to maintain the DIF. The Federal Deposit Insurance Act (the "FDIA"), as amended by the Federal Deposit Insurance Reform Act and the Dodd-Frank Act, requires the FDIC to set a ratio of deposit insurance reserves to estimated insured deposits-the designated reserve ratio-of 1.35%. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating ("CAMELS rating"). CAMELS ratings reflect the applicable bank regulatory agencies' evaluation of the financial institution's capital, asset quality, management, earnings, liquidity and sensitivity to risk. Assessment rates may also vary for certain institutions based on long-term debt issuer ratings, secured or brokered deposits. Pursuant to the Dodd-Frank Act, deposit premiums are based on assets rather than insurable deposits. To determine their actual deposit insurance premiums, each of the Banks computes its base amount on its average consolidated assets less its average tangible equity (defined as the amount of Tier 1 capital) and its applicable assessment rate. The Company's FDIC deposit insurance costs totaled $3.1 million in 2013. The FDIC has the power to adjust the assessment rates at any time.

Pursuant to the Dodd-Frank Act, FDIC deposit insurance has been permanently increased from $100,000 to $250,000 per depositor. On December 31, 2012, unlimited FDIC insurance on noninterest-bearing transaction accounts under the Dodd-Frank Act expired.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Cross-Guarantee

Similar to the source of strength doctrine discussed above in "-Regulation of the Company-Source of Strength," under the cross-guarantee provisions of the FDIA, the FDIC can hold any FDIC-insured depository institution liable for any

loss suffered or anticipated by the FDIC in connection with (i) the "default" of a commonly controlled FDIC-insured depository institution; or (ii) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution "in danger of default."

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Acquisitions and Branching

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

Activities and Investments of Insured State-Chartered Banks

Section 24 of the FDIA generally limits the investment activities of FDIC-insured, state-chartered banks when acting as principal to those that are permissible for national banks. Further, the Gramm-Leach-Bliley Act of 1999 (the “GLBA”) permits state banks, to the extent permitted under state law, to engage through “financial subsidiaries” in certain activities which are permissible for subsidiaries of a financial holding company. In order to form a financial subsidiary, a state-chartered bank must be well capitalized, and such banks would be subject to certain capital deduction, risk management and affiliate transaction rules, among other things.

Brokered Deposits

Section 29 of the FDIA and federal regulations generally limit the ability of an insured depository institution to accept, renew or roll over any brokered deposit unless the institution’s capital category is “well capitalized” or, with regulatory approval, “adequately capitalized.” Depository institutions, other than those in the lowest risk category, that have brokered deposits in excess of 10% of total deposits will be subject to increased FDIC deposit insurance premium assessments. Additionally, depository institutions considered “adequately capitalized” that need regulatory approval to accept, renew or roll over any brokered deposits are subject to additional restrictions on the interest rate they may pay on deposits. At December 31, 2013, the Company did not have any brokered deposits.

The Community Reinvestment Act

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

Lending Restrictions

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

than 10% of the capital and surplus of the bank, be approved by a majority of the disinterested directors of the bank.

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Capital Adequacy and Safety and Soundness

Regulatory Capital Requirements

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

Current FRB capital adequacy guidelines define a three-tier capital framework. Tier 1 capital for bank holding companies generally consists of the sum of common shareholders' equity, perpetual preferred stock and trust preferred securities (both subject to certain limitations and, in the case of the latter, to specific limitations on the kind and amount of such securities that may be included as Tier 1 capital and certain additional restrictions described below), and minority interests in the equity accounts of consolidated subsidiaries, less goodwill and other non-qualifying intangible assets. Pursuant to the Dodd-Frank Act, trust preferred securities issued after May 19, 2010, will not count as Tier 1 capital. The Company's currently outstanding trust preferred securities were grandfathered for Tier 1 eligibility, subject to a limit of 25% of Tier 1 capital, under the Final Capital Rule discussed below. Tier 2 capital generally consists of hybrid capital instruments, perpetual debt and mandatory convertible debt securities, perpetual preferred stock and trust preferred securities (to the extent not eligible to be included as Tier 1 capital), term subordinated debt and intermediate-term preferred stock, and, subject to limitations, general allowances for loan losses. The sum of Tier 1 and Tier 2 capital less certain required deductions, such as investments in unconsolidated banking or finance subsidiaries, represents qualifying total capital. Risk-based capital ratios are calculated by dividing Tier 1 and total capital, respectively, by risk-weighted assets. Assets and off-balance sheet credit equivalents are assigned to one of four categories of risk-weights, based primarily on relative credit risk. The minimum Tier 1 risk-based capital ratio is 4% and the minimum total risk-based capital ratio is 8%. As of December 31, 2013, the Company's Tier 1 risk-based capital ratio was 11.0% and its total risk-based capital ratio was 12.2%. The Company is currently considered "well capitalized" under all regulatory definitions.

In addition to the risk-based capital requirements, the FRB requires top-rated bank holding companies to maintain a minimum leverage capital ratio of Tier 1 capital (defined by reference to the risk-based capital guidelines) to its average total consolidated assets of at least 3.0%. For most other bank holding companies (including the Company), the minimum leverage capital ratio is 4.0%. Bank holding companies with supervisory, financial, operational or managerial weaknesses, as well as bank holding companies that are anticipating or experiencing significant growth, are expected to maintain capital ratios well above the minimum levels. The Company's leverage capital ratio as of December 31, 2013 was 9.4%.

The FRB's capital adequacy standards also apply to state-chartered banks which are members of the Federal Reserve System, such as the Banks. Moreover, the FRB has promulgated corresponding regulations to implement the system of prompt corrective action established by Section 38 of the FDIA. Under these regulations, a bank is "well capitalized" if it has: (i) a total risk-based capital ratio of 10.0% or greater; (ii) a Tier 1 risk-based capital ratio of 6.0% or greater; (iii) a leverage capital ratio of 5.0% or greater; and (iv) is not subject to any written agreement, order, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. A bank is "adequately capitalized" if it has: (1) a total risk-based capital ratio of 8.0% or greater; (2) a Tier 1 risk-based capital ratio of 4.0% or greater; and (3) a leverage capital ratio of 4.0% or greater (3.0% under certain circumstances) and does not meet the definition of a "well capitalized bank."

The FRB also must take into consideration: (i) concentrations of credit risk; (ii) interest rate risk; and (iii) risks from non-traditional activities, as well as an institution's ability to manage those risks, when determining the adequacy of an institution's capital. This evaluation will be made as a part of the institution's regular safety and soundness examination. Each of the Banks is currently considered well-capitalized under all regulatory definitions.

Generally, a bank, upon receiving notice that it is not adequately capitalized (i.e., that it is "undercapitalized"), becomes subject to the prompt corrective action provisions of Section 38 of FDIA that, for example, (i) restrict payment of capital distributions and management fees, (ii) require that the FRB monitor the condition of the institution and its efforts to restore its capital, (iii) require submission of a capital restoration plan, (iv) restrict the growth of the

institution’s assets and (v) require prior regulatory approval of certain expansion proposals. A bank that is required to submit a capital restoration plan must concurrently submit a performance guarantee by each company that controls the bank. A bank that is “critically undercapitalized” (i.e., has a ratio of tangible equity to total assets that is equal to or less than 2.0%) will be subject to further restrictions, and generally will be placed in conservatorship or receivership within 90 days.

The Basel Committee on Banking Supervision has released new capital requirements, known as Basel III, setting forth higher capital requirements, enhanced risk coverage, a global leverage ratio, provisions for counter-cyclical capital, and liquidity standards. On July 2, 2013, the FRB, along with the other federal banking agencies, issued a final rule (the “Final

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Capital Rule") implementing the Basel III capital standards and establishing the minimum capital requirements for banks and bank holding companies required under the Dodd-Frank Act. The majority of the provisions of the Final Capital Rule apply to bank holding companies and banks with consolidated assets of $500 million or more, such as the Company, Brookline Bank and BankRI. The Final Capital Rule establishes a new capital risk-based capital ratio, a minimum common equity Tier 1 capital ratio of 6.5% of risk-weighted assets to be a "well capitalized" institution, and increase the minimum total Tier 1 capital ratio to be a "well capitalized institution from 6.0% to 8.0%. The Final Capital Rule also requires that an institution establish a capital conservation buffer of common equity Tier 1 capital in an amount above the minimum risk-based capital requirements for "adequately capitalized" institutions equal to 2.5% of total risk weight assets, or face restrictions on capital distributions and executive bonuses. The Final Capital Rule increases the required capital for certain categories of assets, including higher-risk construction real estate loans and certain exposures related to securitizations. Under the Final Capital Rule, the Company may make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. If the Company does not make this election, unrealized gains and losses would be included in the calculation of its regulatory capital. The Company must comply with the Final Capital Rule beginning on January 1, 2015.

Safety and Soundness Standards

The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, risk management, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the federal banking agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the "prompt corrective action" provisions of FDIA. See "-Regulatory Capital Requirements" above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Dividend Restrictions

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

Restrictions on Bank Holding Company Dividends

The FRB has authority to prohibit bank holding companies from paying dividends if such payment is deemed to be an unsafe or unsound practice. The FRB has indicated generally that it may be an unsafe or unsound practice for bank holding companies to pay dividends unless the bank holding company's net income over the preceding year is sufficient to fund the dividends and the expected rate of earnings retention is consistent with the organization's capital needs, asset quality and overall financial condition. Further, when the Final Capital Rule comes into effect, our ability to pay dividends will be restricted if we do not maintain a capital conservation buffer. See "-Capital Adequacy and Safety and Soundness-Regulatory Capital Requirements" above.

Restrictions on Bank Dividends

The FRB has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law also prohibits the payment of dividends by a bank that will result in the bank failing to meet its applicable capital requirements on a pro forma basis. Payment of dividends by a bank is also restricted pursuant to various state regulatory limitations.

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Certain Transactions by Bank Holding Companies with their Affiliates

There are various statutory restrictions on the extent to which bank holding companies and their non-bank subsidiaries may borrow, obtain credit from or otherwise engage in “covered transactions” with their insured depository institution subsidiaries. The Dodd-Frank Act amended the definition of affiliate to include an investment fund for which the depository institution or one of its affiliates is an investment adviser. An insured depository institution (and its subsidiaries) may not lend money to, or engage in covered transactions with, its non-depository institution affiliates if the aggregate amount of covered transactions outstanding involving the bank, plus the proposed transaction exceeds the following limits: (i) in the case of any one such affiliate, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 10% of the capital stock and surplus of the insured depository institution; and (ii) in the case of all affiliates, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 20% of the capital stock and surplus of the insured depository institution. For this purpose, “covered transactions” are defined by statute to include a loan or extension of credit to an affiliate, a purchase of or investment in securities issued by an affiliate, a purchase of assets from an affiliate unless exempted by the FRB, the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any person or company, the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate, securities borrowing or lending transactions with an affiliate that creates a credit exposure to such affiliate, or a derivatives transaction with an affiliate that creates a credit exposure to such affiliate. Covered transactions are also subject to certain collateral security requirements. Covered transactions as well as other types of transactions between a bank and a bank holding company must be on market terms and not otherwise unduly favorable to the holding company or an affiliate of the holding company. Moreover, Section 106 of the BHCA provides that, to further competition, a bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property of any kind, or furnishing of any service. At December 31, 2013, there were no such transactions.

Consumer Protection Regulation

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

Mortgage Reform

The Dodd-Frank Act prescribes certain standards that mortgage lenders must consider before making a residential mortgage loan, including verifying a borrower’s ability to repay such mortgage loan, and allows borrowers to assert violations of certain provisions of the Truth-in-Lending Act as a defense to foreclosure proceedings. Under the Dodd-Frank Act, prepayment penalties are prohibited for certain mortgage transactions and creditors are prohibited from financing insurance policies in connection with a residential mortgage loan or home equity line of credit. In addition, the Dodd-Frank Act prohibits mortgage originators from receiving compensation based on the terms of residential mortgage loans and generally limits the ability of a mortgage originator to be compensated by others if compensation is received from a consumer. The Dodd-Frank Act requires mortgage lenders to make additional disclosures prior to the extension of credit, in each billing statement and for negative amortization loans and hybrid adjustable rate mortgages.

Privacy and Customer Information Security

The GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the Banks must provide their customers with an annual disclosure that explains their policies and procedures regarding the disclosure of such nonpublic personal information, and, except as otherwise required or permitted by law, the Banks are prohibited from disclosing such information except as provided in such policies and procedures. The GLBA also requires that the Banks develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information (as defined under GLBA), to protect against anticipated threats or hazards to the security or integrity of such information and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The Banks are also required to send a notice to customers whose "sensitive information" has

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been compromised if unauthorized use of this information is “reasonably possible.” Most of the states, including the states where the Banks operate, have enacted legislation concerning breaches of data security and the duties of the Banks in response to a data breach. Congress continues to consider federal legislation that would require consumer notice of data security breaches. Pursuant to the FACT Act, the Banks must also develop and implement a written identity theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. Additionally, the FACT Act amends the Fair Credit Reporting Act to generally prohibit a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and a reasonable opportunity and a reasonable and simple method to opt out of the making of such solicitations.

Anti-Money Laundering

The Bank Secrecy Act

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

Office of Foreign Assets Control (“OFAC”)

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by OFAC, take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on “U.S. persons” engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (for example, property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences for the Banks. At December 31, 2013, the Company did not have any transactions with sanctioned countries, nationals, and others.

Regulation of Other Activities

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

The Dodd-Frank Act bars banking organizations, such as the Company, from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain limited circumstances, in a provision commonly referred to as the “Volcker Rule.” Under the Dodd-Frank Act, proprietary trading generally means trading by a banking entity or its affiliate for its own account. Hedge funds and private equity funds are described by the Dodd-Frank Act as funds that would be registered under the Investment Company Act but for certain enumerated exemptions. The Volcker Rule restrictions apply to the Company, the Banks and all of their

subsidiaries and affiliates.

Item 1A. Risk Factors

Before deciding to invest in us or deciding to maintain or increase your investment, you should carefully consider the risks described below, in addition to the other information contained in this report and in our other filings with the SEC. The risks and uncertainties described below and in our other filings are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these

known or unknown risks or uncertainties actually occur, our business, financial condition and results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose your investment.

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

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

Our business is also affected by the monetary policies of the FRB. Changes in monetary or legislative policies may affect the interest rates that our banking subsidiaries must offer to attract deposits and the interest rates it must charge on loans, as well as the manner in which it offers deposits and makes loans. These monetary policies have had, and are expected to continue to have, significant effects on the operating results of depository institutions generally, including our banking subsidiaries.

Because our business is highly regulated, the laws, rules, regulations, and supervisory guidance and policies applicable to us are subject to regular modification and change. It is impossible to predict the competitive impact that any such changes would have on the banking and financial services industry in general or on our business in particular. Such changes may, among other things, increase the cost of doing business, limit permissible activities, or affect the competitive balance between banks and other financial institutions. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. Other changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer, and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties, and/or reputation damage, which could have a material adverse effect on our business, financial condition, and results of operations. See the "Supervision and Regulation" section of Item 1, "Business."

Additional requirements imposed by the Dodd-Frank Act could adversely affect us.

The Dodd-Frank Act comprehensively reformed the regulation of financial institutions, products and services. Because many aspects of the Dodd-Frank Act are subject to rulemaking that will take effect over several years, it is difficult to forecast the full impact that such rulemaking will have on us, its customers or the financial industry. In addition, the Dodd-Frank Act established the CFPB. The CFPB has the authority to prescribe rules for all depository institutions governing the provision of consumer financial products and services, which may result in rules and regulations that reduce the profitability of such products and services or impose greater costs and restrictions on the Company and its subsidiaries. The Dodd-Frank Act also established new minimum mortgage underwriting standards for residential mortgages, and the regulatory agencies have focused on the examination and supervision of mortgage lending and servicing activities.

Effective December 10, 2013, pursuant to the Dodd-Frank Act, federal banking and securities regulators issued final rules to implement Section 619 of the Dodd-Frank Act, also known as the “Volcker Rule.” Generally, the Volcker Rule restricts banking organizations and their affiliated companies from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain limited circumstances. After the transition period, the Volcker Rule restrictions will apply to the Company, the Bank and all of our subsidiaries and affiliates, unless an exception applies.

Current and future legal and regulatory requirements, restrictions, and regulations, including those imposed under the Dodd-Frank Act, may adversely impact our profitability and may have a material and adverse effect on our business, financial condition, and results of operations, may require us to invest significant management attention and resources to evaluate and make any changes required by the legislation and related regulations and may make it more difficult for us to attract and retain qualified executive officers and employees.

We will become subject to more stringent capital requirements.

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The Dodd-Frank Act required the federal banking agencies to establish minimum leverage and risk-based capital requirements for insured banks and their holding companies. The federal banking agencies issued a joint final rule, or the "Final Capital Rule," that implements the Basel III capital standards and establishes the minimum capital levels required under the Dodd-Frank Act. We must comply with the Final Capital Rule by January 1, 2015. The Final Capital Rule establishes a minimum common equity Tier I capital ratio of 6.5% of risk-weighted assets for a "well capitalized" institution and increases the minimum Tier I capital ratio for a "well capitalized" institution from 6.0% to 8.0%. Additionally, the Final Capital Rule requires an institution to maintain a 2.5% common equity Tier I capital conservation buffer over the 6.5% minimum risk-based capital requirement for "adequately capitalized" institutions, or face restrictions on the ability to pay dividends, discretionary bonuses, and engage in share repurchases. The Final Capital Rule permanently grandfathers trust preferred securities issued before May 19, 2010, subject to a limit of 25% of Tier I capital. The Final Capital Rule increases the required capital for certain categories of assets, including high-volatility construction real estate loans and certain exposures related to securitizations; however, the Final Capital Rule retains the current capital treatment of residential mortgages. Under the Final Capital Rule, we may make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. If we do not make this election, unrealized gains and losses will be included in the calculation of our regulatory capital. Implementation of these standards, or any other new regulations, may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our results of operations or financial condition.

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

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

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

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

We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations. However, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there was in place at the time systems and procedures designed to ensure compliance. For example, we are subject to regulations issued by the Office of Foreign Assets Control, or "OFAC," that prohibit financial institutions from participating in the transfer of property belonging to the governments of certain foreign countries and designated nationals of those countries. OFAC may impose penalties for inadvertent or unintentional violations even if reasonable processes are in place to prevent the violations. There may be other negative consequences resulting from a finding of noncompliance, including restrictions on certain activities. Such a finding may also damage our reputation as described below and could restrict the ability of institutional investment managers to invest in our securities.

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

Continued weakness in the U.S. economy may adversely affect our business. Although there are indications that the U.S. economy is stabilizing, the outlook remains uncertain amid concerns about public debt levels and financial market conditions. A deterioration of business and economic conditions could adversely affect the credit quality of our loans, results of operations and financial condition. Increases in loan delinquencies and default rates could adversely impact our loan charge-offs and provision for loan and lease losses. Deterioration or defaults made by issuers of the

underlying collateral of our investment securities may cause additional credit-related other-than-temporary impairment charges to our income statement. Our ability to borrow from other financial institutions or to access the debt or equity capital markets on favorable terms or at all could be adversely affected by disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.
Deterioration in local economies or real estate market may adversely affect our business.

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

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

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

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

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

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

Our commercial real estate and commercial loan and lease portfolios currently comprise 72.6% of total loans and leases. Commercial loans and leases generally carry larger balances and involve a higher risk of nonpayment or late payment than residential mortgage loans. Most of the commercial loans and leases are secured by borrower business assets such as accounts receivable, inventory, equipment and other fixed assets. Compared to real estate, these types of collateral are more difficult to monitor, harder to value, may depreciate more rapidly and may not be as readily saleable if repossessed. Repayment of commercial loans and leases is largely dependent on the business and financial condition of borrowers. Business cash flows are dependent on the demand for the products and services offered by the borrower's business. Such demand may be reduced when economic conditions are weak or when the products and services offered are viewed as less valuable than those offered by competitors. Because of the risks associated with commercial loans and leases, we may experience higher rates of default than if the portfolio were more heavily

weighted toward residential mortgage loans. Higher rates of default could have an adverse effect on our financial condition and results of operations.

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

In the course of business, we may acquire, through foreclosure, properties securing loans originated or purchased that are in default. Particularly in commercial real estate lending, there is a risk that material environmental violations could be discovered on these properties. In this event, we might be required to remedy these violations at the affected properties at our

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sole cost and expense. The cost of remedial action could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have an adverse effect on our financial condition and results of operations.

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

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

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

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

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

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

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

We and our banking subsidiaries must maintain sufficient funds to respond to the needs of depositors and borrowers. To manage liquidity, we draw upon a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. These sources include Federal Home Loan Bank advances, proceeds from the sale of investments and loans, and liquidity resources at the holding company. Our ability to manage liquidity will be severely constrained if we are unable to maintain access to funding or if adequate financing is not available to

accommodate future growth at acceptable costs. In addition, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, operating margins and profitability would be adversely affected. Turbulence in the capital and credit markets may adversely affect our liquidity and financial condition and the willingness of certain counterparties and customers to do business with us.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to many different counterparties, and we routinely execute transactions

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

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

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

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

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

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

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

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

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

When we acquire a business, a portion of the purchase price of the acquisition may be allocated to goodwill and other identifiable intangible assets. The excess of the purchase price over the fair value of the net identifiable tangible and intangible assets acquired determines the amount of the purchase price that is allocated to goodwill acquired. At December 31, 2013, goodwill and other identifiable intangible assets were $154.8 million. Under current accounting guidance, if we determine that goodwill or intangible assets are impaired, we would be required to write down the value of these assets. We conduct an annual review to determine whether goodwill and other identifiable intangible assets are impaired. Company management recently completed such an impairment analysis and concluded that no impairment charge was necessary for the year ended

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December 31, 2013. We cannot provide assurance whether we will be required to take an impairment charge in the future. Any impairment charge would have a negative effect on stockholders' equity and financial results and may cause a decline in our stock price.

Systems failures, interruptions or breaches of security could have an adverse effect on our financial condition and results of operations.

We are subject to certain operational risks, including, but not limited to, data processing system failures and errors, inadequate or failed internal processes, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. We depend upon data processing, software, communication, and information exchange on a variety of computing platforms and networks and over the Internet, and we rely on the services of a variety of vendors to meet our data processing and communication needs. Despite instituted safeguards, we cannot be certain that all of our systems are entirely free from vulnerability to attack or other technological difficulties or failures. Information security risks have increased significantly due to the use of online, telephone and mobile banking channels by clients and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. Our technologies, systems, networks and our clients' devices have been subject to, and are likely to continue to be the target of, cyber-attacks, computer viruses, malicious code, phishing attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our clients' confidential, proprietary and other information, the theft of client assets through fraudulent transactions or disruption of our or our clients' or other third parties' business operations. If information security is breached or other technology difficulties or failures occur, information may be lost or misappropriated, services and operations may be interrupted and we could be exposed to claims from customers. While we maintain a system of internal controls and procedures, any of these results could have a material adverse effect on our business, financial condition, results of operations or liquidity.

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

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

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

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

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

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

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

Our success is dependent upon our ability to attract and retain highly skilled individuals. There is significant competition for those individuals with the experience and skills required to conduct many of our business activities.

We may not be able to hire or retain the key personnel that we depend upon for success. The unexpected loss of services of one or more of these or other key personnel could have a material adverse impact on our business because of their skills, knowledge of the markets in which we operate, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

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

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

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

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board changes the financial accounting and reporting principles that govern the preparation of our financial statements. These changes can be hard to anticipate and implement, and can materially impact how we record and report our financial condition and results of operations.

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

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

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

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

- quarterly variations in our operating results or the quality of our assets;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;
- announcements of innovations, new products, strategic developments, significant contracts, acquisitions and other material events by us or our competitors;
- the operating and securities price performance of other companies that investors believe are comparable to us;
- our past and future dividend practices;
- future sales of our equity or equity-related securities; and
- changes in global financial markets and global economies and general market conditions, such as interest rates, stock, commodity or real estate valuations or volatility.

Anti-takeover provisions could negatively impact our stockholders.

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At December 31, 2013, the Company conducted its business from its main office, which is located in Boston, Massachusetts, and is owned by Brookline Bank, as well as a leased operations center in Brookline, Massachusetts,

and an operations center in Lincoln, Rhode Island, that is owned by BankRI. Brookline Bank conducts its business from 23 banking

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offices, 5 of which are owned and 18 of which are leased, and a leased office in Newton, Massachusetts, that is used to conduct its indirect automobile lending business. Brookline Bank also has 2 remote ATM locations, both of which are leased. Eastern Funding conducts its business from leased premises in New York City and in Melville, New York. BankRI conducts its business from its main office, which is leased and located in Providence, Rhode Island, and from 18 banking offices, 5 of which are owned and 13 of which are leased. BankRI also has 2 remote ATM locations, both of which are leased. Macrolease conducts its business from leased premises in Plainview, New York. First Ipswich conducts its business from 6 banking offices, 1 of which is owned and 5 of which are leased. First Ipswich also has 1 remote ATM location which is leased. Refer to Note 13, "Commitments and Contingencies," to the consolidated financial statements for information regarding the Company's lease commitments at December 31, 2013.

Item 3. Legal Proceedings

During the fiscal year ended December 31, 2013, the Company was not involved in any legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Management believes that those routine legal proceedings involve, in the aggregate, amounts that are immaterial to the Company's financial condition and results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

(a) The common stock of the Company is traded on NASDAQ under the symbol BRKL. The approximate number of registered holders of common stock as of February 28, 2014 was 2,099. Market prices for the Company's common stock and dividends paid per quarter during 2013 and 2012 follow.

	Market Prices		Dividend Paid
	High	Low	Per Share
2013			
First Quarter	$9.39	$8.66	$0.085
Second Quarter	9.14	8.23	0.085
Third Quarter	10.08	8.81	0.085
Fourth Quarter	9.58	8.72	0.085
2012			
First Quarter	$9.78	$8.37	$0.085
Second Quarter	9.49	8.46	0.085
Third Quarter	9.25	8.13	0.085
Fourth Quarter	8.90	7.54	0.085

Five-Year Performance Comparison

The following graph compares total shareholder return on the Company's common stock over the last five years with the the S&P 500 Index, the Russell 2000 Index, the SNL Index of Banks with assets between $1 billion and $5 billion and the SNL Index of Banks with assets between $5 billion and $10 billion. Index values are as of December 31 of each of the indicated years.

Total Return Performance

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	At December 31,					
Index	2008	2009	2010	2011	2012	2013
Brookline Bancorp, Inc.	100.00	98.22	111.21	89.79	93.99	109.64
Russell 2000	100.00	127.17	161.32	154.59	179.86	249.69
SNL Bank $5B-$10B	100.00	76.88	83.40	82.77	97.36	150.21
S&P 500	100.00	126.46	145.51	148.59	172.37	228.19
SNL Bank $1B $5B	100.00	71.68	81.25	74.10	91.37	132.87

The graph assumes $100 invested on December 31, 2008 in each of the Company's common stock, the S&P 500 Index, the Russell 2000 Index, the SNL Index of Banks with assets between $1 billion and $5 billion and the SNL Index of Banks with assets between $5 billion and $10 billion. The graph also assumes reinvestment of all dividends.

(b) Not applicable.

(c) There were no purchases made during the year ended December 31, 2013 by or on behalf of the Company of the Company's common stock. As of December 31, 2013, the Company was not authorized to repurchase any additional shares of its common stock.

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Item 6. Selected Financial Data

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

	At or for the year ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in Thousands, Except Per Share Data)				
FINANCIAL CONDITION DATA					
Total assets	$5,325,106	$5,147,534	$3,299,013	$2,720,542	$2,615,884
Total loans and leases	4,362,465	4,175,712	2,720,821	2,253,538	2,164,295
Allowance for loan and lease losses	48,473	41,152	31,703	29,695	31,083
Net loans and leases	4,313,992	4,134,560	2,689,118	2,223,843	2,133,212
Investment securities available-for-sale	492,428	481,323	217,431	304,540	291,414
Goodwill and identified intangible assets	154,777	159,400	51,013	45,112	46,336
Total deposits	3,835,006	3,616,259	2,252,331	1,810,899	1,633,687
Core deposits(1)	2,900,338	2,605,318	1,446,659	1,019,293	800,474
Certificates of deposit	934,668	1,010,941	805,672	791,606	833,213
Total borrowed funds	812,555	853,969	506,919	388,569	468,766
Stockholders' equity	613,867	612,097	503,602	495,443	487,317
Tangible stockholders' equity (non-GAAP) (15)	459,090	452,697	452,589	450,331	440,981
Nonperforming loans and leases(2)	16,501	22,246	7,530	7,463	6,233
Nonperforming assets(3)	18,079	23,737	8,796	8,166	7,663
EARNINGS DATA					
Interest and dividend income	$206,384	$213,200	$140,535	$130,992	$140,056
Interest expense	30,166	35,832	30,336	34,567	53,756
Net interest income	176,218	177,368	110,199	96,425	86,300
Provision for credit losses	10,929	15,888	3,631	3,796	9,780
Provision for income taxes	19,481	21,341	19,886	19,156	13,413
Net income	35,386	37,142	27,600	26,872	19,200
Operating earnings	35,981	41,114	28,902	26,872	19,200
PER COMMON SHARE DATA					
Net income—Basic	$0.51	$0.53	$0.47	$0.46	$0.33
Net income—Diluted	0.51	0.53	0.47	0.46	0.33
Dividends paid per common share	0.34	0.34	0.34	0.34	0.54
Book value per share (end of period)	8.79	8.78	8.59	8.45	8.32
Tangible book value per share (end of period) (non-GAAP)(4)	6.57	6.49	7.72	7.68	7.53
Stock price (end of period)	9.55	8.50	8.44	10.85	9.91
PERFORMANCE RATIOS					
Net interest margin	3.64 %	3.85 %	3.76 %	3.74 %	3.38 %
Return on average assets	0.68 %	0.74 %	0.90 %	1.01 %	0.73 %
Operating return on average assets (non-GAAP)(5)	0.70 %	0.82 %	0.94 %	1.01 %	0.73 %
Efficiency ratio(6)	64.44 %	61.42 %	54.59 %	48.78 %	51.25 %
Operating efficiency ratio (non-GAAP)(7)	63.96 %	58.67 %	52.68 %	48.78 %	51.25 %

Return on average tangible assets (non-GAAP)	0.71	%	0.75	%	0.92	%	1.03	%	0.74	%
Return on average stockholders' equity	5.74	%	6.12	%	5.51	%	5.45	%	3.94	%
Operating return on average stockholders' equity (non-GAAP) (16)	5.84	%	6.78	%	5.77	%	5.45	%	3.94	%

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	At or for the year ended December 31,									
	2013		2012		2011		2010		2009	
	(Dollars in Thousands, Except Per Share Data)									
Return on average tangible stockholders' equity (non-GAAP) (17)	7.71	%	8.40	%	6.13	%	6.00	%	4.36	%
Operating return on average tangible stockholders' equity (non-GAAP)(8)	7.84	%	9.29	%	6.42	%	6.00	%	4.36	%
Dividend payout ratio(9)	67.38	%	64.13	%	72.72	%	74.69	%	165.02	%
GROWTH RATIOS										
Total loan and lease growth(10)	4.47	%	53.59	%	20.74	%	4.12	%	2.79	%
Organic loan and lease growth(11)	4.47	%	11.84	%	11.72	%	4.12	%	2.79	%
Total deposit growth(10)	6.05	%	60.56	%	24.38	%	10.85	%	20.64	%
Organic deposit growth(11)	6.05	%	10.24	%	12.66	%	10.85	%	20.64	%
ASSET QUALITY RATIOS										
Net loan and lease charge-offs as a percentage of average loans and leases	0.08	%	0.16	%	0.08	%	0.24	%	0.33	%
Nonperforming loans and leases as a percentage of total loans and leases(12)	0.38	%	0.53	%	0.28	%	0.33	%	0.29	%
Nonperforming assets as a percentage of total assets(12)	0.34	%	0.46	%	0.27	%	0.30	%	0.29	%
Total allowance for loan and lease losses as a percentage of total loans and leases(12)	1.11	%	0.99	%	1.17	%	1.32	%	1.44	%
Allowance for loan and lease losses related to originated loans and leases as a percentage of originated loans and leases(13)	1.32	%	1.33	%	1.25	%	1.32	%	1.44	%
CAPITAL RATIOS										
Stockholders' equity to total assets	11.53	%	11.89	%	15.27	%	18.21	%	18.63	%
Tangible equity ratio (non-GAAP)(14)	8.88	%	9.08	%	13.93	%	16.83	%	17.16	%
Tier 1 leverage capital ratio	9.36	%	9.44	%	14.37	%	15.42	%	15.64	%
Tier 1 risk-based capital ratio	11.01	%	10.85	%	15.91	%	18.83	%	19.35	%
Total risk-based capital ratio	12.15	%	11.83	%	17.05	%	17.58	%	18.10	%

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

(2) Nonperforming loans and leases consist of nonaccrual loans and leases. Amount includes deferred origination costs.

(3) Nonperforming assets consist of nonperforming loans and leases, other real estate owned and other repossessed assets. Amount includes deferred origination costs.

(4) Tangible book value per share is calculated by dividing tangible stockholders' equity by common shares (total common shares issued, less common shares classified as treasury shares and unallocated ESOP common shares).

(5) Operating return on average assets is calculated by dividing operating earnings by average assets during the period.

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

(7) The operating efficiency ratio is calculated by dividing non-interest expense less compensation-related, acquisition-related and other costs for the period by the sum of net interest income and non-interest income for the period.

(8) Operating return on average tangible stockholders' equity is calculated by dividing operating earnings by average tangible stockholders' equity during the period.

(9) The dividend payout ratio is calculated by dividing dividends paid during the period by net income during the period.

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

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(11) Organic growth is calculated by dividing the change in the balance during the period less the fair value of acquired loan and deposit balances at the date of acquisition by the balance at the beginning of the period.
(12) Amount includes acquired and originated loans and leases and deferred loan origination costs.
(13) Amount excludes acquired loans and leases and includes deferred loan origination costs associated with originated loans.
(14) The tangible equity ratio is calculated by dividing tangible stockholders' equity (total stockholders' equity less goodwill and identified intangible assets, net) (the numerator) by tangible assets (total assets less goodwill and identified intangible assets, net) (the denominator).
(15) Tangible stockholders' equity is calculated by subtracting goodwill and identified intangible assets, net, from total stockholders' equity.
(16) Operating return on average stockholders' equity is calculated by dividing operating earnings by average stockholders' equity during the period.
(17) Return on average tangible stockholders' equity is calculated by dividing earnings by average tangible stockholders' equity during the period.

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

Introduction

Brookline Bancorp, Inc., a Delaware corporation, operates as a multi-bank holding company for Brookline Bank and its subsidiaries, BankRI and its subsidiaries, First Ipswich and its subsidiaries, and Brookline Securities Corp. The Company has no significant assets other than the common stock of the Banks. For this reason, substantially all of the discussion in this document relates to the operations of the Banks and their subsidiaries.

The Company's commercially-focused business strategy, its niche business lines and its customer responsiveness have played a key role in growing the business and differentiating the Company from its competitors. Through its full-service banks, the Company works to create long-term relationships with each customer, built upon excellent customer service. The Company manages the Banks under uniform strategic objectives, with one set of uniform policies consistently applied by one executive management team. Within this environment, the Company believes that the ability to make customer decisions locally, enhances management's motivation, service levels and, as a consequence, the Company's financial results.

The competition for loans and leases and deposits remains intense. In addition to this competition, the national economic recovery remains weak and the rate of unemployment high. While the economy in Massachusetts and, in particular, the greater Boston metropolitan area has remained relatively stable, the unemployment rate in Massachusetts increased slightly during the year to 7.0% in December 2013 from 6.7% in December 2012. Meanwhile, the unemployment rate in Rhode Island fell 110 basis points to 9.1% in December 2013 from 10.2% in December 2012. Economic growth has benefited the Company's loan and lease customers and, as a result, the Company experienced loan and lease losses that were lower year over year. This is evidenced by the decrease in net loan and lease charge-offs as a percentage of average loan and leases to 0.08% for the year ended December 31, 2013 from 0.16% in 2012. While these are signs that the economy has started to gradually improve, the Company expects the operating environment in 2014 to remain challenging. The volume of loan and lease originations and loan and lease losses will depend, to a large extent, on how the economy performs.

Loan and lease growth and deposit growth are also greatly influenced by the rate-setting actions of the FRB. The FRB lowered the rate for overnight federal fund borrowings between banks from 5.25% in September 2007 to a target range between zero and 0.25% in December 2013, the rate currently in effect. These low interest rates have had and may continue to have an ongoing negative impact on the Company's yields and net interest margin. Conversely, rising rates in the future could cause changes in the mix and volume of the Company's deposits and make it more difficult for certain borrowers to be eligible for new loans or leases or to service their existing debt.

The future operating results of the Company will depend on its ability to maintain net interest margin, while minimizing exposure to credit risk, along with increasing sources of non-interest income, while controlling the growth of non-interest or operating expenses.

Executive Overview

Growth

Total assets at December 31, 2013 grew to $5.3 billion, an increase of 3.4% from December 31, 2012. The loan and lease portfolio grew to $4.4 billion as of December 31, 2013, up 4.5% from December 31, 2012. This growth resulted largely from the increase in commercial real estate loans and commercial loans and leases, which increased to $3.2 billion, or 11.1% for 2013.

Deposit growth also continued with total deposits up 6.0% from December 31, 2012. The Company's core deposits increased as a percentage of total deposits to 75.6% at December 31, 2013 from 72.0% at December 31, 2012.

The ratio of the allowance for loan and lease losses to total loans and leases was 1.11% at December 31, 2013 compared to 0.99% at December 31, 2012. This increase in the allowance to total loans and leases ratio was largely the result of the loan mix within the portfolio growth. The allowance for loan and lease losses related to originated loans and leases as a percentage of the total originated loan and lease portfolio, including deferred loan origination costs, was 1.32% as compared with 1.33% as of December 31, 2012. The Company continued to employ its historical underwriting methodology throughout the year ended December 31, 2013 and continued to calculate its allowance for loan and lease losses on a historically consistent basis. This ratio may increase in connection with increased levels of organic growth in future periods.

Net charge-offs for the year ended December 31, 2013 were $3.4 million, or 0.08% of average loans and leases, compared to 0.16% for the year ended December 31, 2012. Nonperforming assets at December 31, 2013 totaled $18.1 million, or 0.34% of total assets, compared to $23.7 million, or 0.46% of total assets, at December 31, 2012.

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The Company remains well-capitalized as defined by its regulatory requirements with capital ratios in excess of all minimum regulatory requirements. The Company's Tier 1 leverage ratio was 9.4% at December 31, 2013. Brookline Bancorp, Inc.'s tangible equity ratio of 8.9%, down from 9.1% at December 31, 2012, reflects the growth in the Company's loan and lease portfolio.

Income

For the year ended December 31, 2013, the Company reported net income of $35.4 million, or $0.51 per basic and diluted share, down 4.7% from the year ended December 31, 2012. The return on average assets was 0.68% for the year ended December 31, 2013, and the return on average stockholders' equity was 5.74%.

Net earnings from operations, which exclude compensation-related, acquisition-related and other expenses net of tax, were $36.0 million, or $0.52 per diluted share, for the year ended December 31, 2013, compared to $41.1 million, or $0.59 per diluted, share for the year ended December 31, 2012. Operating returns on average assets and average stockholders' equity were 0.70% and 5.84%, respectively, for the year ended December 31, 2013.

Net interest margin was 3.64% for the year ended December 31, 2013 down from 3.85% for the year ended December 31, 2012. The yield on interest-earning assets decreased 35 basis points to 4.27% in 2013 from 4.62% in 2012, largely due to continued rate pressures on the commercial real estate and indirect automobile portfolios. The relative consistency in the net interest margin in a highly competitive and declining interest rate environment is, in part, a result of a reduction of 17 basis points in the Company's overall cost of funds, to 0.78% in 2013 from 0.95% in 2012, as well as the decrease in the Company's loan-to-deposit ratio to 113.8% at December 31, 2013 from 115.5% at December 31, 2012. Despite the strength of the Company's net interest margin, competitive pricing pressure in all loan categories and the continuation of a low interest-rate environment, along with the Company's diminishing ability to reduce its cost of funds, continues to place significant pressure on the Company's net interest margin and net interest income.

Results for 2013 included a $10.9 million provision for credit losses, discussed in the "Allowance for Credit Losses—Allowance for Loan and Lease Losses" section beginning on page 39.

Non-interest income decreased $4.8 million to $13.8 million during the year ended December 31, 2013 from $18.6 million during the year ended December 31, 2012. Several factors contributed to the year-to-year decrease, including a decrease of $1.2 million in loan-related gains on sale and other fee income, an increase of $1.1 million in losses from investments in affordable housing projects, a decrease of $0.5 million in gains related to the sale of securities, and the inclusion in 2012 of a net gain of $1.9 million on the sale of loans and leases.

Non-interest expense increased $2.1 million, or 1.7%, to $122.5 million for the year ended December 31, 2013 from $120.4 million during the year ended December 31, 2012. The increase was largely attributable to additional staffing and branch expansion offset by a decrease in professional services expense mostly due to professional fees incurred related to the BankRI acquisition. Compensation and employee benefit expenses were $65.3 million for the year ended December 31, 2013 compared to $58.8 million in 2012 and professional services expenses were $5.7 million in 2013 as compared to $12.5 million in 2012.

Critical Accounting Policies

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

Investment Securities

Securities classified as available-for-sale are carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders' equity. Debt securities that the Company has the positive intent and ability to hold to maturity are classified as "held to maturity" and are carried at amortized cost.

The market values of the Company's securities, particularly its fixed-rate securities, are affected by changes in market interest rates as determined by the term structure of risk-free rates and the credit spreads associated with different investment categories. In general, as interest rates rise, the fair value of fixed-rate securities will decrease; as interest

rates fall, the fair value of fixed-rate securities will increase. On a quarterly basis, the Company reviews and evaluates fair value based on market data obtained from independent sources or, in the absence of active market data, from model-derived valuations based on market assumptions. If the Company deems any decline to be other-than-temporary, the amount of impairment loss recorded in

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earnings for a debt security is the entire difference between the security's cost and its fair value if the Company intends to sell the debt security prior to recovery or it is more likely than not that the Company will have to sell the debt security prior to recovery. If, however, the Company does not intend to sell the debt security or it concludes that it is more likely than not that the Company will not have to sell the debt security prior to recovery, the credit loss component of an other-than-temporary impairment of a debt security is recognized as a charge to earnings and the remaining portion of the impairment loss is recognized as a reduction in comprehensive income. The credit loss component of an other-than-temporary loss is determined based on the Company's best estimate of cash flows expected to be collected. There were no impairment losses charged to earnings in 2013, 2012 and 2011.
See Note 21, "Fair Value of Financial Instruments" to the consolidated financial statements for additional information on how management determines the fair value of its financial instruments.

Acquired Loans

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

Allowance for Loan and Lease Losses

The allowance for loan and lease losses represents management's estimate of probable losses inherent in the loan and lease portfolio. Additions to the allowance for loan and lease losses are made by charges to the provision for credit losses. Losses on loans and leases are deducted from the allowance when all or a portion of a loan or lease is considered uncollectable. The determination of the loans on which full collectability is not reasonably assured, the estimates of the fair value of the underlying collateral, and the assessment of economic and other conditions are subject to assumptions and judgments by management. Valuation allowances could differ materially as a result of changes in, or different interpretations of, these assumptions and judgments.
Management evaluates the adequacy of the allowance on a quarterly basis and reviews its conclusion as to the amount to be established with the Audit Committee and the Board of Directors.
See Note 7, "Allowance for Loan and Lease Losses," to the consolidated financial statements for additional information on how management determines the balance of the allowance for loan and lease losses for each portfolio and class of loans.

Goodwill

Goodwill is presumed to have an indefinite useful life and is tested at least annually for impairment. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. If fair value exceeds the carrying amount at the time of testing, goodwill is not considered impaired. Quoted market prices in active markets are the best evidence of fair value and are considered to be used as the basis for measurement, when available. Other acceptable valuation methods include present-value measurements based on multiples of earnings or revenues, or similar performance measures. Differences in valuation techniques could result in materially different evaluations of impairment. In September 2011, the FASB issued Accounting Standards Update ("ASU") 2011-08 addressing the topic of testing goodwill for impairment. The objective of the ASU is to simplify how entities test goodwill for impairment. The amendments in the ASU permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50%.
In reaching its conclusion about whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, an entity should consider the extent to which each of the adverse events or circumstances identified could affect the comparison of a reporting unit's fair value with its carrying amount. An entity should place more weight on the events and circumstances that most affect a reporting unit's fair value or the carrying amount of its net assets; and may affect its determination of whether it is more likely than not that the fair value of a reporting unit is

less than its carrying amount.

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

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Based on an evaluation of the qualitative factors mentioned above and assessing the effect identified adverse events or circumstances could have, the Company has concluded there was no indication of goodwill impairment. Further analysis of the Company’s goodwill can be found in Note 9 “Goodwill and Other Intangible Assets” within Notes to Consolidated Financial Statements.

Identified Intangible Assets

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

Income Taxes

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

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

Recent Accounting Developments

See Note 1, “Basis of Presentation” within Notes to Consolidated Financial Statements for information regarding recent accounting developments.

Non-GAAP Financial Measures and Reconciliation to GAAP

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

Operating Earnings

Operating earnings exclude compensation-related, acquisition-related and other expenses from net income; by excluding such items, the Company's results can be measured and assessed on a more consistent basis from period to period. Items excluded from operating earnings, which include, but are not limited to, acquisition-related expenses, and other charges related to executive-level management separation and severance-related costs, are also excluded when calculating the operating efficiency ratio.

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

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The following table summarizes the Company's operating earnings, operating earnings per share ("EPS") and operating return on average assets as of the dates indicated:

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in Thousands, Except Per Share Data)				
Net income, as reported	$35,386	$37,142	$27,600	$26,872	$19,200
Adjustments to arrive at operating earnings:					
Compensation-related expenses	911	—	—	—	—
Acquisition-related expenses	—	5,396	2,201	—	—
Total pre-tax adjustments	911	5,396	2,201	—	—
Tax effect:					
Compensation-related expenses	(316)	—	—	—	—
Acquisition-related expenses	—	(1,424)	(899)	—	—
Total adjustments, net of tax	595	3,972	1,302	—	—
Operating earnings	$35,981	$41,114	$28,902	$26,872	$19,200
Earnings per share, as reported	$0.51	$0.53	$0.47	$0.46	$0.33
Adjustments to arrive at operating earnings per fully dilutive share:					
Compensation-related expenses	0.01	—	—	—	—
Acquisition-related expenses	—	0.06	0.02	—	—
Total adjustments per share	0.01	0.06	0.02	—	—
Operating earnings per fully dilutive share	$0.52	$0.59	$0.49	$0.46	$0.33
Average total assets	$5,174,002	$4,992,792	$3,061,747	$2,655,743	$2,631,137
Operating return on average assets	0.70%	0.82%	0.94%	1.01%	0.73%

The following table summarizes the Company's operating return on average tangible stockholders' equity:

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in Thousands)				
Operating earnings	$35,981	$41,114	$28,902	$26,872	$19,200
Average stockholders' equity	$616,243	$606,661	$500,855	$493,373	$487,884
Less: Average goodwill and average identified intangible assets, net	157,187	164,301	50,876	45,724	47,080
Average tangible stockholders' equity	$459,056	$442,360	$449,979	$447,649	$440,804
Operating return on average tangible stockholders' equity	7.84%	9.29%	6.42%	6.00%	4.36%

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The following tables summarize the Company's tangible equity ratio and tangible book value per share derived from amounts reported in the consolidated balance sheet as of the dates indicated.

	At December 31,				
	2013	2012	2011	2010	2009
	(Dollars in Thousands)				
Total stockholders' equity	$613,867	$612,097	$503,602	$495,443	$487,317
Less: Goodwill and identified intangible assets, net	154,777	159,400	51,013	45,112	46,336
Tangible stockholders' equity	$459,090	$452,697	$452,589	$450,331	$440,981
Total assets	$5,325,106	$5,147,534	$3,299,013	$2,720,542	$2,615,884
Less: Goodwill and identified intangible assets, net	154,777	159,400	51,013	45,112	46,336
Tangible assets	$5,170,329	$4,988,134	$3,248,000	$2,675,430	$2,569,548
Tangible equity ratio	8.88 %	9.08 %	13.93 %	16.83 %	17.16 %

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in Thousands)				
Tangible stockholders' equity	$459,090	$452,697	$452,589	$450,331	$440,981
Common shares issued	75,744,445	75,749,825	64,597,180	64,445,389	64,404,419
Less: Common shares classified as treasury shares	5,171,985	5,373,733	5,373,733	5,373,733	5,373,733
Unallocated ESOP	291,666	333,918	378,215	424,422	472,604
Unvested restricted stocks	409,068	295,055	185,291	40,970	8,889
Common shares outstanding	69,871,726	69,747,119	58,659,941	58,606,264	58,549,193
Tangible book value per share	$6.57	$6.49	$7.72	$7.68	$7.53

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

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in Thousands)				
Dividends paid	$23,843	$23,821	$20,072	$20,070	$31,684
Net income, as reported	$35,386	$37,142	$27,600	$26,872	$19,200
Dividend payout ratio	67.38 %	64.13 %	72.72 %	74.69 %	165.02 %

Financial Condition

General

Total assets at December 31, 2013 grew to $5.3 billion, an increase of $0.2 billion or 3.4% from December 31, 2012. Growth in total loans and leases was $186.8 million, or 4.5%. since December 31, 2012, which was comprised primarily of growth in commercial real estate loans of $197.7 million, or 9.9%, and in commercial loans and leases of $118.2 million, or 13.9%. Offsetting this loan and lease growth was a $141.8 million decline in indirect automobile loan balances from December 31, 2012 to 2013, due to management's unwillingness to originate loans at what it considers to be very low interest rates.

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The Company's deposits increased by $0.2 billion, or 6.0%, since December 31, 2012 due to an increase in money market accounts. Core deposits as a percentage of total deposits increased to 75.6% at December 31, 2013 from 72.0% at December 31, 2012. Borrowed funds decreased by $41.4 million, or 4.8%, to $812.6 million at December 31, 2013 from $854.0 million at December 31, 2012 as the Company continues to fund its business with core deposits. Stockholders' equity as a percentage of total assets was 11.5% and 11.9%, respectively, at December 31, 2013 and 2012.

Loans and Leases

The following table sets forth the Company's loan and lease balances and the percentage breakdown by loan category at the dates indicated:

	At December 31,														
	2013			2012			2011			2010			2009		
	Balance	Percent of Total		Balance	Percent of Total		Balance	Percent of Total		Balance	Percent of Total		Balance	Percent of Total	
	(Dollars in Thousands)														
Commercial real estate loans:															
Commercial real estate mortgage	$1,461,985	33.5	%	$1,301,233	31.1	%	$748,736	27.5	%	$564,584	25.0	%	$525,107	24.3	%
Multi-family mortgage	627,933	14.4	%	606,533	14.5	%	481,459	17.7	%	421,013	18.7	%	375,081	17.3	%
Construction	113,705	2.6	%	98,197	2.3	%	40,798	1.5	%	18,205	0.8	%	18,180	0.8	%
Total commercial real estate loans	2,203,623	50.5	%	2,005,963	47.9	%	1,270,993	46.7	%	1,003,802	44.5	%	918,368	42.4	%
Commercial loans and leases:															
Commercial	407,792	9.3	%	382,277	9.1	%	150,895	5.5	%	96,788	4.3	%	93,769	4.4	%
Equipment financing	513,024	11.8	%	420,991	10.1	%	246,118	9.1	%	205,018	9.1	%	166,680	7.7	%
Condominium association	44,794	1.0	%	44,187	1.1	%	46,953	1.7	%	42,422	1.9	%	37,492	1.7	%
Total commercial loans and leases	965,610	22.1	%	847,455	20.3	%	443,966	16.3	%	344,228	15.3	%	297,941	13.8	%
Indirect automobile	400,531	9.2	%	542,344	13.0	%	573,350	21.1	%	553,689	24.6	%	553,963	25.6	%
Consumer loans:															
Residential mortgage	528,185	12.1	%	511,109	12.3	%	350,213	12.9	%	288,108	12.8	%	336,665	15.5	%
Home equity	257,461	5.9	%	261,562	6.3	%	76,527	2.8	%	58,745	2.6	%	51,107	2.4	%
Other consumer	7,055	0.2	%	7,279	0.2	%	5,772	0.2	%	4,966	0.2	%	6,251	0.3	%
	792,701	18.2	%	779,950	18.8	%	432,512	15.9	%	351,819	15.6	%	394,023	18.2	%

Total consumer loans										
Total loans and leases	4,362,465	100.0%	4,175,712	100.0%	2,720,821	100.0%	2,253,538	100.0%	2,164,295	100.0%
Allowance for loan and lease losses	(48,473)		(41,152)		(31,703)		(29,695)		(31,083)	
Net loans and leases	$4,313,992		$4,134,560		$2,689,118		$2,223,843		$2,133,212	

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

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

It is the Company's current policy that the aggregate amount of loans outstanding to any one borrower or related entities may not exceed $35.0 million unless approved by the Executive Committee of the Board of Directors. At December 31, 2013, there were no borrowers with aggregated loans outstanding of $35.0 million or greater. There were 113 borrowers each with aggregate loans outstanding of $5.0 million or greater at December 31, 2013. The cumulative total of those loans was $1,162.7 million or 26.7% of total loans outstanding at December 31, 2013.

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

Commercial Real Estate Loans

The commercial real estate portfolio is comprised of commercial real estate mortgage loans, multi-family mortgage loans, and construction loans and is the largest component of the Company's overall loan portfolio, representing 50.5% of total loans and leases outstanding (including deferred loan origination costs) at December 31, 2013. For the commercial real estate portfolio, the Company focuses on making loans in the $3 million to $10 million range.

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

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

Commercial real estate and multi-family mortgage loans are typically originated for terms of five years with amortization periods of 20 to 30 years. Many of the loans are priced at inception on a fixed-rate basis generally for periods ranging from two to five years with repricing periods for longer-term loans. When possible, prepayment penalties are included in loan covenants on these loans.

Brookline Bank's urban and suburban market area is characterized by a large number of apartment buildings, condominiums and office buildings. As a result, multi-family and commercial real estate mortgage lending has been a significant part of Brookline Bank's activities for many years. These types of loans typically generate higher yields, but also involve greater credit risk. Many of Brookline Bank's borrowers have more than one multi-family or commercial real estate loan outstanding with Brookline Bank.

Over 99% of the commercial real estate loans outstanding at December 31, 2013 were secured by properties located in New England. The commercial real estate portfolio at that date was composed primarily of loans secured by apartment buildings ($624.0 million), office buildings ($479.6 million), retail stores ($439.7 million), industrial properties ($247.6 million) and mixed-use properties ($169.4 million).

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

Criteria applied in underwriting construction loans for which the primary source of repayment is the sale of the property are different from the criteria applied in underwriting construction loans for which the primary source of repayment is the stabilized cash flow from the completed project. For those loans where the primary source of repayment is from resale of the property, in addition to the normal credit analysis performed for other loans, the

Company also analyzes project costs, the attractiveness of the property in relation to the market in which it is located and demand within the market area. For those construction loans where the source of repayment is the stabilized cash flow from the completed project, the Company analyzes not only project costs but also how long it might take to achieve satisfactory occupancy and the reasonableness of projected rental rates in relation to market rental rates.

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Historically, construction and development lending has comprised a modest part of the Company's loan originations. At December 31, 2013, total construction loans equaled $113.7 million or 2.6% of total loans outstanding (including deferred loan origination costs) at that date.

Commercial Loans

This portfolio is comprised of commercial loans, equipment financing loans and leases and condominium association loans and represented 22.1% of total loans outstanding (including deferred loan origination costs) at December 31, 2013. The Company focuses on making commercial loans in the $1.0 million to $3.5 million range.

The Company provides commercial banking services to companies in its market area. Over 53% of the commercial loans outstanding at December 31, 2013 were made to borrowers located in New England. Product offerings include lines of credit, term loans, letters of credit, deposit services and cash management. These types of credit facilities have as their primary source of repayment cash flows from the operations of a business. Interest rates offered are available on a floating basis tied to the prime rate or a similar index or on a fixed-rate basis referenced on the FHLBB index. Credit extensions are made to established businesses on the basis of an analysis of their financial statements, the nature of collateral to secure the credit extension and, in most instances, the personal guarantee of the owner of the business. The Company also participates in U.S. Government programs such as the Small Business Administration (the "SBA") in both the 7A program and as an SBA preferred lender.

The equipment financing portfolio is composed primarily of loans to finance coin-operated laundry, dry cleaning, fitness, and convenience store equipment and, most recently, tow trucks. The borrowers are located primarily in the greater New York/New Jersey metropolitan area, although the customer base extends to locations throughout the United States. Typically, the loans are priced at a fixed rate of interest and require monthly payments over their three- to seven-year life. The yields earned on equipment financing loans are higher than those earned on the commercial loans made by the Banks because they involve a higher degree of credit risk. Equipment financing customers are typically small-business owners who operate with limited financial resources and who face greater risks when the economy weakens or unforeseen adverse events arise. Because of these characteristics, personal guarantees of borrowers are usually obtained along with liens on available assets. The Company focuses on making equipment financing loans and leases in the $100 thousand to $500 thousand range.

The Company's equipment financing divisions focus on market niches in which its lenders have deep experience and industry contacts, and on making loans to customers with business experience. An important part of the Company's equipment financing loan origination volume comes from equipment manufacturers and existing customers as they expand their operations. The size of loan is determined by an analysis of cash flow and other characteristics pertaining to the business and the equipment to be financed, based on detailed revenue and profitability data of similar operations.

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

Indirect Automobile Loans

This loan portfolio represented 9.2% of total loans outstanding (including deferred loan origination costs) at December 31, 2013. Loans outstanding in the portfolio totaled $400.5 million at December 31, 2013, down from $542.3 million at December 31, 2012. Although 2013 was the second straight year of robust automobile sales, competition for these loans increased significantly as credit unions and large national banks entered indirect automobile lending in a search for additional sources of income. That competition drove interest rates down and, in some cases, changed the manner in which interest rates are developed, i.e. from including a dealer-shared spread to requiring a dealer-based fee to originate the loan. Depending on the terms of the dealer's enrollment agreement with the Company, the dealer earns this fee 90 days after a loan is originated or once the borrower makes at least three payments on the loan.

Indirect automobile loans are for the purchase of automobiles (both new and used) and light-duty trucks primarily by individuals, but also by corporations and other organizations. The loans are originated through over 200 dealerships located primarily in Massachusetts, but also in Connecticut, Rhode Island and New Hampshire. Dealer relationships are reviewed periodically for application quality, the ratio of loans approved to applications submitted and loan performance.

Loan applications are generated by approved dealers and data is entered into an application processing system. A credit bureau scorecard model is used in the underwriting process. The model is based on data accumulated by nationally recognized

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credit bureaus and is a risk assessment tool that analyzes an individual's credit history and assigns a numeric credit score. The model meets the requirements of the Equal Credit Opportunity Act. The application processing system sorts each application according to score ranges. Loans must meet criteria established in the Company's loan policy. Credit profile measurements such as debt-to-income ratios, payment-to-income ratios and loan-to-value ratios are utilized in the underwriting process and to monitor the performance of loans falling within specified ratio ranges. Regarding loan-to-value ratios, the Company considers indirect automobile loans to be essentially credits that are less than fully collateralized. When borrowers cease to make required payments, repossession and sale of the vehicle financed usually results in insufficient funds to fully pay the remaining loan balance.

While the Company's indirect automobile loan policy permits the aggregate amount of loans with credit scores of 660 or below to comprise as much as 15% of loans outstanding, at December 31, 2013, loans with credit scores of 660 or below were 3.2% of loans outstanding. The average-dollar original weighted credit score of loans in the portfolio at that date was 747. See the subsection "Provision for Credit Losses" appearing elsewhere herein for further information regarding loan underwriting and the average credit scores of the borrowers to whom indirect automobile loans were made. All loans require the purchase of single interest insurance by the borrower. The insurance is designed to protect the Company from loss when a loan is in default and the collateral value is impaired due to vehicle damage or the Company is unable to take possession of the vehicle.

Indirect automobile loans are assigned a particular tier based on the credit score determined by the credit bureau. The tier is used for pricing purposes so as to assure consistency in loan pricing. Tier rates can be modified if certain conditions exist as outlined in the Company's loan policy. The APR paid by a borrower may differ from the "buy rate" earned by the Company. The difference is commonly referred to as the "spread." An agreed-upon percentage (depending upon the agreement with the dealer) of the spread is paid after the end of the month in which the loan is made and is comprised of the amount differential between amortization schedules of the buy rate and the APR. If a loan is repaid in its entirety within 90 days or before three payments have been made (depending on the agreement with the dealer), the dealer must pay the remainder of unamortized spread to the Company. If a loan is repaid after 90 days or after three payments have been made (depending on the agreement with the dealer), the dealer is not obliged to repay any part of the spread amount previously received. Spread payments to dealers are amortized as a reduction of interest received from borrowers over the life of the related loans. When loans are prepaid, any remaining unamortized balance is charged to expense at that time. For loans originated with no rate differential the Company will pay a flat fee to the dealers to procure the loan. This fee is deferred and amortized over the life of the loan.

Various reports are generated to monitor receipt of required loan documents, adherence to loan policy parameters, dealer performance, loan delinquencies and loan charge-offs. Summary reports are submitted to the Company's Chief Credit Officer and the Board of Directors on a periodic basis.

Consumer Loans

This portfolio is comprised of residential mortgage loans, home equity loans and lines, and other consumer loans and represented 18.2% of total loans outstanding (including deferred loan origination costs) at December 31, 2013. The Company focuses its mortgage loans on existing customers within its branch networks in its urban and suburban marketplaces in the greater Boston and Providence metropolitan areas.

The Company originates adjustable- and fixed-rate residential mortgage loans secured by one- to four-family residences on a servicing-released basis. In general, the Company maintains three-, five- and seven-year adjustable-rate mortgage loans and ten-year fixed-rate fully amortizing mortgage loans in its portfolio. Fixed-rate mortgage loans with maturities beyond ten years, such as 15- and 30-year fixed-rate mortgages, are not generally maintained in the Company's portfolio but are rather sold into the secondary market. During 2013, the Banks acted as correspondent banks in these secondary-market transactions. Loan sales in the secondary market provide funds for additional lending and other banking activities. Each residential mortgage loan granted is subject to a satisfactorily completed application, employment verification, credit history and a demonstrated ability to repay the debt. Generally, loans are not made when the loan-to-value ratio exceeds 80% unless private mortgage insurance is obtained and/or there is a financially strong guarantor. Appraisals are performed by outside independent fee appraisers.

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

the loan less the amount of any existing first mortgage liens.
Other consumer loans have historically been a modest part of the Company's loan originations. At December 31, 2013, other consumer loans equaled $7.1 million, or 0.2% of total loans outstanding (including deferred loan origination costs) at that date.

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Loans to Insiders

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

Loan Maturities and Repricing

The following table shows the contractual maturity and repricing dates of the Company's loans at December 31, 2013. The table does not include projected prepayments or scheduled principal amortization.

	Amount due at December 31, 2013						
	Within One Year	More than One Year to Three Years	More than Three Years to Five Years	More than Five Years to Ten Years	More than Ten Years	Total after One Year	Total
	(In Thousands)						
Commercial real estate mortgage	$252,448	$311,778	$611,132	$269,740	$16,887	$1,209,537	$1,461,985
Multi-family mortgage	185,139	123,404	223,228	87,068	9,094	442,794	627,933
Construction	55,439	20,119	8,984	27,734	1,429	58,266	113,705
Commercial	182,259	57,079	91,535	40,413	36,506	225,533	407,792
Equipment financing	62,728	109,817	237,390	103,089	—	450,296	513,024
Condominium association	8,932	6,369	11,150	16,102	2,241	35,862	44,794
Indirect automobile	9,292	107,845	231,317	52,077	—	391,239	400,531
Residential mortgage	132,199	78,560	190,621	86,522	40,283	395,986	528,185
Home equity	92,935	1,364	4,404	86,026	72,732	164,526	257,461
Other consumer	3,929	384	108	—	2,634	3,126	7,055
Total	$985,300	$816,719	$1,609,869	$768,771	$181,806	$3,377,165	$4,362,465

The following table sets forth at December 31, 2013 the dollar amount of loans contractually due or scheduled to reprice after one year and whether such loans have fixed interest rates or adjustable interest rates.

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	Due after One Year		
	Fixed	Adjustable	Total
	(In Thousands)		
Originated:			
Commercial real estate mortgage	$289,315	$648,583	$937,898
Multi-family mortgage	60,748	327,122	387,870
Construction	17,192	39,322	56,514
Commercial	103,904	66,829	170,733
Equipment financing	15,835	20,027	35,862
Condominium association	380,441	45,953	426,394
Indirect automobile	391,239	—	391,239
Residential mortgage	35,312	298,046	333,358
Home equity	19,098	16,257	35,355
Other consumer	513	2,561	3,074
Total	$1,313,597	$1,464,700	$2,778,297
Acquired:			
Commercial real estate mortgage	$95,362	$176,277	$271,639
Multi-family mortgage	16,106	38,818	54,924
Construction	1,123	629	1,752
Commercial	20,378	34,422	54,800
Equipment financing	23,902	—	23,902
Residential mortgage	39,043	23,585	62,628
Home equity	58,219	70,952	129,171
Other consumer	52	—	52
Total	$254,185	$344,683	$598,868

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Asset Quality

Criticized and Classified Assets

The Company's management rates certain assets as "special mention," "substandard" or "doubtful" based on criteria established under banking regulations. (Refer to Note 7, "Allowance for Loan and Lease Losses," to the consolidated financial statements for more information on the Company's risk rating system.) These loans and leases are collectively referred to as "criticized" assets. Loans and leases rated as special mention have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects of the loan or lease at some future date. Loans and leases rated as substandard are inadequately protected by the payment capacity of the obligor or of the collateral pledged, if any. Substandard loans and leases have a well-defined weakness or weaknesses that jeopardize the liquidation of debt and are characterized by the distinct possibility that the Company will sustain some loss if existing deficiencies are not corrected. At December 31, 2013, the Company had $57.5 million of total assets, including acquired assets that were designated as criticized. This compares to $58.6 million and $47.7 million of assets that were designated as criticized at December 31, 2012 and 2011, respectively.

Nonperforming Assets

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

Accrual of interest on loans generally is discontinued when contractual payment of principal or interest becomes past due 90 days or, if in management's judgment, reasonable doubt exists as to the full timely collection of interest. Exceptions may be made if the loan has matured and is in the process of renewal or is well-secured and in the process of collection. When a loan is placed on nonaccrual status, interest accruals cease and uncollected accrued interest is reversed and charged against current interest income. Interest payments on nonaccrual loans are generally applied to principal. If collection of the principal is reasonably assured, interest payments are recognized as income on the cash basis. Loans are generally returned to accrual status when principal and interest payments are current, full collectability of principal and interest is reasonably assured and a consistent record of performance, of at least 6 months, has been achieved.

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

At December 31, 2013, the Company had loans and leases (including deferred origination costs) greater than 90 days past due and accruing of $10.9 million, or 0.25% of total loans and leases, compared to $16.6 million, or 0.40% of total loans and leases at December 31, 2012, representing a decrease of $5.7 million, or 0.15% of total loans and leases. The decrease was related primarily to the resolution of several delinquent loans during the year ended December 31, 2013.

At December 31, 2013, the Company had nonperforming assets (including deferred origination costs) of $18.1 million, representing 0.34% of total assets, compared to nonperforming assets of $23.7 million, or 0.46% of total assets, at December 31, 2012, representing an decrease of $5.7 million, or 0.12% of total assets. This decrease is due to the resolution of several nonaccrual loans during the year ended December 31, 2013.

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

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The following table sets forth information regarding nonperforming assets as of the dates indicated:

	At December 31,				
	2013	2012	2011	2010	2009
	(Dollars in Thousands)				
Nonperforming loans and leases:					
Nonaccrual loans and leases:					
Commercial real estate mortgage	$1,098	$4,014	$1,608	$—	$2,000
Multi-family mortgage	—	4,233	1,380	964	935
Construction	—	—	352	2,475	—
Commercial	6,148	5,454	5	—	—
Equipment financing	4,115	3,873	1,925	2,478	1,915
Condominium association	1	8	15	—	—
Indirect automobile	259	99	111	158	187
Residential mortgage	2,875	3,804	1,979	1,363	789
Home equity	1,987	716	145	25	407
Other consumer	18	45	10	—	—
Total nonaccrual loans and leases	16,501	22,246	7,530	7,463	6,233
Other real estate owned	577	903	845	—	—
Other repossessed assets	1,001	588	421	703	1,430
Total nonperforming assets	$18,079	$23,737	$8,796	$8,166	$7,663
Loans and leases past due greater than 90 days and accruing	$10,913	$16,637	$4,769	$5,902	$8,673
Total delinquent loans and leases 61-90 days past due	5,882	4,536	1,070	1,535	1,682
Restructured loans and leases not included in nonperforming assets	12,759	7,191	5,205	4,946	3,898
Total nonperforming loans and leases as a percentage of total loans and leases	0.38 %	0.53 %	0.28 %	0.33 %	0.29 %
Total nonperforming assets as a percentage of total assets	0.34 %	0.46 %	0.27 %	0.30 %	0.29 %
Total delinquent loans and leases 61-90 days past due as a percentage of total loans and leases	0.13 %	0.11 %	0.04 %	0.07 %	0.08 %

The $2.9 million decrease in commercial real estate mortgage loans on nonaccrual from December 31, 2012 to December 31, 2013 is the result of a large payoff during the year. The $4.2 million decrease in multi-family mortgage loans on nonaccrual from December 31, 2012 to December 31, 2013 was driven by the resolution of several nonaccrual loans during the year ended December 31, 2013.

The $0.7 million increase in commercial loans on nonaccrual from December 31, 2012 to December 31, 2013 is in large part the result of growth in commercial loans portfolio of $118.2 million. The $0.2 million increase in equipment financing nonaccrual loans and leases from December 31, 2012 to December 31, 2013 is largely a result of the 32.5% increase in originated balances in the equipment financing portfolio for the same period.

The decrease in non-accruing residential mortgages of $0.9 million from December 31, 2012 to December 31, 2013 was largely driven by the resolution of several residential mortgage loans throughout 2013. Nonaccrual home equity loans increased by $1.3 million at December 31, 2013 compared to 2012. This increase is in large part due to a large home equity loan going on nonaccrual in the fourth quarter of 2013.

At December 31, 2013, restructured loans included $5.9 million of commercial real estate mortgage loans, $0.9 million of multi-family mortgage loans, $6.3 million of commercial loans, $2.5 million of equipment financing loans and leases, $2.5 million of residential mortgage loans and $0.3 million of home equity loans. At December 31, 2012,

restructured loans included $6.7 million of commercial real estate mortgage loans, $0.9 million of multi-family mortgage loans, $3.3 million of commercial loans, $3.8 million of equipment financing loans and $4.0 million of residential mortgage loans. A restructured

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loan is a loan for which where the maturity date was extended, the principal was reduced, and/or the interest rate was modified to drop the required monthly payment to a more manageable amount for the borrower.
Repossessed vehicles and equipment totaled $1.0 million and $0.6 million at December 31, 2013 and 2012, respectively.

Allowances for Credit Losses

Allowance for Loan and Lease Losses

The allowance for loan and lease losses consists of general, specific and unallocated allowances and reflects management's estimate of probable loan and lease losses inherent in the loan portfolio at the balance sheet date. Management uses a consistent and systematic process and methodology to evaluate the adequacy of the allowance for loan and lease losses on a quarterly basis. The allowance is calculated by loan type: commercial real estate loans, commercial loans and leases, indirect automobile loans and consumer loans, each category of which is further segregated. A formula-based credit evaluation approach is applied to each group, coupled with an analysis of certain loans for impairment.

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

The following tables present the changes in the allowance for loan and lease losses by portfolio category for the years ended December 31, 2013, 2012, 2011, 2010, and 2009, respectively.

	Year Ended December 31, 2013					
	Commercial Real Estate	Commercial	Indirect Automobile	Consumer	Unallocated	Total
	(In Thousands)					
Balance at December 31, 2012	$20,018	$10,655	$5,304	$2,545	$2,630	$41,152
Charge-offs	(88)	(2,077)	(1,714)	(909)	—	(4,788)
Recoveries	13	657	501	263	—	1,434
Provision (credit) for loan and lease losses	3,079	5,985	(167)	1,476	302	10,675
Balance at December 31, 2013	$23,022	$15,220	$3,924	$3,375	$2,932	$48,473
Total loans and leases	$2,203,623	$965,610	$400,531	$792,701	N/A	$4,362,465
Total allowance for loan and lease losses as a percentage of total loans and leases	1.04 %	1.58 %	0.98 %	0.43 %	N/A	1.11 %

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	Year Ended December 31, 2012					
	Commercial Real Estate (In Thousands)	Commercial	Indirect Automobile	Consumer	Unallocated	Total
Balance at December 31, 2011	$15,477	$5,997	$5,604	$1,577	$3,048	$31,703
Charge-offs	—	(5,347)	(2,153)	(592)	—	(8,092)
Recoveries	118	417	969	26	—	1,530
Provision (credit) for loan and lease losses	4,423	9,588	884	1,534	(418)	16,011
Balance at December 31, 2012	$20,018	$10,655	$5,304	$2,545	$2,630	$41,152
Total loans and leases	$2,005,963	$847,455	$542,344	$779,950	N/A	$4,175,712
Total allowance for loan and lease losses as a percentage of total loans and leases	1.00 %	1.26 %	0.98 %	0.33 %	N/A	0.99 %

	Year Ended December 31, 2011					
	Commercial Real Estate (In Thousands)	Commercial	Indirect Automobile	Consumer	Unallocated	Total
Balance at December 31, 2010	$12,398	$5,293	$6,952	$1,638	$3,414	$29,695
Charge-offs	(30)	(773)	(2,076)	(12)	—	(2,891)
Recoveries	—	330	605	8	—	943
Provision (credit) for loan and lease losses	3,109	1,147	123	(57)	(366)	3,956
Balance at December 31, 2011	$15,477	$5,997	$5,604	$1,577	$3,048	$31,703
Total loans and leases	$1,270,993	$443,966	$573,350	$432,512	N/A	$2,720,821
Allowance for loan and lease losses as a percentage of total loans and leases	1.22 %	1.35 %	0.98 %	0.36 %	N/A	1.17 %

	Year Ended December 31, 2010					
	Commercial Real Estate (In Thousands)	Commercial	Indirect Automobile	Consumer	Unallocated	Total
Balance at December 31, 2009	$12,447	$4,853	$8,479	$1,675	$3,629	$31,083
Charge-offs	(1,100)	(1,182)	(3,818)	(161)	—	(6,261)
Recoveries	5	202	840	30	—	1,077
Provision (credit) for loan and lease losses	1,046	1,420	1,451	94	(215)	3,796
Balance at December 31, 2010	$12,398	$5,293	$6,952	$1,638	$3,414	$29,695
Total loans and leases	$1,003,802	$344,228	$553,689	$351,819	N/A	$2,253,538
Allowance for loan and lease losses as a	1.24 %	1.54 %	1.26 %	0.47 %	N/A	1.32 %

percentage of total loans
and leases

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	Year Ended December 31, 2009					
	Commercial Real Estate (In Thousands)	Commercial	Indirect Automobile	Consumer	Unallocated	Total
Balance at December 31, 2008	$11,052	$4,222	$7,937	$1,546	$3,539	$28,296
Charge-offs	(318)	(1,177)	(6,529)	(15)	—	(8,039)
Recoveries	4	113	821	8	—	946
Provision (credit) for loan and lease losses	1,709	1,695	6,250	136	90	9,880
Balance at December 31, 2009	$12,447	$4,853	$8,479	$1,675	$3,629	$31,083
Total loans and leases	$918,368	$297,941	$553,963	$394,023	N/A	$2,164,295
Allowance for loan and lease losses as a percentage of total loans and leases	1.36%	1.63%	1.53%	0.43%	N/A	1.44%

The allowance for loan and lease losses for the entire portfolio was $48.5 million at December 31, 2013, or 1.11% of total loans and leases outstanding. This compared to an allowance for loan and lease losses of $41.2 million, or 0.98% of total loans and leases outstanding, at December 31, 2012. The increase in the allowance for loan and lease losses as a percentage of total loans and leases is largely a result of the additional allowance relating to acquired loan portfolio. Management believes that the allowance for loan and lease losses as of December 31, 2013 is appropriate based on the facts and circumstances discussed further below.

Commercial Real Estate Loans

The allowance for commercial real estate loan losses was $23.0 million or 1.04% of total commercial real estate loans outstanding at December 31, 2013. This compared to an allowance for commercial real estate loan losses of $20.0 million or 1.00% of commercial real estate loans outstanding at December 31, 2012.

The $3.0 million increase in the allowance for commercial real estate loans during 2013 was primarily driven by originated loan growth of $310.8 million or 21.3% over the same period. Management adjusted the loss factors during 2013, slightly reducing the loss factors based on stable asset quality trends. The ratio of total criticized originated commercial real estate loans to total originated commercial real estate loans (including deferred origination costs) increased to 0.74% at December 31, 2013 from 0.60% at December 31, 2012. The ratio of originated commercial real estate loans on nonaccrual to total originated commercial real estate loans (including deferred origination costs) decreased to 0.01% at December 31, 2013 from 0.24% at December 31, 2012.

The primary contributor of the $3.0 million increase in the allowance for commercial real estate loans and leases in 2013 is loan growth of $310.8 million or 21.3% over the same period. Also contributing to the $3.0 million increase in the allowance is reserve on the acquired portfolio of $0.5 million due to deterioration in the acquired loan portfolio. Net charge-offs/recoveries in 2013 increased slightly compared to prior periods. Net charge-offs totaled $0.1 million for the year ended December 31, 2013, compared with $0.1 million in net recoveries for the year ended December 31, 2012. Provisions for commercial real estate loans recorded in these periods more than adequately covered charge-offs during those periods. See the "Results of Operations—Provision for Credit Losses" section below for additional information.

Commercial Loans and Leases

The allowance for commercial loan and lease losses was $15.2 million or 1.58% of total commercial loans and leases outstanding at December 31, 2013, compared to $10.7 million or 1.26% of commercial loans and leases outstanding at December 31, 2012.

The $4.6 million increase in the allowance for commercial loans and lease losses during 2013 was primarily driven by originated loan growth of $186.4 million or 29.1% over the same period. Loss factors were adjusted downward and were supported by improving asset quality trends. The ratio of total originated criticized commercial loans and leases

to total originated commercial loans and leases (including deferred origination costs) was 0.98% at December 31, 2013, compared to 1.70% at December 31, 2012. The ratio of originated commercial loans and leases on nonaccrual to total originated commercial loans and leases (including deferred origination costs) decreased to 0.68% at December 31, 2013 from 0.91% at December 31, 2012. Included in the $4.6 million increase is a reserve on the acquired portfolio of $1.1 million due to deterioration in the acquired loan portfolio. The reserve on loans specifically evaluated for impairment remained constant at $0.8 million.

Net charge-offs decreased $3.5 million to $1.4 million or 0.16% of average loans and leases for the year ended December 31, 2013, compared with net charge-offs of $4.9 million or 0.64% of average loans and leases for the year ended December 31, 2012. Provisions for commercial loans recorded in these periods more than adequately covered charge-offs during those periods. See the "Results of Operations—Provision for Credit Losses" section below for additional information.

Indirect Automobile Loans

The allowance for indirect automobile loan losses was $3.9 million or 0.98% of total indirect automobile loans outstanding at December 31, 2013, compared to $5.3 million or 0.98% of the indirect automobile portfolio outstanding at December 31, 2012.

The indirect automobile portfolio decreased $141.8 million or 26.1% to $400.5 million at December 31, 2013 from $542.3 million at December 31, 2012. The ratio of indirect automobile loans with borrower credit scores below 660 to the total indirect automobile portfolio (including deferred origination costs) increased slightly to 3.19% at December 31, 2013 from 3.12% at December 31, 2012. There were no loans individually evaluated for impairment in the indirect automobile portfolio at December 31, 2013.

Net charge-offs in the indirect automobile portfolio totaled $1.2 million or 0.25% of average loans for the year ended December 31, 2013 compared with net charge-offs of 1.2 million or 0.21% for the year ended December 31, 2012. These charge-off metrics seem to further corroborate the stability in credit quality within this portfolio. Provisions for indirect automobile loans recorded in these periods more than adequately covered charge-offs during those periods. See the "Results of Operations—Provision for Credit Losses" section below for additional information.

Consumer Loans

The allowance for consumer loan losses, including residential loans and home equity loans and lines of credit, was $3.4 million or 0.43% of total consumer loans outstanding at December 31, 2013, compared to $2.5 million or 0.33% of consumer loans outstanding at December 31, 2012.

The $0.8 million increase in the allowance for consumer loans during 2013 was primarily driven by originated loan growth of 15.9%. The ratio of originated residential and home equity loans with loan-to-value ratios greater than 80% decreased to 4.78% of total originated residential and home equity loans (including deferred origination costs) at December 31, 2013 from 7.25% at December 31, 2012. Furthermore the ratio of originated consumer loans on nonaccrual to total originated consumer loans (including deferred origination costs) trended downward to 0.40% at December 31, 2013 from 0.44% at December 31, 2012. Management evaluates several factors in determining whether an impaired loan requires a specific reserve, including the borrower's ability to service the loan, guarantor support and the value of available collateral, and believes these reserve levels are adequate.

Included in the $0.8 million increase in the allowance is a $0.3 million decrease in reserves for loans specifically evaluated for impairment, to $0.3 million on loan balances of $4.3 million at December 31, 2013 from $0.6 million on loan balances of $5.2 million at December 31, 2012. The $0.3 million decrease in reserves for loans specifically evaluated for impairment is being offset by a reserve on the acquired consumer loan portfolio of $0.6 million that was recorded during the year ended December 31, 2013.

Net charge-offs in the consumer loan portfolio totaled $0.6 million or 0.08% of average loans and leases for the year ended December 31, 2013, compared with net charge-offs of $0.6 million or 0.07% of average loans and leases for the year ended December 31, 2012. Though credit quality metrics were mixed in the first half of the year, they have returned to more normal levels in recent months.

Unallocated Allowance

The unallocated allowance recognizes the estimation risk associated with the allocated general and specific allowances, incorporates management's evaluation of existing conditions that are not included in the allocated allowance determinations and protects against potential losses outside of the ordinary course of business. These conditions are reviewed quarterly by management and include general economic conditions, credit quality trends and internal loan review and regulatory examination findings. Causes of losses outside the normal course of business include but are not limited to fraudulently obtained loans where there is no primary or secondary source of repayment; catastrophic and uninsured property loss where collateral is destroyed with no compensation; and legal documentation flaws that compromise security interests in collateral assets or the availability of guarantors.

The unallocated allowance for loan and lease losses was $2.9 million at December 31, 2013, compared to $2.6 million at December 31, 2012. The unallocated portion of the allowance for loan and lease losses increased by $0.3 million on a year-to-year basis at December 31, 2013, largely as a result of growth in the originated loan and leases portfolios.

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The following tables set forth the Company's percent of allowance for loan and lease losses to the total allowance for loan and lease losses and the percent of loans to total loans (including deferred loan origination costs) for each of the categories listed at the dates indicated.

	At December 31,											
	2013				2012				2011			
	Amount	Percent of Allowance to Total Allowance		Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Allowance		Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Allowance		Percent of Loans in Each Category to Total Loans
	(Dollars in Thousands)											
Commercial real estate mortgage	$14,883	30.7	%	33.5	%	$12,993	31.6	%	31.2	%	$9,936	31.3	%	27.5	%
Multi-family mortgage	4,890	10.1	%	14.4	%	4,541	11.0	%	14.5	%	4,459	14.1	%	17.7	%
Construction	3,249	6.7	%	2.6	%	2,484	6.0	%	2.4	%	1,082	3.4	%	1.5	%
Commercial	6,724	13.9	%	9.3	%	3,870	9.4	%	9.2	%	1,505	4.8	%	5.5	%
Equipment financing	8,161	16.8	%	11.8	%	6,454	15.7	%	10.1	%	4,128	13.0	%	9.1	%
Condominium association	335	0.7	%	1.0	%	331	0.8	%	1.1	%	364	1.1	%	1.7	%
Indirect automobile	3,924	8.1	%	9.2	%	5,304	12.9	%	13.0	%	5,604	17.7	%	21.1	%
Residential mortgage	1,431	3.0	%	12.1	%	1,516	3.7	%	12.2	%	828	2.6	%	12.9	%
Home equity	1,324	2.7	%	5.9	%	970	2.4	%	6.3	%	696	2.2	%	2.8	%
Other consumer	620	1.3	%	0.2	%	59	0.1	%	0.2	%	53	0.2	%	0.2	%
Unallocated	2,932	6.0	%	—		2,630	6.4	%	—		3,048	9.6	%	—	
Total	$48,473	100.0	%	100.0	%	$41,152	100.0	%	100.0	%	$31,703	100.0	%	100.0	%

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	At December 31, 2010					2009				
	Amount	Percent of Allowance to Total Allowance		Percent of Loans in Each Category to Total Loans		Amount	Percent of Allowance to Total Allowance		Percent of Loans in Each Category to Total Loans	
	(Dollars in Thousands)									
Commercial real estate mortgage	$8,235	27.7	%	25.0	%	$8,335	26.8	%	24.3	%
Multi-family mortgage	3,691	12.4	%	18.7	%	3,378	10.9	%	17.3	%
Construction	472	1.6	%	0.8	%	734	2.3	%	0.8	%
Commercial	1,237	4.2	%	4.3	%	1,796	5.8	%	6.1	%
Equipment financing	3,744	12.6	%	9.1	%	3,057	9.8	%	7.7	%
Condominium association(1)	312	1.0	%	1.9	%	—	—		—	
Indirect automobile	6,952	23.4	%	24.6	%	8,479	27.3	%	25.6	%
Residential mortgage	977	3.3	%	12.8	%	1,026	3.3	%	15.5	%
Home equity	611	2.1	%	2.6	%	587	1.9	%	2.3	%
Other consumer	50	0.2	%	0.2	%	62	0.2	%	0.3	%
Unallocated	3,414	11.5	%	—		3,629	11.7	%	—	
Total	$29,695	100.0	%	100.0	%	$31,083	100.0	%	100.0	%

(1) The allowance for condominium association loans was included in commercial loans in years prior to 2010.

Liability for Unfunded Credit Commitments

The liability for unfunded credit commitments, which is included in other liabilities, was $1.0 million at December 31, 2013, $0.7 million at December 31, 2012 and $0.8 million at December 31, 2011. During the year ended December 31, 2013, the liability for unfunded credit commitments increased by $0.3 million to reflect changes in the estimate of loss exposure associated with credit commitments.

See the subsections "Comparison of Years Ended December 31, 2013 and December 31, 2012—Provision for Credit Losses" and "Comparison of Years Ended December 31, 2012 and December 31, 2011—Provision for Credit Losses" appearing elsewhere in this report for a discussion of the provision for loan and lease losses and loan and lease charge-offs recognized in the Company's consolidated financial statements during the past three years.

Investments and Restricted Equity Securities

Investment Securities

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

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

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

	At December 31,					
	2013		2012		2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)					
Investment securities available-for-sale:						
Debt securities:						
GSEs	$12,138	$12,180	$69,504	$69,809	$92,402	$93,069
Municipal obligations	1,068	1,086	1,058	1,101	1,250	1,303
Auction-rate municipal obligations	1,900	1,775	2,100	1,976	2,700	2,490
Corporate debt obligations	27,751	28,224	10,481	10,685	41,490	41,354
Trust preferred securities and pools	1,461	1,210	2,786	2,519	3,928	3,003
GSE CMOs	254,331	243,644	215,670	217,001	2,961	3,025
GSE MBSs	202,478	199,401	165,996	169,648	68,181	71,504
Private-label CMOs	3,258	3,355	6,719	6,866	366	378
SBA commercial loan asset-backed securities	245	243	383	381	443	443
Total debt securities	504,630	491,118	474,697	479,986	213,721	216,569
Marketable equity securities	1,259	1,310	1,249	1,337	834	862
Total investment securities available-for-sale	$505,889	$492,428	$475,946	$481,323	$214,555	$217,431
Restricted equity securities:						
FHLBB stock	$50,081		$52,188		$37,914	
FRB stock	16,003		15,998		994	
Other	475		475		375	
Total restricted equity securities	$66,559		$68,661		$39,283	
Investment securities held-to-maturity	$500		$500		$—	

Total investment securities primarily consist of securities available-for-sale, stock in the FHLBB and stock in the FRB. Total securities increased $9.0 million, or 1.6% since December 31, 2012. At January 1, 2012, the Company acquired $328.9 million of securities in the BankRI acquisition. At December 31, 2013, total investment securities were 10.5% of total assets a decrease from December 31, 2012, when total securities were 10.7% of total assets. Maturities, calls and principal repayments totaled $137.3 million for the year ended December 31, 2013 compared to $207.5 million for the same period in 2012. In 2013, the Company sold securities of $1.2 million and realized gains of $0.4 million compared to sales of $166.2 million and gains of $0.9 million for 2012. In 2013, the Company purchased $171.2 million of available-for-sale securities compared to $326.1 million in 2012.

Investment securities available-for-sale are recorded at fair value, which is primarily obtained from a third-party pricing service. At December 31, 2013, the fair value of investment securities available-for-sale was $492.4 million and carried a total of $13.5 million of net unrealized losses, compared to $5.4 million of net unrealized gains at December 31, 2012. The change in the unrealized loss of the remaining securities available-for-sale is due to an increase in interest rates. Management believes that it will recover the amortized cost basis of the investment securities and that it is more likely than not that it will not sell the securities before recovery. As such, management has determined that the securities are not other-than-temporarily impaired as of December 31, 2013. If market

conditions for securities worsen or the creditworthiness of the underlying issuers deteriorates, it is possible that the Company may recognize additional other-than-temporary impairments in future periods.

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Debt Securities
The Company expects to recover its amortized cost basis on all debt securities in its available-for-sale and held-to-maturity portfolios. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities in an unrealized loss position as of December 31, 2013, prior to the recovery of their amortized cost basis. The Company's ability and intent to hold these securities until recovery is supported by the Company's strong capital and liquidity positions as well as its historically low portfolio turnover.
U.S. Government-Sponsored Enterprises
The Company invests in securities issued by Government-sponsored enterprises ("GSEs"), including GSE debt securities, mortgage-backed securities ("MBSs"), and collateralized mortgage obligations ("CMOs"). GSE securities include obligations issued by the Federal National Mortgage Association ("FNMA"), the Federal Home Loan Mortgage Corporation ("FHLMC"), the Government National Mortgage Association ("GNMA"), the Federal Home Loan Banks and the Federal Farm Credit Bank. At December 31, 2013, only GNMA MBSs and CMOs, and Small Business Administration ("SBA") commercial loan asset-backed securities with an estimated fair value of $18.9 million were backed explicitly by the full faith and credit of the U.S. Government, compared to $10.0 million at December 31, 2012.
GSE securities are considered attractive investments because they (1) generate positive yields with minimal administrative expense, (2) impose minimal credit risk as a result of the guarantees usually provided, (3) can be utilized as collateral for borrowings, (4) generate cash flows useful for liquidity management and (5) are ‘‘qualified investments’’ as designated for regulatory purposes that the Company is obligated to meet.
At December 31, 2013, the Company held GSE debentures with a total fair value of $12.2 million and a net unrealized gain of $42 thousand. At December 31, 2012, the Company held GSE debentures with a total fair value of $69.8 million and a net unrealized gain of $0.3 million. At December 31, 2013, none of the five securities in this portfolio were in unrealized loss positions. At December 31, 2012, none of the twenty-eight securities in this portfolio were in unrealized loss positions. All securities are performing and backed by the implicit(FHLB/FNMA/FHLMC) or explicit(GNMA/SBA) guarantee of the U.S Government.
At December 31, 2013, the Company held SBA securities with a total fair value of $0.2 million and a net unrealized loss of $2.0 thousand. At December 31, 2012, the Company held SBA securities with a total fair value of $0.4 million and a net unrealized loss of less than $2.0 thousand. At December 31, 2013, seven of the nine securities in this portfolio were in unrealized loss positions. At December 31, 2012, eight of the eleven securities in this portfolio were in unrealized loss positions. All securities are performing and backed by the explicit(SBA) guarantee of the U.S Government.
As of December 31, 2013, the Company held GSE mortgage-related securities with a total fair value of $443.0 million and a net unrealized loss of $13.8 million. This compares to a total fair value of $386.6 million and a net unrealized gain of $5.0 million at December 31, 2012. At December 31, 2013, 86 of the 232 securities in this portfolio were in unrealized loss positions. At December 31, 2012, 32 of the 224 securities in this portfolio were in unrealized loss positions. All securities are performing and backed by the implicit(FHLB/FNMA/FHLMC) or explicit(GNMA) guarantee of the U.S Government. During the years ended December 31, 2013 and 2012, the Company purchased a total of $149.5 million and $326.1 million, respectively, in GSE CMOs and GSE MBSs to reinvest cash from matured securities.
Mortgage-related securities are created by the pooling of mortgages and the issuance of a security with an interest rate that is less than the average interest rate on the underlying mortgages. Mortgage related securities purchased by the Company generally are comprised of a pool of single-family mortgages. The issuers of such securities are generally GSEs such as FNMA, FHLMC and GNMA, which pool and resell participation interests in the form of securities to investors and guarantee the payment of principal and interest to the investors.

Investments in mortgage-related securities issued and guaranteed by GSEs generally do not entail significant credit risk. Such investments, however, are susceptible to significant interest rate and cash flow risks when actual cash flows from the investments differ from cash flows estimated at the time of purchase. Additionally, the market value of such

securities can be affected adversely by market changes in interest rates. Prepayments that are faster than anticipated may shorten the life of a security and result in the accelerated expensing of any premiums paid, thereby reducing the net yield earned on the
security. Although prepayments of underlying mortgages depend on many factors, the difference between the interest rates on the underlying mortgages and prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of declining interest rates, refinancing generally increases and accelerates the prepayment of underlying mortgages and the related security. Such an occurrence can also create reinvestment risk because of the unavailability of other investments with a comparable rate of return in relation to the nature and maturity of the alternative

investment. Conversely, in a rising interest-rate environment, prepayments may decline, thereby extending the estimated life of the security and depriving the Company of the ability to reinvest cash flows at the higher market rates of interest.

Private-Label CMOs

At December 31, 2013, the Company held private-issuer CMO-related securities with a total fair value of $3.4 million and a net unrealized gain of $0.1 million. At December 31, 2012, the Company held private-issuer CMO-related securities with a total fair value of $6.9 million and a net unrealized gain of $0.1 million. At December 31, 2013, two of the eleven securities in this portfolio were in unrealized loss positions. At December 31, 2012, one of the eleven securities in this portfolio was in an unrealized loss position. All securities are performing and while one security was downgraded in 2013, the security is in an unrealized gain position and the underlying credit metrics have not deteriorated in 2013.

Auction-Rate Municipal Obligations and Municipal Obligations

The auction-rate obligations owned by the Company were rated "AAA" at the time of acquisition due, in part, to the guarantee of third-party insurers who would have to pay the obligations if the issuers failed to pay the obligations when they become due. During the financial crisis, certain third-party insurers experienced financial difficulties and were not able to meet their contractual obligations. As a result, auctions failed to attract a sufficient number of investors and created a liquidity problem for those investors who were relying on the obligations to be redeemed at auction. Since then, there has not been an active market for auction-rate municipal obligations.

Based on an evaluation of market factors, the estimated fair value of the auction-rate municipal obligations owned by the Company at December 31, 2013 was $1.8 million, with a corresponding net unrealized loss of $0.1 million. This compares to $2.0 million with a corresponding net unrealized loss of $0.1 million at December 31, 2012. At December 31, 2013, both of the securities in this portfolio were in unrealized loss positions. At December 31, 2012, all three of the securities in this portfolio were in unrealized loss positions. Full collection of the obligations is expected because the financial condition of the issuers is sound, none of the issuers has defaulted on scheduled payments, the obligations are rated investment grade and the Company has the ability and intent to hold the obligations for a period of time to recover the unrealized losses.

The Company owns municipal obligations with an estimated fair value of $1.1 million which approximates amortized cost at December 31, 2013. This compares to a total fair value of $1.1 million which also approximates amortized cost at December 31, 2012. At both December 31, 2013 and 2012, none of the two securities in this portfolio was in unrealized loss positions. Full collection of the obligations is expected because the financial condition of the issuers is sound, none of the issuers has defaulted on scheduled payments, the obligations are rated investment grade and the Company has the ability and intent to hold the obligations for a period of time to recover the unrealized losses.

Corporate Obligations

From time to time, the Company will invest in high-quality corporate obligations to provide portfolio diversification and improve the overall yield on the portfolio. The Company owned eleven corporate obligation securities with a total fair value of $28.2 million and total net unrealized gains of $0.5 million as of December 31, 2013. This compares to eight corporate obligation securities with a total fair value of $10.7 million and total net unrealized gains of $0.2 million at December 31, 2012. At both December 31, 2013 and 2012, all but one of the securities are investment grade and this security is currently in an unrealized gain position. At December 31, 2013, two of the eleven securities in this portfolio are in unrealized loss positions. At December 31, 2012, none of the eight securities in this portfolio was in unrealized loss positions. Full collection of the obligations is expected because the financial condition of the issuers is sound, none of the issuers has defaulted on scheduled payments, the obligations are rated investment grade and the Company has the ability and intent to hold the obligations for a period of time to recover the unrealized losses. During the year ended December 31, 2013, the Company purchased $21.7 million in corporate obligations. The Company did not purchase any corporate obligations in the same period in 2012.

Trust Preferred Securities and PreTSLs

Trust preferred securities represent subordinated debt issued by financial institutions. These securities are sometimes pooled and sold to investors through structured vehicles known as trust preferred pools (“PreTSLs”). When issued, PreTSLs are divided into tranches or segments that establish priority rights to cash flows from the underlying trust

preferred securities. At December 31, 2013, the Company owned two trust preferred securities and no PreTSL pools with a total fair value of $1.2 million and a total net unrealized loss of $0.3 million. This compares to three trust preferred securities and two PreTSL pools with a total fair value of $2.5 million and a total net unrealized loss of $0.3 million at December 31, 2012. During the year ended December 31, 2013, the Company sold all PreTSL securities for a net gain of $0.4 million. At December 31, 2013, all of the securities in this portfolio were in unrealized loss positions, which represents 17.2% of the amortized cost of the securities. At December 31, 2012, three of the five securities in this portfolio were in unrealized loss positions, which represents 14.5% of the amortized cost of the securities.

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During the year ended December 31, 2013, the Company sold two PreTSL pooled securities for a net gain of $0.4 million. At the time of sale, the proposed "Volcker Rule" of the Dodd-Frank Wall Street Reform and Consumer Protection Act, restricted banks from owning PreTSL pooled securities. The Company had the ability and intent to hold both securities to maturity prior to the new proposed regulations based on the amortized cost of the securities held at that time versus market indications. The Company identified that these securities were subject to the "Volcker Rule" and decided to sell the securities while a market existed. After regulatory review in January 2014, the "Volcker Rule" was revised and banks of less than $10 billion in size were grandfathered to hold these securities in their portfolios.

Marketable Equity Securities

At both December 31, 2013 and 2012, the Company owned marketable equity securities with a fair value of $1.3 million, including net unrealized gains of $0.1 million. At December 31, 2013, one of the four securities in this portfolio was in an unrealized loss position, which represents 0.8% of the amortized cost of the securities. At December 31, 2012, none of the four securities in this portfolio was in an unrealized loss position.

Securities Held-to-Maturity

The Company purchased $0.5 million of State of Israel bonds in 2011 with a carrying value of $0.5 million and a fair value of $0.5 million. This security matures in March, 2014 and carries an interest rate payable of LIBOR plus 0.125%.

Restricted Equity Securities

FHLBB Stock—The Company invests in the stock of the FHLBB as one of the requirements to borrow. The Company maintains an excess balance of capital stock of $12.0 million which allows for additional borrowing capacity at each subsidiary institution.

At December 31, 2013, the Company owned stock in the FHLBB with a carrying value of $50.1 million, a decrease of $2.1 million from $52.2 million at December 31, 2012, primarily due to a $2.1 million FHLBB stock redemption during 2013. At September 30, 2013, the FHLBB had total assets of $39.7 billion and total capital of $2.7 billion, of which $705.7 million was retained earnings. The FHLBB stated that it remained in compliance with all regulatory capital ratios as of September 30, 2013 and, based on the most recent information available, was classified as "adequately capitalized" by its regulator. See Note 5, "Restricted Equity Securities" to the consolidated financial statements for further information about the FHLBB.

Federal Reserve Bank Stock—The Company invests in the stock of the Federal Reserve Bank of Boston, as required by its subsidiary Banks' membership in the Federal Reserve System. In 2013, the Company increased its investment in the stock of the Federal Reserve Bank of Boston by $5 thousand to adjust for deposit growth. The FRB is now the primary federal regulator for the Company and its subsidiary banks.

Carrying Value, Weighted Average Yields, and Contractual Maturities of Securities

The table below sets forth certain information regarding the carrying value, weighted average yields and contractual maturities of the Company's securities portfolio at the date indicated.

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	Balance at December 31, 2013									
	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
	(Dollars in Thousands)									
Investment securities available-for-sale:										
Debt securities:										
GSEs	$12,180	0.62 %	$—	—	$—	—	$—	—	$12,180	0.62 %
Municipal obligations(1)	752	3.55 %	334	3.31 %	—	—	—	—	1,086	3.48 %
Auction-rate municipal obligations(1)	—	—	—	—	—	—	1,775	0.25 %	1,775	0.25 %
Corporate debt obligations	—	—	28,010	2.32 %	—	—	214	—	28,224	2.30 %
Trust preferred securities	—	—	—	—	—	—	1,210	1.05 %	1,210	1.05 %
GSE CMOs	—	—	81	3.55 %	54	3.69 %	243,509	1.80 %	243,644	1.80 %
GSE MBSs	130	3.81 %	11,762	4.16 %	65,432	2.18 %	122,077	2.09 %	199,401	2.24 %
Private-label CMOs	—	—	987	—	1,419	4.63 %	949	6.11 %	3,355	5.01 %
SBA commercial loan asset- backed securities	—	—	13	1.70 %	170	0.83 %	60	1.02 %	243	0.93 %
Total debt securities	$13,062	0.82 %	$41,187	2.90 %	$67,075	2.23 %	$369,794	1.90 %	491,118	2.00 %
Marketable equity securities									1,310	2.95 %
Total investment securities available-for-sale									492,428	2.00 %
Restricted equity securities:										
FHLBB stock									50,081	0.50 %
FRB stock									16,003	6.00 %
Other stock									475	—
Total restricted equity securities									66,559	1.83 %
Investment securities held-to-maturity									500	1.99 %
Total securities									$559,487	1.98 %

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

Premises and Equipment

Corporate Headquarters

On October 29, 2012, the Company moved its headquarters to 131 Clarendon Street in Boston, Massachusetts. The eight-story building, including the land, was acquired at a cost of approximately $14.0 million.

At December 31, 2013, $33.4 million in depreciable assets associated with the new headquarters have been recognized; of which $31.9 million will be depreciated over 40 years and the remaining $1.4 million will be depreciated between 3 and 15 years. See Note 8, "Premises and Equipment," to the consolidated financial statements for more information. In addition, the Company realized $0.2 million of tax credits during the year ended December 31, 2013 compared to $1.9 million in 2012 . See Note 17, "Income Taxes" to the consolidated financial statements.

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A portion of the Company's new headquarters was rented to third-party tenants in 2013 with rental income of $0.3 million reported in non-interest income. The Company expects $0.4 million of rental income for the year ended 2014.

Core Operating Systems

The Company has also entered into contracts associated with the conversion of its core operating systems. Brookline Bank and First Ipswich were successfully converted to a new core operating system in 2012. BankRI converted to the Company's core operating system late in the second quarter 2013.

Deposits

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

	At December 31,																	
	2013						2012						2011					
	Amount	Percent of Total		Weighted Average Rate			Amount	Percent of Total		Weighted Average Rate			Amount	Percent of Total		Weighted Average Rate		
	(Dollars in Thousands)																	
Non-interest-bearing deposits:																		
Demand checking accounts	$707,023	18.4	%	—	%		$623,274	17.2	%	—	%		$225,284	10.0	%	—	%	
Interest-bearing deposits:																		
NOW accounts	210,602	5.5	%	0.07	%		212,858	5.9	%	0.09	%		110,220	4.9	%	0.18	%	
Savings accounts	494,734	12.9	%	0.25	%		515,367	14.2	%	0.39	%		164,744	7.3	%	0.40	%	
Money market accounts	1,487,979	38.8	%	0.54	%		1,253,819	34.7	%	0.63	%		946,411	42.0	%	0.83	%	
Certificate of deposit accounts	934,668	24.4	%	0.90	%		1,010,941	28.0	%	1.06	%		805,672	35.8	%	1.26	%	
Total interest-bearing deposits	3,127,983	81.6	%	0.57	%		2,992,985	82.8	%	0.70	%		2,027,047	90.0	%	0.93	%	
Total deposits	$3,835,006	100.0	%	0.47														