BOSTON PRIVATE FINANCIAL HOLDINGS INC
Form 10-K
February 27, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-35070

BOSTON PRIVATE FINANCIAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Commonwealth of Massachusetts	04-2976299
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
Ten Post Office Square Boston, Massachusetts	02109
(Address of principal executive offices)	(Zip Code)

(Registrant’s telephone number, including area code):
(617) 912-1900
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Act. 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 requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes o No x
The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the last reported sales price on the NASDAQ Global Select Market on June 30, 2018 was $1,314,701,485.
The number of shares of the registrant's common stock outstanding on February 22, 2019 was 83,767,232.
Documents Incorporated by Reference:
Portions of the registrant's proxy statement for the Company's 2019 Annual Meeting of Shareholders are incorporated by reference in Item 5 of Part II and Items 10, 11, 12, 13, and 14 of Part III.

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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 our 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, a others, statements regarding our strategy; the effectiveness of our investment programs; evaluations of future interest rate trends and liquidity; expectations as to growth in assets, deposits and results of operations, future operations, market position and financial position; and prospects, plans, and objectives of management. You should not place undue reliance on our forward-looking statements. You should exercise caution in interpreting and relying on forward-looking statements because they are subject to significant risks, uncertainties and other factors which are, in some cases, beyond the Company’s control.

Forward-looking statements are based on the current assumptions and beliefs of management and are only expectations of future results. The Company’s actual results could differ materially from those projected in the forward-looking statements as a result of, among others, factors referenced herein under the section captioned “Risk Factors”; adverse conditions in the capital and debt markets and the impact of such conditions on the Company’s private banking, wealth management and trust, and affiliate partner activities; changes in interest rates; competitive pressures from other financial institutions and non-banks; the effects of weakness in general economic conditions on a national basis or in the local markets in which the Company operates, including changes that adversely affect borrowers’ ability to service and repay our loans; changes in the value of securities in our investment portfolio; changes in loan default and charge-off rates; the adequacy of loan loss reserves; decreases in 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; the risk that the Company’s deferred tax assets may not be realized; risks related to acquisitions, dispositions, and restructurings; and changes in assumptions used in making such forward-looking statements, as well as the other risks and uncertainties detailed in this Annual Report on Form 10-K and other filings submitted to the Securities and Exchange Commission. 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.

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PART I

ITEM 1. BUSINESS

I.General

Boston Private Financial Holdings, Inc. (the “Company,” “BPFH,” “we,” “us,” or “our”), a Massachusetts corporation, is a ban holding company under the Bank Holding Company Act of 1956, as amended (the “BHCA”), and the holding company (the “Holding Company”) of Boston Private Bank & Trust Company (the “Bank” or “Boston Private Bank”), a Massachusetts trust company insured by the Federal Deposit Insurance Corporation (the “FDIC”)
We offer a full range of banking and wealth management services to high net worth individuals, families, businesses, and select institutions through a financial umbrella that helps to preserve, grow, and transfer assets over the financial lifetime of a client through our three functional segments: Private Banking, Wealth Management and Trust, and Affiliate Partners. Each reportable segment reflects the services provided by the Company to a distinct segment of the wealth management market as described below.

Private Banking

The Private Banking segment is comprised of Boston Private Bank. The Private Banking segment primarily operates in three geographic markets: New England, the San Francisco Bay Area, and Southern California. The Private Banking segment is principally engaged in providing banking services to high net worth individuals, privately-owned businesses and partnerships, and nonprofit organizations. In addition, the Private Banking segment is an active provider of financing for affordable housing, first-time homebuyers, economic development, social services, community revitalization, and small businesses.

Wealth Management and Trust

The Wealth Management and Trust segment is comprised of Boston Private Wealth LLC (“Boston Private Wealth”), an independent registered investment adviser (“RIA”), which is a wholly-owned subsidiary of the Bank, and the trust operations of Boston Private Bank. The segment provides comprehensive wealth management solutions for high net worth individuals and families, including customized investment solutions, wealth planning, trust, and family office services. The Wealth Management and Trust segment operates in New England, Southeast Florida, and California.

Affiliate Partners

The Affiliate Partners segment is comprised of Dalton, Greiner, Hartman, Maher & Co., LLC (“DGHM”) and KLS Professional Advisors Group, LLC (“KLS”), each of which are RIAs.

DGHM serves the needs of pension funds, endowments, trusts, foundations and select institutions, mutual funds, and high net worth individuals and their families throughout the United States and abroad. DGHM specializes in value-driven equity portfolios with products across the capitalization spectrum. DGHM is located in New York, with one affiliate administrative office in South Florida.

KLS provides comprehensive, planning-based financial strategies to high net worth individuals and their families, and nonprofit institutions. The services the firm offers include fee-only financial planning, tax planning, tax preparation, estate and insurance planning, retirement planning, charitable planning, and intergenerational gifting and succession planning. KLS manages investments covering a wide range of asset classes for both taxable and tax-exempt portfolios. KLS is located in New York and Southern California.

Together, the Wealth Management and Trust and Affiliate Partners segments are referred to as the "Wealth and Investment" businesses.

For revenue, net income, assets, and other financial information for each of the Company's reportable segments, see Part II. Item 8. "Financial Statements and Supplementary Data - Note 20: Reportable Segments."

The Company's internet address is www.bostonprivate.com. The Company makes available on or through its internet website, without charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission (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. The quarterly earnings release conference call can also be accessed from the Company’s website. Press releases are also maintained on the Company’s website for one year. Information on our website is not incorporated by reference into this document and should not be considered part of this Report.

II.Asset Sales and Divestitures

On December 3, 2018, the Company completed the sale of its ownership interest in Bingham, Osborn & Scarborough, LLC (“BOS”) to the management team of BOS for an upfront cash payment and an eight year revenue sharing agreement with BOS. The present value of the estimated proceeds from the revenue sharing agreement was included in the gain on sale of BOS in the fourth quarter of 2018. Changes to the amount of actual proceeds from the revenue sharing agreement will result in future positive or negative revenue adjustments.

On April 13, 2018, the Company completed the sale of its ownership interest in Anchor Capital Advisors LLC (“Anchor”) to the management team of Anchor for an upfront cash payment and future payments that had a net present value of $15.4 million at the time of closing.
In November 2016, the Bank sold two of its Southern California offices, one located in Granada Hills, CA and the other located in Burbank, CA, together with approximately $104 million of deposits.
In October 2014, Boston Private Bank acquired Banyan Partners, LLC ("Banyan"). Banyan and the wealth management operations from Boston Private Bank were combined to form Boston Private Wealth.

In December 2009, the Company divested its interest in Westfield Capital Management Company, LP, formerly known as Westfield Capital Management Company, LLC (“Westfield”).
For further details relating to the Company’s divestitures, see Part II. Item 8. “Financial Statements and Supplementary Data - Note 3: Asset Sales and Divestitures.”

III. Competition

The Company operates in the highly competitive financial services marketplace. The Bank encounters competition from larger national and regional commercial banking organizations, savings banks, credit unions, and other financial institutions and non-bank financial service companies, which may offer lower interest rates on loans and higher interest rates on deposits. The Bank’s competitors also include major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. Technology and other changes have made it more convenient for Bank customers to transfer funds into alternative investments, including products offered by other financial institutions or non-bank service providers. To compete effectively, the Bank relies on personal contacts by officers, directors, and employees, customized service, and the Bank’s reputation within the communities that it serves.

The RIAs compete with a wide variety of firms, including national and regional financial services firms, commercial banks and trust companies, mutual fund companies, investment advisory firms, stock brokerage firms, accounting firms, law firms, and digital advice platforms, which may offer lower fee services. Investment advisers that emphasize passive products have gained, and may continue to gain, market share from active managers like us, which could have a material impact on our business. The Company and the Bank believe that their subsidiaries’ ability to compete is dependent upon the subsidiaries’ respective quality and level of service, personal relationships, the marketing and distribution of investment products, and investment performance.

IV. Employees

At December 31, 2018, the Company had 774 employees. The Company’s employees are not subject to a collective bargaining agreement, and the Company believes its employee relations are good.

V. 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 to protect the safety and soundness of depository institutions, the federal deposit insurance system, and depositors, rather than the shareholders of a bank holding company such as the Company.

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As a bank holding company, the Company is subject to regulation, supervision, and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve") under the BHCA. The Company is also subject to supervision and examination by the Massachusetts Commissioner of Banks (the "Commissioner") under Massachusetts law. As a Massachusetts-chartered trust company and Federal Reserve member bank, the Bank is subject to regulation, supervision and examination by the Commissioner and the Federal Reserve. The Bank's California offices are also subject to regulation, supervision and examination by the California Department of Business Oversight Division of Financial Institutions (the "DFI").

The RIAs are subject to extensive regulation by the SEC, the Financial Industry Regulatory Authority, and state securities regulators.

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

Regulation of the Company

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

Source of Strength. Under the BHCA, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Company is required to serve as a source of financial strength for the Bank. This support may be required at times when the Company may not have the resources to provide support to the Bank. 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, without prior approval of the Federal Reserve, from acquiring all or substantially all the assets of a bank; acquiring control of a bank; merging or consolidating with another bank holding company; or acquiring direct or indirect ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, the acquiring bank holding company would control more than 5% of any class of the voting shares of such other bank or bank holding company.

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

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 Federal Reserve has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting securities of a bank holding company with a class of securities registered under Section 12 of the Exchange Act would constitute the acquisition of control of a bank holding company.

In addition, the BHCA prohibits any company from acquiring control of a bank or bank holding company without first having obtained the approval of the Federal Reserve. Among other circumstances, under the BHCA, a company has control of a bank or bank holding company if the company owns, controls or holds with power to vote 25% or more of a class of voting securities of the bank or bank holding company; controls in any manner the election of a majority of directors or trustees of the bank or bank holding company; or the Federal Reserve has determined, after notice and opportunity for hearing, that the company has the power to exercise a controlling influence over the management or policies of the bank or bank holding company.

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Regulation of the Bank

The Bank is subject to the regulation, supervision, and examination of the Commissioner and the Federal Reserve, and with respect to its California offices, the DFI. The Bank is also subject to regulations issued by the Consumer Financial Protection Bureau ("CFPB"), as enforced by the Federal Reserve. The Federal Reserve may also directly examine the other subsidiaries of the Company. The enforcement powers available to federal and state banking regulators include, among other things, the ability to issue cease and desist or removal orders, to terminate insurance of deposits, to assess civil money penalties, to issue directives to increase capital, to place the bank into receivership, and to initiate injunctive actions against banking organizations and institution-affiliated parties.

Deposit Insurance. Deposit obligations of the Bank are insured by the FDIC's Deposit Insurance Fund ("DIF") up to $250,000 per separately insured depositor for deposits held in the same right and capacity. The Federal Deposit Insurance Act (the "FDIA"), as amended by the Federal Deposit Insurance Reform Act and the Dodd-Frank Act, requires the FDIC to take steps as may be necessary to cause the ratio of deposit insurance reserves to estimated insured deposits - the designated reserve ratio - to reach 1.35% by September 30, 2020, and it mandates that the reserve ratio designated by the FDIC for any year thereafter may not be less than 1.35%. Further, the Dodd-Frank Act required that, in setting assessments, the FDIC offset the effect of the increase in the minimum reserve ratio from 1.15% to 1.35% on banks with less than $10 billion in assets. To satisfy these requirements, in 2016, the FDIC's Board of Directors approved a final rule to increase the DIF's reserve ratio to the statutorily required minimum ratio of 1.35% of estimated insured deposits. The final rule imposes on large banks a surcharge of 4.5 basis points of their assessment base, after making certain adjustments. Large banks, which are generally banks with $10 billion or more in assets, will pay quarterly surcharges in addition to their regular risk-based assessments. Overall regular risk-based assessment rates will decline once the reserve ratio reaches 1.15%. Small banks, such as the Bank, will receive credits to offset the portion of their assessments that help to raise the reserve ratio from 1.15% to 1.35%. After the reserve ratio reaches 1.38%, the FDIC will automatically apply a small bank's credits to reduce its regular assessment up to the entire amount of the assessment for each period when the ratio is at or above 1.38%. In January 2019, the Bank received notification from the FDIC that it will be eligible for small bank assessment credits of $2.0 million because the DIF ratio reached 1.36% in September 2018. The FDIC will apply the credits to banks' quarterly insurance assessment when the DIF fund is at or above 1.38%. The DIF reserve ratio was 1.36% as of December 31, 2018 therefore the Bank will not receive a credit for their fourth quarter 2018 assessment. The FDIC is planning to announce the March 31, 2019 ratio in May 2019 therefore the Bank will not know whether it will receive a credit for their first quarter 2019 assessment until the second quarter of 2019.

Deposit premiums are based on assets. To determine its deposit insurance premium, the Bank computes the base amount of its average consolidated assets less its average tangible equity (defined as the amount of Tier 1 capital) and the applicable assessment rate. In 2016, the FDIC's Board of Directors adopted a final rule that changed the manner in which deposit insurance assessment rates are calculated for established small banks, generally those banks with less than $10 billion of assets that have been insured for at least five years. Under this method, each of seven financial ratios and a weighted average of CAMELS composite ratings will be multiplied by a corresponding pricing multiplier. The sum of these products will be added to a uniform amount, with the resulting sum being an institution's initial base assessment rate (subject to minimum or maximum assessment rates based on a bank's CAMELS composite rating). This method takes into account various measures, including an institution's leverage ratio, brokered deposit ratio, one year asset growth, the ratio of net income before taxes to total assets, and considerations related to asset quality. Under the small bank pricing rule, where the DIF's reserve ratio has reached 1.15%, assessments for established small banks with a CAMELS rating of 1 or 2 will range from 1.5 to 16 basis points after adjustments, while assessment rates for established small institutions with a CAMELS composite rating of 4 or 5 may range from 11 to 30 basis points, after adjustment. Assessments for established banks with a CAMELS rating of 3 will range from 3 to 30 basis points. For 2018, the FDIC insurance expense for the Bank was $2.9 million.

The FDIC has the authority to adjust deposit insurance assessment rates at any time. In addition, under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices; is in an unsafe or unsound condition to continue operations; or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Acquisitions and Branching. Prior approval from the Commissioner and the Federal Reserve is required in order for the Bank to acquire another bank or establish a new branch office. Well capitalized and well managed banks may acquire other banks in any state, subject to certain deposit concentration limits and other conditions, pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended by the Dodd-Frank Act. In addition, the Dodd-Frank Act authorizes a state-chartered bank, such as the Bank, to establish new branch offices on an interstate basis to the same extent a bank chartered by the host state may establish branch offices.

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

Lending Restrictions. Federal law limits a bank's authority to extend credit to its directors, executive officers, and persons or companies that own, control or have power to vote more than 10% of any class of securities of a bank or an affiliate of a bank, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. 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, approved by a majority of the disinterested directors of the Bank.

Brokered Deposits. Section 29 of the FDIA and FDIC 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 the FDIC's approval, "adequately capitalized." Depository institutions that have brokered deposits in excess of 10% of total assets will be subject to increased FDIC deposit insurance premium assessments. However, for institutions that are well capitalized and have a CAMELS composite rating of 1 or 2, reciprocal deposits are deducted from brokered deposits. Section 202 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Growth Act"), which was enacted on May 24, 2018, amends Section 29 of the FDIA to exempt a capped amount of reciprocal deposits from treatment as brokered deposits for certain insured depository institutions. Specifically, the Growth Act provides that reciprocal deposits received by an agent depository institution that places deposits (other than those obtained by or through a deposit broker) with a deposit placement network are not considered to be funds obtained by or through a deposit broker to the extent the total amount of such reciprocal deposits does not exceed the lesser of $5 billion or 20% of the depository institution's total liabilities. However, a depository institution that is less than well capitalized may not accept or roll over such excluded reciprocal deposits at a rate of interest that is significantly higher than the prevailing rate in its market area or a national rate cap established by the FDIC.

Community Reinvestment Act. The Community Reinvestment Act ("CRA") requires the Federal Reserve to evaluate the Bank's 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 Federal Reserve'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 branch offices, ATMs, and other offices. The Bank's most recent performance evaluation from the Federal Reserve was a "satisfactory" rating. Massachusetts has also enacted a similar statute that requires the Commissioner to evaluate the performance of the Bank in helping to meet the credit needs of its entire community and to take that record into account in considering certain applications.

Capital Adequacy and Safety and Soundness

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

The capital adequacy guidelines define qualifying capital instruments and specify minimum amounts of capital as a percentage of assets that banking organizations are required to maintain. Common equity Tier 1 capital generally includes common stock and related surplus, retained earnings and, in certain cases and subject to certain limitations, minority interest in consolidated subsidiaries, less goodwill, other non-qualifying intangible assets and certain other deductions. Tier 1 capital for banks and bank holding companies generally consists of the sum of common equity Tier 1 capital, non-cumulative perpetual preferred stock, and related surplus, and, in certain cases and subject to limitations, minority interests in consolidated subsidiaries that do not qualify as common equity Tier 1 capital, less certain deductions. Tier 2 capital generally consists of hybrid capital instruments, perpetual debt and mandatory convertible debt securities, cumulative perpetual preferred stock, term subordinated debt and intermediate-term preferred stock, and, subject to limitations, allowances for loan losses. The sum of Tier 1 and Tier 2 capital less certain required deductions represents qualifying total risk-based capital. Prior to the effectiveness of certain provisions of the Dodd-Frank Act, bank holding companies were permitted to include trust preferred securities and cumulative perpetual preferred stock in Tier 1 capital, subject to limitations. However, the Federal Reserve’s capital rule applicable to bank holding companies permanently grandfathered non-qualifying capital instruments, including trust preferred securities, issued before May 19, 2010 by depository institution holding companies with less than $15 billion in total assets as of December 31, 2009, subject to a limit of 25% of Tier 1 capital. In addition, under rules that became effective January 1, 2015, accumulated other comprehensive income (positive or negative) must be reflected in Tier 1 capital; however, the Company and the Bank were permitted to make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. The Company and the Bank have made this election.

Under the capital rules, risk-based capital ratios are calculated by dividing common equity Tier 1 capital, Tier 1 capital, and total capital, respectively, by risk-weighted assets. Assets and off-balance sheet credit equivalents are assigned to one of several categories of risk-weights, based primarily on relative credit risk. The Tier 1 leverage ratio is calculated by dividing Tier 1 capital by average assets less certain items such as goodwill and intangible assets, as permitted under the capital rules.

Under the Federal Reserve’s capital rules applicable to the Company and the Bank, the Company and the Bank are each required to maintain a minimum common equity Tier 1 capital to risk-weighted assets ratio of 4.5%, a minimum total Tier 1 capital to risk-weighted assets ratio of 6.0%, a minimum total capital to risk-weighted assets ratio of 8%, and a minimum leverage ratio of 4%. Additionally, subject to a transition schedule, these rules require an institution to establish a capital conservation buffer of common equity Tier 1 capital in an amount above the minimum risk-based capital requirements for “adequately capitalized” institutions of more than 2.5% of total risk-weighted assets, or face restrictions on the ability to pay dividends, pay discretionary bonuses, and to engage in share repurchases. The capital conservation buffer has been fully phased in on January 1, 2019.

Under the Federal Reserve’s rules, a Federal Reserve supervised institution, such as the Bank, is considered well capitalized if it (i) has a total risk-based capital ratio of 10.0% or greater; (ii) a Tier 1 risk-based capital ratio of 8.0% or greater; (iii) a common Tier 1 equity ratio of 6.5% or greater, (iv) 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. The Bank 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 the FDIA that, for example, (i) restrict payment of capital distributions and management fees; (ii) require that its federal bank regulator monitor the condition of the institution and its efforts to restore its capital; (iii) require submission of a capital restoration plan; (iv) restrict the growth of the institution’s assets; and (v) require prior regulatory approval of certain expansion proposals. A bank that is required to submit a capital restoration plan must concurrently submit a performance guarantee by each company that controls the bank. A bank that is “critically undercapitalized” (i.e., has a ratio of tangible equity to total assets that is equal to or less than 2.0%) will be subject to further restrictions, and generally will be placed in conservatorship or receivership within 90 days.

Current capital rules do not establish standards for determining whether a bank holding company is well capitalized. However, for purposes of processing regulatory applications and notices, the Federal Reserve Board's Regulation Y provides that a bank holding company is considered "well capitalized" if (i) on a consolidated basis, the bank holding company maintains a total risk-based capital ratio of 10% or greater; (ii) on a consolidated basis, the bank holding company maintains a tier 1 risk-based capital ratio of 6% or greater; and (iii) the bank holding company is not subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the Board to meet and maintain a specific capital level for any capital measure.

Section 201 of the Growth Act directs the federal bank regulatory agencies to establish a community bank leverage ratio of tangible capital to average total consolidated assets of not less than 8% or more than 10%. The legislation provides that a qualifying community bank, which the legislation defines as a depository institution or depository institution holding company with total consolidated assets of less than $10 billion, that exceeds the community bank leverage ratio shall be considered to have met the generally applicable leverage capital requirements and the generally applicable risk-based capital

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requirements. In addition, a depository institution that exceeds the community bank leverage ratio will be regarded as having met the capital ratio requirements that are required in order to be considered well capitalized under Section 38 of the FDIA. The federal banking agencies may exclude institutions from availing themselves of this relief based on the institution's risk profile, taking into account off-balance sheet exposures, trading assets and liabilities, total notional derivatives exposures, and such other factors as the federal banking agencies determine appropriate. The federal banking agencies have proposed a community bank leverage ratio of 9%, which means that qualifying institutions with a community bank leverage ratio exceeding 9% would be eligible for the relief provided by Section 201 of the Growth Act. The federal banking agencies have also proposed excluding from this relief institutions with levels of off-balance sheet exposures, trading assets and liabilities, mortgage servicing assets, and deferred tax assets exceeding certain levels as well as all advanced approaches banking organizations.

Safety and Soundness Standards. The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, 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 restricting asset growth, requiring an institution to increase its ratio of tangible equity to assets or 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 the 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 its subsidiaries. The revenue of the Company (on a parent-only basis) is derived primarily from dividends paid to it by the Bank and the Company's other subsidiaries. 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 its subsidiaries through the payment of dividends or otherwise is subject to the prior claims of creditors of the subsidiaries, including, with respect to the Bank, depositors of the Bank, except to the extent that certain claims of the Company in a creditor capacity may be recognized.

Restrictions on Bank Holding Company Dividends. The Federal Reserve has the authority to prohibit bank holding companies from paying dividends if such payment is deemed to be an unsafe or unsound practice. The Federal Reserve 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, under the Federal Reserve's capital rules, the Company's ability to pay dividends is restricted if it does not maintain capital above the capital conservation buffer. See "-Capital Adequacy and Safety and Soundness -Regulatory Capital Requirements" above.

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

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 Federal Reserve; 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 Bank Holding Company Act Amendments of 1970 provides that, to further competition, a bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property of any kind, or furnishing of any service.

Consumer Protection Regulation

The Company and the Bank are subject to federal and state laws designed to protect consumers and prohibit unfair, deceptive or abusive business practices, including the Equal Credit Opportunity Act, the Fair Housing Act, the Home Ownership Protection Act, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act"), the GLBA, the Truth in Lending Act ("TILA"), the CRA, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the 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 clients 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 Federal Reserve examines the Bank for compliance with CFPB rules and enforces CFPB rules with respect to the Bank

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 TILA as a defense to foreclosure proceedings. Under the Dodd-Frank Act, prepayment penalties are prohibited for certain mortgage transactions and creditors are prohibited from financing insurance policies in connection with a residential mortgage loan or home equity line of credit. In addition, the Dodd-Frank Act prohibits mortgage originators from receiving compensation based on the terms of residential mortgage loans and generally limits the ability of a mortgage originator to be compensated by others if compensation is received from a consumer. The Dodd-Frank Act requires mortgage lenders to make additional disclosures prior to the extension of credit, in each billing statement, for negative amortization loans, and hybrid adjustable rate mortgages. The Growth Act included provisions that ease certain requirements related to mortgage transactions for certain small institutions, which are generally those with less than $10 billion in total consolidated assets.

Privacy and Customer Information Security. The GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the Bank must provide its clients with an initial and annual disclosure that explains its policies and procedures regarding the disclosure of such nonpublic personal information and, except as otherwise required or permitted by law, the Bank is prohibited from disclosing such information unless otherwise provided in such policies and procedures. However, an annual disclosure is not required to be provided by a financial institution if the financial institution only discloses information under exceptions from GLBA that do not require an opt out to be provided and if there has been no change in its privacy policies and practices since its most recent disclosure provided to consumers. The GLBA also requires that the Bank develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of client 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 client. The Bank is also required to send a notice to clients whose "sensitive information" has been compromised if unauthorized use of the information is "reasonably possible." Most states, including the states in which the Bank operates, have enacted legislation concerning breaches of data security and the duties of the Bank in response to a data breach. In addition, Massachusetts has promulgated data security regulations with respect to personal information of Massachusetts residents. Pursuant to the FACT Act, the Bank has developed and implemented 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 U.S. Treasury any cash transactions involving more than $10,000. In addition, financial institutions are required to file suspicious activity reports for any transaction or series of transactions that involve at least $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, together with the implementing regulations of various federal regulatory agencies, has caused financial institutions, such as the Bank, 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 affect 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."

OFAC. The U.S. has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by the U.S. Treasury's Office of Foreign Assets Control ("OFAC"), take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial or other transactions relating to a sanctioned country, or with certain designated persons and entities; (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons); and (iii) restrictions on certain transactions with or involving certain persons or entities. Blocked assets (for example, property and bank deposits) cannot be paid out, withdrawn, setoff or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences for the Company.

Regulation of Other Activities

Registered Investment Advisers; ERISA. Certain subsidiaries of the Company and the Bank are registered with the SEC as RIAs under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). The Advisers Act imposes numerous obligations on RIAs, including fiduciary, recordkeeping, operational, and disclosure obligations. RIAs are also subject to regulation under the securities laws and fiduciary laws of certain states.

The Dodd-Frank Act requires the SEC to study the standard of care for brokers and investment advisers and report its findings to Congress. Further, the Dodd-Frank Act permits the SEC to impose a uniform standard of care on brokers and investment advisers based on the study's findings. Pursuant to the Dodd-Frank Act, the SEC must also harmonize the enforcement of fiduciary standard violations under the Exchange Act and the Advisers Act. It is unclear how the studies and rulemaking relating to the fiduciary duties of brokers and investment advisers will affect the Company and its RIAs.

Each of the mutual funds for which DGHM acts as sub-adviser is registered with the SEC under the Investment Company Act of 1940, as amended (the "1940 Act"). Shares of each such fund are registered with the SEC under the Securities Act, and the shares of each fund are qualified for sale (or exempt from such qualification) under the laws of each state and the District of Columbia to the extent such shares are sold in any of such jurisdictions.

As a sub-adviser to registered investment companies, DGHM is subject to requirements under the 1940 Act and related SEC regulations. Under provisions of the 1940 Act and Advisers Act governing advisory contracts, an assignment terminating a company's sub-advisory contract can occur as a result of the acquisition of that company by another company.

The Company, the Bank, and their subsidiaries are also subject to the Employee Retirement Income Security Act of 1974 ("ERISA"), and to regulations promulgated thereunder, insofar as they are a "fiduciary" under ERISA with respect to certain of their clients. ERISA and the applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), impose certain duties on persons who are fiduciaries under ERISA and prohibit certain transactions by the fiduciaries (and certain other related parties) to such plans.

The foregoing laws and regulations generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict certain subsidiaries of the Company from conducting their business in the event that they fail to comply with such laws and regulations. Possible sanctions that may be imposed in the event of such noncompliance include the suspension of individual employees; limitations on the business activities for specified periods of time; revocation of registration as an investment adviser, commodity trading adviser and/or other registrations; and other censures and fines.

Volcker Rule Restrictions on Proprietary Trading and Sponsorship of Hedge Funds and Private Equity Funds. The Dodd-Frank Act prohibits banking organizations from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain circumstances, pursuant to a provision commonly referred to as the "Volcker Rule." Under the Dodd-Frank Act, proprietary trading generally means trading by a banking entity or its affiliate for its trading account. Hedge funds and private equity funds are described by the Dodd-Frank Act as funds that would be registered under the 1940 Act but for certain enumerated exemptions. Section 203 of the Growth Act includes a provision that excludes a banking organization from application of the Volcker Rule if the organization does not have and is not controlled by a company that has (i) more than $10 billion in total consolidated assets, and (ii) total trading assets and trading liabilities exceeding 5% of total consolidated assets.

VI.Taxation

Federal Taxation

The Company and its incorporated affiliates are subject to federal income taxation generally applicable to corporations under the Code. In addition, the Bank is subject to Subchapter H of the Code, which provides specific rules for the treatment of securities, reserves for loan losses, and any common trust funds.

The Company and its incorporated affiliates are members of an affiliated group of corporations within the meaning of Section 1504 of the Code and file a consolidated federal income tax return. Some of the advantages of filing a consolidated tax return include the avoidance of tax on intercompany distributions and the ability to offset operating and capital losses of one company against operating income and capital gains of another company.

The Company's taxable income includes its share of the taxable income or loss from its subsidiaries that are limited liability companies.

Effective January 1, 2018, the Tax Cuts and Jobs Act (the "Tax Act") reduced the federal corporate tax rate from 35% to 21% and eliminated the exemption for performance-based executive compensation. The Company continues to evaluate the impacts of any new guidance released that provides further clarification of the Tax Act.

State and Local Taxation

The Company and its affiliates are subject to the tax rate established in the states and certain municipalities in which they do business. Substantially all of the Company's taxable state and local income is derived from Massachusetts, California, Florida, New York, and the City of New York.

The Massachusetts tax rate is 9.0% on taxable income apportioned to Massachusetts. Massachusetts' taxable income is defined as federal taxable income subject to certain modifications. These modifications include a deduction for 95% of dividends received from entities in which the Company owns 15% or more of the voting stock, income from federally tax-exempt obligations and deductions for certain expenses allocated to federally tax-exempt obligations. The California tax rate is 8.84% for corporations that are not financial institutions and 10.84% for financial institutions. The California tax is on California taxable income, which is defined as federal taxable income subject to certain modifications. These modifications include income from federally tax-exempt obligations and deductions for certain expenses allocated to federally tax-exempt obligations.

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The Florida tax rate is 5.5% on taxable income apportioned to Florida. Florida's taxable income is defined as federal taxable income subject to certain modifications. These modifications include income from federally tax-exempt obligations and deductions for certain expenses allocated to federally tax-exempt obligations.

The New York state tax rate is 6.5% on taxable income apportioned to New York (subject to alternative minimum taxes that may be based on business capital or a fixed dollar minimum), plus a surcharge for business operations in the Metropolitan Commuter Transportation district. New York taxable income is defined as federal taxable income subject to certain modifications. These modifications include income from federally tax-exempt obligations and deductions for certain expenses allocated to federally tax-exempt obligations.

The New York City tax rate is 8.85% on taxable income apportioned to New York City (subject to alternative minimum taxes that may be based on business capital or a fixed dollar minimum). New York City taxable income is defined as federal taxable income subject to certain modifications. These modifications include income from federally tax-exempt obligations and deductions for certain expenses allocated to federally tax-exempt obligations.

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 occurs, 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 some or all of your investment.

Risks Related to Our Banking Business

Changes in the business and economic conditions, particularly those in our local economies, could negatively impact our financial condition and results of operations.

The Private Banking segment primarily serves individuals and smaller businesses located in three geographic regions: New England, the San Francisco Bay Area, and Southern California. The ability of the Bank's clients to repay their loans is impacted by the economic conditions in these areas.

The Bank's commercial loans are generally concentrated in the following client groups:

- real estate developers and investors;
- financial service providers;
- not-for-profit organizations;
- manufacturing and communications companies;
- professional service providers;
- general commercial and industrial companies; and
- individuals.

The Bank's commercial loans, with limited exceptions, are secured by real estate (usually income producing residential and commercial properties), marketable securities, or corporate assets (usually accounts receivable, equipment or inventory). Substantially all of the Bank's residential mortgage and home equity loans are secured by residential property. Consequently, the Bank's ability to continue to originate real estate loans may be impaired by the weakening or deterioration in local and regional economic conditions in the real estate markets, including as a result of, among other things, natural disasters, and adverse weather or local or general acts of war. Due to the concentration of real estate collateral in the geographic regions in which we operate, these events could have an adverse impact on the ability of the Bank's borrowers to repay their loans and affect the value of the collateral securing these loans.

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Our banking business is highly regulated, which could limit or restrict our activities, and changes in banking laws and regulations could have an adverse effect on our business.

We are subject to regulation and supervision by the Federal Reserve, and the Bank is subject to regulation and supervision by the Commissioner, the Federal Reserve, the FDIC and with respect to its California offices, the DFI. 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 Federal Reserve and the Commissioner 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 Federal Reserve possesses similar powers with respect to bank holding companies. These and other restrictions limit the manner in which we and the Bank may conduct business and obtain financing.

The laws, rules, regulations, and supervisory guidance and policies applicable to us are subject to regular modification and change. These changes could adversely impact us. Such changes could, among other things, subject us to additional costs, including costs of compliance; 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. Failure to comply with laws, regulations, policies, or supervisory guidance could result in enforcement and other legal actions by federal or state authorities, including criminal and civil penalties, the loss of FDIC insurance, the revocation of a banking charter, other sanctions by regulatory agencies, civil money penalties, and/or reputational damage, any of which could have an adverse effect on our business, financial condition, and results of operations. See Part I. Item 1. “Business - Supervision and Regulation.”

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

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

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

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

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to many different financial institutions, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, other commercial banks, investment banks, mutual and hedge funds, and other financial institutions. As a result, defaults by, or even negative 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.

Competition in the banking industry may impair our ability to attract and retain banking clients at current levels.
Competition in the markets in which the Bank operates may limit the ability of the Bank to attract and retain banking clients. The Bank's competitors include several major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are able to serve the credit and investment needs of larger clients. The Bank also faces competition from out-of-state financial intermediaries that have opened loan production offices or that solicit deposits in its respective market areas from other remote locations. There is also increased competition by out-of-market competitors through the internet. Because the Bank maintains a smaller staff and has fewer financial and other resources than larger institutions with which it competes, it may be limited in its ability to attract clients. In addition, the Bank's current commercial banking clients may seek alternative banking sources as they develop needs for credit facilities larger than the Bank can accommodate. If the Bank is unable to attract and retain banking clients, it may be unable to continue its deposit and loan growth and its results of operations and financial condition may otherwise be negatively impacted.
Market changes may adversely affect demand for the Bank's services and impact results of operations.
Channels for servicing the Bank's customers are evolving rapidly, with less reliance on traditional office facilities, more use of online and mobile banking, and increased demand for universal bankers and other relationship managers who can service multiple product lines. The Bank competes with larger providers that are rapidly evolving their service offerings and escalating the costs of the Bank's efforts to keep pace. The Bank has a process for evaluating the profitability of its office system and other office and operational facilities. The identification of unprofitable operations and facilities could lead to restructuring charges and introduce the risk of disruptions to revenues and customer relationships.
Our cost of funds for banking operations may increase as a result of general economic conditions, interest rates and competitive pressures.
The Bank has traditionally obtained funds principally through deposits and borrowings. As a general matter, deposits are a cheaper source of funds than borrowings, because interest rates paid for deposits are typically less than interest rates charged for borrowings. We compete with banks and other financial institutions for deposits. If, as a result of general economic conditions, market interest rates, competitive pressures, or otherwise, the amount of deposits at the Bank decreases relative to its overall banking operations, the Bank may have to rely more heavily on higher cost borrowings as a source of funds in the future or otherwise reduce its loan growth. Higher funding costs reduce our net interest margin, net interest income, and net income.
Potential downgrades of U.S. government securities by one or more of the credit ratings agencies could have an adverse effect on our operations, earnings and financial condition.
A possible future downgrade of the sovereign credit ratings of the U.S. government and a decline in the perceived creditworthiness of U.S. government-related obligations could impact our ability to obtain funding that is collateralized by these affected instruments held by us, as well as affect the pricing of that funding when it is available. A downgrade may also adversely affect the market value of such instruments held by us. We cannot predict if, when or how any changes to the credit ratings or perceived creditworthiness of these organizations will affect economic conditions. Such ratings actions could result in a significant adverse impact on us. Among other things, a downgrade in the U.S. government's credit rating could adversely impact the value of our securities portfolio and may trigger requirements that the Company post additional collateral for trades relative to these securities. A downgrade of the sovereign credit ratings of the U.S. government or the credit ratings of related institutions, agencies or instruments would significantly exacerbate the other risks to which we are subject and any related adverse effects on our business, financial condition and results of operations.
Defaults in the repayment of loans may require additional loan loss reserves and negatively impact our banking business including:

A borrower's default on its obligations under one or more Bank loans may result in lost principal and interest income and increased operating expenses as a result of the allocation of management time and external resources to the collection and work-out of the loan. In certain situations, where collection efforts are unsuccessful or acceptable work-out arrangements cannot be reached, the Bank may have to charge-off the loan in whole or in part. In such situations, the Bank may acquire real estate or other assets, if any, which secure the loan through foreclosure or other similar available remedies. In such cases, the amount owed under the defaulted loan may exceed the value of the assets acquired.

On at least a quarterly basis, the Bank's management makes a determination of an allowance for loan losses based on available information, including the quality of its loan portfolio, certain economic conditions, the historical rate of defaulted

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loans, the value of the underlying collateral, and the level of its nonaccruing and criticized loans. We rely on our loan quality reviews, our experience and our evaluation of economic conditions, among other factors, in determining the level required for the allowance for loan losses. If management determines that further increases in the allowance for loan losses are necessary, we will incur additional expenses.

If it is determined that the Bank should sell certain loans or a portfolio of loans, we are required to classify those loans as “held for sale” which requires us to carry such loans at the lower of their amortized cost or market value. If we decide to sell loans at a time when the fair value of those loans is less than their carrying value, the adjustment will result in a charge to the allowance for loan losses if the decline in value is due to credit issues. We may from time to time decide to sell particular loans or groups of loans, and the required adjustment could negatively affect our financial condition or results of operations.

In addition, bank regulatory agencies periodically review the Bank’s allowance for loan losses and the values it attributes to real estate acquired through foreclosure or other similar remedies. Such regulatory agencies may require the Bank to adjust its determination of the value for these items. These adjustments could negatively impact our results of operations or financial condition.

The accounting rules related to the calculation of the allowance for loan losses are scheduled to change effective January 1, 2020. The new rules could significantly change the amount of future provision for loan loss expenses as compared to the current rules. The change in the allowance for loan losses at the time of adoption will result in an increase or decrease to retained earnings based on the new calculation. For further information, see Part II. Item 8. “Financial Statements and Supplementary Data - Note 1: Basis of Presentation and Summary of Significant Accounting Policies”.

Fluctuations in interest rates may negatively impact our banking business.

The Bank’s earnings and financial condition are largely dependent on net interest income, which represents the difference between the interest income earned on interest-bearing assets (usually loans and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (usually deposits and borrowings). The relative rates of interest we earn and pay are highly sensitive to many factors beyond our control, including general economic conditions, and changes in monetary or fiscal policies of the Federal Reserve and other governmental authorities. A narrowing of this interest rate spread could adversely affect the Bank’s net interest income, which also could negatively impact its earnings and financial condition. As a result, the Bank has adopted asset and liability management policies to mitigate the potential adverse effects of changes in interest rates on net interest income, primarily by altering the mix and maturity of loans, investments, funding sources, and derivatives. However, even with these policies in place, a change in interest rates can impact our results of operations or financial condition.

An increase in interest rates could also have a negative impact on the Bank’s results of operations by reducing the ability of borrowers to repay their current floating or adjustable rate loan obligations, which could not only result in increased loan defaults, foreclosures, and charge-offs, but also necessitate increases to our allowances for loan losses. Similarly, rising interest rates may increase the cost of deposits, which are a primary source of funding. While we actively manage against these risks through hedging and other risk management strategies, if our assumptions regarding borrower behavior are wrong or overall economic conditions are significantly different than anticipated, our risk mitigation techniques may be insufficient.

A decrease in interest rates could also have a negative impact on the Bank’s results of operations if clients refinance their loans at lower rates or prepay their loans and we are unable to lend or invest those funds at equivalent or higher rates.

Prepayments of loans may negatively impact our banking business.

Generally, the Bank’s clients may prepay the principal amount of their outstanding loans at any time. The rate at which such prepayments occur, as well as the size of such prepayments, are within our clients’ discretion. Fluctuations in interest rates, in certain circumstances, may also lead to high levels of loan prepayments, which may also have an adverse impact on our net interest income. If clients prepay the principal amount of their loans, and we are unable to lend those funds to other borrowers or invest the funds at the same or higher interest rates, our interest income will be reduced. A significant reduction in interest income could have a negative impact on our results of operations and financial condition.

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Our loan portfolio includes commercial loans, commercial real estate loans, and construction and land loans, which are generally riskier than other types of loans.

At December 31, 2018, our commercial loans, commercial real estate loans, and construction and land loans portfolios comprised 54% of total loans. These types of commercial loans generally carry larger loan balances and involve a higher risk of nonpayment or late payment than residential mortgage loans. These loans may lack standardized terms and may include a significant principal balance or "balloon" payment due on maturity. The ability of a borrower to make or refinance a balloon payment may be affected by a number of factors, including the financial condition of the borrower, prevailing economic conditions, interest rates, and collateral values. Repayment of these loans is generally more dependent on the economy and the successful operation of the underlying business. Because of the risks associated with commercial loans, we may experience higher rates of default than if our loan 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 commercial lending could result in losses.

In the course of business, the Bank may acquire, through foreclosure or other similar proceedings, properties securing loans it has originated or purchased which are in default. Particularly in commercial real estate lending, there is a risk that material environmental violations could be discovered at these properties. In this event, we or the Bank might be required to remedy these violations at the affected properties at our sole cost and expense. The cost of this 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 as a result of their condition. These events could have an adverse effect on our business, results of operations and financial condition.

Risks Related to our Wealth and Investment Businesses

Our Wealth and Investment Businesses are highly regulated, and the regulators have the ability to limit or restrict our activities and impose fines or suspensions on the conduct of these businesses.

Our Wealth and Investment Businesses are highly regulated, primarily at the federal level. The failure of any of these subsidiaries that provide investment management, wealth advisory, or wealth management and trust services to comply with applicable laws or regulations could result in fines, suspensions of individual employees or other sanctions including revocation of such affiliate’s registration as an investment adviser.

Our direct and indirect non-Bank subsidiaries are RIAs under the Advisers Act. The Advisers Act imposes numerous obligations on RIAs, including fiduciary, record keeping, operational and disclosure obligations. These subsidiaries, as investment advisers, are also subject to regulation under the federal and state securities laws and the fiduciary laws of certain states. In addition, when DGHM acts as a sub-adviser to mutual funds, DGHM is subject to certain provisions and regulations of the 1940 Act. Applicable law provides that all investment management contracts with mutual fund clients may be terminated by the clients, without penalty, upon no more than 60 days’ notice. Investment management contracts with institutional and other clients are typically terminable by the client, also without penalty, upon 30 days’ notice.

We are subject to the provisions and regulations of ERISA to the extent that we act as a “fiduciary” under ERISA with respect to certain of our clients. ERISA and the applicable provisions of the federal tax laws, impose a number of duties on persons who are fiduciaries under ERISA and prohibit certain transactions involving the assets of each ERISA plan which is a client, as well as certain transactions by the fiduciaries (and certain other related parties) to such plans.

Changes in these laws or regulations could have an adverse impact on our profitability and mode of operations.

Our Wealth and Investment Businesses may be negatively impacted by changes in economic and market conditions.

Our Wealth and Investment Businesses may be negatively impacted by changes in general economic and market conditions because the performance of such businesses is directly affected by conditions in the financial and securities markets. The financial markets and businesses operating in the securities industry are highly volatile (meaning that performance results can vary greatly within short periods of time) and are directly affected by, among other factors, domestic and foreign economic conditions and general trends in business and finance, all of which are beyond our control. We cannot assure you that broad market performance will be favorable in the future. Declines in the financial markets or a lack of sustained growth may result in a corresponding decline in our performance and may adversely affect the market value of the assets that we manage.

In addition, our management contracts generally provide for fees payable for wealth management and trust, wealth advisory or investment management services based on the market value of assets under management, although there are a portion of our contracts that provide for the payment of fees based on investment performance in addition to a base fee.

Because most contracts provide for a fee based on market values of securities, fluctuations in the underlying securities values may have an adverse effect on our results of operations and financial condition.

Our Wealth and Investment Businesses may not be able to attract and retain clients due to competition.

Due to intense competition, our Wealth and Investment businesses may not be able to attract and retain clients. Competition is especially strong in our geographic market areas because there are numerous well-established, well-resourced, well-capitalized, and successful wealth management and trust, wealth advisory, and investment management firms in these areas.

Our ability to successfully attract and retain wealth management and trust, wealth advisory, and investment management clients is dependent upon our ability to compete with competitors' investment products, level of investment performance, client services and marketing and distribution capabilities. Investment management contracts are typically terminable upon less than 30 days' notice. Most of our investment management clients may withdraw funds from accounts under management generally in their sole discretion. Wealth advisory client contracts must typically be renewed on an annual basis and are terminable upon relatively short notice. If we are not successful, our results of operations and financial condition may be negatively impacted.

Our Wealth and Investment businesses are highly dependent on investment managers to produce investment returns and to solicit and retain clients, and the loss of a key investment manager or wealth advisor could adversely affect our Wealth and Investment Businesses.

We rely on our investment managers and wealth advisors to produce investment returns and to advise clients. We believe that investment performance is one of the most important factors for the growth of our assets under management. Poor investment performance could impair our revenues and growth because existing clients might withdraw funds in favor of better performing products, which would result in lower investment management fees, or diminish our ability to attract funds from existing and new clients.

The market for investment managers and wealth advisors is extremely competitive and is increasingly characterized by frequent movement of such persons among different firms. In addition, our individual investment managers and wealth advisors often have regular direct contact with particular clients, which can lead to a strong client relationship based on the client's trust in that individual manager or advisor. The loss of a key investment manager or wealth advisor could jeopardize our relationships with our clients and lead to the loss of client accounts. Losses of such accounts could have an adverse effect on our results of operations and financial condition.

Risks Related to Our Overall Business and Operations

Our business and earnings have been adversely affected, and may in the future be adversely affected, by the U.S. and international financial markets and economic conditions.

The performance of our business has been and may in the future be adversely affected by general business and economic conditions in the U.S., including the level and volatility of short- and long-term interest rates, inflation, home prices, unemployment and under-employment levels, bankruptcies, household income, consumer spending, fluctuations in both debt and equity capital markets, liquidity of the global financial markets, the availability and cost of credit, and investor confidence. While in recent years there has been gradual improvement in the U.S. economy, deterioration of any of these conditions can adversely affect our results of operations and financial condition.

We may incur significant losses as a result of ineffective risk management processes and strategies.

We seek to monitor and control our risk exposure through a risk and control framework encompassing a variety of separate but complementary financial, credit, operational, compliance, and legal reporting systems; internal controls; management review processes; and other mechanisms. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application may not be effective and may not anticipate every economic and financial outcome in all market environments or the specifics and timing of such outcomes. Market conditions over the last several years have involved unprecedented dislocations and highlight the limitations inherent in using historical data to manage risk.

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We may be unable to attract and retain key employees.

Our success depends, in large part, on our ability to attract and retain key employees. Competition for the best people can be intense and we may not be able to hire or retain the key employees that we depend upon for success. The unexpected loss of services of one or more of our key employees could have an adverse impact on our business because of their skills, knowledge of the customers and the markets in which we operate, years of industry experience, and the difficulty of promptly finding qualified replacement employees.

Our ability to attract and retain clients and employees, and to maintain relationships with vendors, third-party service providers and others, could be adversely affected to the extent our reputation is harmed.

We are dependent on our reputation within our market areas, as a trusted and responsible financial company, for all aspects of our relationships with clients, employees, vendors, third-party service providers, and others with whom we conduct business or potential future business. Our ability to attract and retain clients and employees could be adversely affected to the extent 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 include, but are not limited to, legal and regulatory requirements; privacy; cybersecurity; properly maintaining client and employee personal information; record keeping; money-laundering; sales and trading practices; ethical issues; appropriately addressing potential conflicts of interest; and the proper identification and disclosure of the legal, reputational, credit, liquidity, and market risks inherent in our products and services. Failure to appropriately address any of these issues could also give rise to additional regulatory restrictions, reputational harm, 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 cause us to incur related costs and expenses. In addition, our businesses are dependent on the integrity of our employees. If an employee were to misappropriate any client funds or client information, our reputation could be negatively affected, which may result in the loss of accounts and have an adverse effect on our results of operations and financial condition.

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

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

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

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

Third-party vendors provide key components of our business infrastructure such as internet connections, network access and core application processing. While we have selected these third party vendors carefully, using established criteria and complying with applicable regulatory guidance to evaluate each vendor’s overall risk profile, capabilities, financial stability, and internal control environment, we do not control their daily business environment and 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, impair our ability to conduct our business efficiently and effectively, and/or result in regulatory action, financial loss, litigation, and loss of reputation. Replacing these third party vendors could also entail significant delay and expense.

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

In the ordinary course of business, we rely on electronic communications and information systems to conduct our business and to store sensitive data, including our confidential information and financial and personal information regarding customers. Our electronic communications and information systems infrastructure could be susceptible to cyberattacks, hacking, identity theft, computer viruses, malicious code, ransomware, phishing attacks, terrorist activity or other information security breaches. This risk has increased significantly due to the use of online, telephonic and mobile banking channels by clients and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. We have implemented and regularly review and update extensive systems of internal controls and procedures as well as corporate governance policies and procedures intended to protect our business operations, including the security and privacy of all confidential customer information. In addition, we rely on the services of a variety of vendors to meet our data processing and communication needs. No matter how well designed or implemented our controls are, we cannot provide an absolute guarantee to protect our business operations from every type of problem in every situation. A failure or circumvention of these controls could have an adverse effect on our business operations and financial condition.

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

We are subject to extensive and expanding government regulation and supervision, which can lead to costly enforcement actions while increasing the cost of doing business and limiting our ability to generate revenue.

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

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. Future actions against us may result in judgments, settlements, fines, penalties or other results adverse to us, which could negatively affect our business, financial condition or results of operations, or cause serious reputational harm to us. As a participant in the financial services industry, it is likely that we could experience a high level of litigation related to our businesses and operations.

To the extent that we acquire or seek to acquire other companies in the future, our business may be negatively impacted by certain risks inherent in such acquisitions.

We continue to consider the acquisition of other private banking, wealth management and trust, investment management, and wealth advisory companies as well as companies with other potential capabilities in the financial services industry. To the extent that we acquire or seek to acquire other companies in the future, our business may be negatively impacted by certain risks inherent in such acquisitions. These risks include, but are not limited to, the following:

- the risk that we will incur substantial expenses in pursuing potential acquisitions without completing such acquisitions;
- the risk that we may lose key clients or employees of the acquired business as a result of the change of ownership to us;
- the risk that the acquired business will not perform in accordance with our expectations;
- the risk that difficulties will arise in connection with the integration of the operations of the acquired business with our existing businesses;
- the risk that we will need to make significant investments in infrastructure, controls, staff, emergency backup facilities or other critical business functions that become strained by our growth;
- the risk that management may divert its attention from other aspects of our business;

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- the risk that unanticipated costs relating to potential acquisitions could reduce our earnings per share;
- the risk associated with entering into geographic and product markets in which we have limited or no direct prior experience;
- the risk that we may assume potential and unknown liabilities of the acquired company as a result of the acquisition; and
- the risk that an acquisition will dilute our earnings per share, in both the short and long-term, or that it will reduce our regulatory and tangible capital ratios.

As a result of these risks, any given acquisition, if and when consummated, may adversely affect our results of operations or financial condition. In addition, because the consideration for an acquisition may involve cash, debt or the issuance of shares of our stock and may involve the payment of a premium over book and market values, existing stockholders may experience dilution in connection with any acquisition.

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

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

We recently reduced the size of our organization, and we may encounter difficulties in managing our business as a result of this reduction or attrition that may follow this reduction. In addition, we may not achieve anticipated savings from the reduction.

In the third quarter of 2018, we initiated an efficiency program that included a net reduction in total employees of approximately 7%. The reduction in force resulted in the loss of some longer-term employees, the loss of institutional knowledge and expertise and the reallocation and combination of certain roles and responsibilities across the organization, all of which could adversely affect our operations. The restructuring and additional cost containment measures may have unintended consequences, such as attrition beyond our intended reduction in force and reduced employee morale. Employees who were not affected by the reduction in force may seek alternate employment, which could require us to obtain contract support at unplanned additional expense. It is possible that the actual savings we realize from the reduction in force will be less than anticipated.

Risks Related to Accounting and Accounting Changes

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. (“GAAP”), we are required to use certain assumptions and estimates in preparing our financial statements, including in determining loan loss reserves, reserves related to litigation, if any, 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 fluctuations in our results of operations. For additional information, see Part II. Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies.”

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

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 standards that govern the preparation of our financial statements. These changes can be hard to anticipate and difficult and costly to implement and can materially impact how we record and report our financial condition and results of operations.

Goodwill and other intangible asset impairment would negatively affect our financial condition and results of operations.

Generally, the acquirer in a business combination is willing to pay more for a business than the sum of the fair values of the individual assets and liabilities because of other inherent value associated with an assembled business. The resulting excess of the consideration paid over the net fair value of the identifiable assets acquired and liabilities assumed as of the date of acquisition, is recognized as goodwill. An essential part of the acquisition method of accounting is the recognition and measurement of identifiable intangible assets, separate from goodwill, at fair value. At December 31, 2018, our goodwill and net intangible assets totaled $69.8 million.

Under current accounting standards, goodwill acquired in a business combination is recognized as an asset and not amortized. Instead, goodwill is tested for impairment on an annual basis, or more frequently if there is a triggering event that may indicate the possibility of impairment. Long-lived intangible assets are amortized and are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset or asset group may not be recoverable.

If we determine goodwill or intangible assets are impaired, we will be required to write-down the value of these assets. In the fourth quarter of 2017, we incurred a $24.9 million goodwill impairment charge at Anchor as part of our annual impairment testing. The Company completed the sale of Anchor in the second quarter of 2018. In the fourth quarter of 2016, we incurred a $9.5 million goodwill impairment charge at Boston Private Wealth as part of our annual impairment testing. We cannot assure you that we will not be required to take further impairment charges in the future. Any impairment charge would have a negative effect on our shareholders' equity and financial results.

Net outflows or a decline in the U.S. equity markets would have a negative impact on assets under management. In addition to current financial results, other information, such as forecasted earnings and market comparisons, is used to determine the fair value of a reporting unit and whether there is indication of impairment.

In evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, an entity assesses relevant events and circumstances, such as the following:

- Macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, or other developments in equity and credit markets.
- Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (considered in both absolute terms and relative to peers), a change in the market for an entity's products or services, or a regulatory or political development.
- Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods.
- Other relevant entity-specific events, such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation.
- Events affecting a reporting unit such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing all, or a portion, of a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit.

Material negative changes in the assumptions or inputs to the valuation models will increase the risk of impairment.

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

From time to time, local, state or federal tax authorities change tax laws and regulations, which may result in a decrease or increase to our deferred tax asset. At December 31, 2018, our net deferred tax asset was $26.6 million. We assess the likelihood that our deferred tax asset will be realizable based primarily on future taxable income and, if necessary, establish a valuation allowance for those deferred tax assets determined to not likely be realizable. Management judgment is required in determining the appropriate recognition of deferred tax assets and liabilities, including projections of future taxable income, as well as the character of that income.

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Local, state or federal tax authorities may interpret tax laws and regulations differently than we do and challenge tax positions that we have taken on tax returns. This may result in differences in the treatment of revenues, deductions, credits and/or differences in the timing of these items. The differences in treatment may result in payment of additional taxes, interest or penalties that could have an adverse effect on our results.

Risks Related to Our Liquidity

We are a holding company and depend on our subsidiaries for dividends.

We are a legal entity that is separate and distinct from the Bank and our other subsidiaries and we depend on dividends from those entities to fund dividend payments on our common stock, to fund share repurchases, and to fund all payments on our other obligations. Our revenue (on a parent-only basis) is derived primarily from dividends paid to us by the Bank, and to a lesser extent, our other subsidiaries. Our right, and consequently the right of our shareholders, to participate in any distribution of the assets or earnings of the Bank and our other subsidiaries through the payment of such dividends or otherwise is necessarily subject to the prior claims of creditors of the Bank (including depositors) and our other subsidiaries, except to the extent that certain claims of ours in a creditor capacity may be recognized.

Holders of our common stock are entitled to receive dividends only when, as, and if declared by our board of directors. Although we have historically declared cash dividends on our common stock, we are not required to do so. Our board of directors may reduce or eliminate our common stock dividend in the future. The Federal Reserve has authority to prohibit bank holding companies from paying dividends if such payment is deemed to be an unsafe or unsound practice. Additionally, the Federal Reserve has the authority to use its enforcement powers to prohibit the Bank from paying us dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. The Company is required to inform and consult with the Federal Reserve in advance of declaring a dividend that exceeds earnings for the period for which the dividend is being paid. The current capital regulations require banks and bank holding companies to maintain a 2.5% common equity Tier 1 capital conservation buffer above the minimum risk-based capital requirements for adequately capitalized institutions to avoid restrictions on the ability to pay dividends, discretionary bonuses, and to engage in share repurchases. The Company and the Bank met these requirements as of December 31, 2018. A reduction or elimination of dividends could adversely affect the market price of our common stock. See Part I. Item 1. “Business - Supervision and Regulation - Dividend Restrictions” and “Business - Supervision and Regulation - Regulatory Capital Requirements.”

Risks Related to Our Common Stock

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 the Bank’s capital ratios fall below required minimums, we or the Bank could be required to raise additional capital by making additional offerings of debt, common or preferred stock, or senior or subordinated notes. Upon liquidation, holders of our debt securities and any 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 future equity offerings may dilute the holdings of our existing shareholders 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.

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;

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- announcements of innovations, new products, strategic developments, significant contracts, litigation, acquisitions, divestitures, reorganizations, restructurings 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 and share repurchase practices;
- regulatory developments and actions;
- 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 shareholders.

Provisions of Massachusetts law, the BHCA, and provisions of our articles of organization 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. Our articles of organization authorize our board of directors to issue preferred stock without shareholder approval and such preferred stock could be issued as a defensive measure in response to a takeover proposal. These and other provisions could make it more difficult for a third party to acquire us, even if an acquisition might be in the best interest of our shareholders.

ITEM 1B.UNRESOLVED STAFF COMMENTS

None.

ITEM 2.PROPERTIES

The Company and its subsidiaries primarily conduct operations in leased premises; however, the Bank owns the building in which one of its offices is located. The Bank leases the land upon which this building is located. The Company's headquarters is located at Ten Post Office Square, Boston, Massachusetts. The premises for our Wealth Management and Trust affiliates and Affiliate Partners are generally located in the vicinity of the headquarters of such affiliates. See "Private Banking," "Wealth Management and Trust," and "Affiliate Partners" in Part I. Item 1. "Business - General" for further detail.

Generally, the initial terms of the leases for our leased properties range from five to fifteen years. Most of the leases also include options to renew at fair market value for periods of five to ten years. In addition to minimum rentals, certain leases include escalation clauses based upon various price indices and include provisions for additional payments to cover real estate taxes.

ITEM 3.LEGAL PROCEEDINGS

The Company is involved in routine legal proceedings occurring in the ordinary course of business. In the opinion of management, final disposition of these proceedings will not have a material adverse effect on the consolidated balance sheets or consolidated statements of operations of the Company. For further information, see Part II. Item 8. "Financial Statements and Supplementary Data - Note 25: Litigation and Contingencies."

ITEM 4.MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

I.Market for Common Stock

The Company's common stock, par value $1.00 per share, is traded on the NASDAQ Global Select Market ("NASDAQ") under the symbol "BPFH." At February 22, 2019, there were 83,767,232 shares of common stock outstanding. The number of holders of record of the Company's common stock as of February 22, 2019 was 880. The closing price of the Company's common stock on February 22, 2019 was $12.09.

II.Dividends

Payment of dividends by the Company on its common stock is subject to various factors, including regulatory restrictions and guidelines. See Part I. Item 1. "Business - Supervision and Regulation - Dividend Restrictions" for further detail.

III.Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding securities authorized for issuance under our equity compensation plans will be included in the definitive Proxy Statement (the "Proxy Statement") for the 2019 Annual Meeting of Shareholders to be held on April 18, 2019 and is incorporated herein by reference.

IV.Recent Sales of Unregistered Securities

There were no unregistered sales of equity securities of the Company for the year ended December 31, 2018.

V.Issuer Repurchases

The following table summarizes repurchases of the Company's outstanding common shares for the year ended December 31, 2018:

	Issuer Purchases of Equity Securities			
Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans	(d) Maximum approximate dollar value of shares that may yet be purchased under the plans
July 1 - 31, 2018	—	$ —	—	$ 20,000,000
August 1 - 31, 2018	62,423	13.94	62,423	19,129,812
September 1 - 30, 2018	74,691	13.86	137,114	18,094,919
October 1 - 31, 2018	228,954	13.35	366,068	15,038,578
November 1 - 30, 2018	380,865	12.92	746,933	10,117,738
December 1 - 31, 2018	895,702	11.30	1,642,635	—
Total	1,642,635	$ 12.18	1,642,635	$—

On March 28, 2018, the Company received a notice of non-objection from the Federal Reserve Bank of Boston for a share repurchase program of up to $20 million of the Company's outstanding common shares. Under the program, shares may be repurchased from time to time in the open market in amounts and at prices the Company deems appropriate, subject to market conditions and other considerations, for a two-year period. The program does not obligate the Company to purchase any shares. The repurchases are funded from cash on hand. The Company's Board of Directors approved the program, subject to regulatory non-objection, on February 26, 2018. The program was completed in December 2018.

The Company's previous share repurchase program expired on February 28, 2018. There were no purchases in 2018 under the previous share repurchase program.

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VI.Performance Graph

The Total Return Performance Graph set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on the Company’s common stock, based on the market price of the Company’s common stock, with the total return on companies within the NASDAQ Composite Index and companies within the SNL $5 billion-$10 billion Bank Index. The calculation of cumulative return assumes a $100 investment in the Company’s common stock, the NASDAQ Composite Index, and the SNL $5 billion-$10 billion Bank Index on December 31, 2013. It also assumes that all dividends are reinvested during the relevant periods.

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Source: SNL

	Year Ending December 31,					
	2013	2014	2015	2016	2017	2018
BPFH	$100.00	$109.53	$95.01	$143.52	$137.77	$97.34
NASDAQ Composite Index	100.00	114.75	122.74	133.62	173.22	168.30
SNL Bank $5 billion-$10 billion	100.00	103.01	117.34	168.11	167.48	151.57

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ITEM 6.SELECTED FINANCIAL DATA

The following table represents selected financial data for the last five fiscal years ended December 31, 2018. The data set forth below does not purport to be complete. It should be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing elsewhere herein, including the Company’s Consolidated Financial Statements and related notes.

	2018	2017	2016	2015	2014
At December 31:		(In thousands, except share data)			
Total balance sheet assets	$8,494,625	$8,311,744	$7,970,474	$7,542,508	$6,797,874
Loans held for sale	2,812	4,697	3,464	8,072	7,099
Total loans (excluding loans held for sale)	6,893,158	6,505,028	6,114,354	5,719,212	5,269,936
Allowance for loan losses	75,312	74,742	78,077	78,500	75,838
Cash and investments (1)	1,255,253	1,425,418	1,507,845	1,474,737	1,175,610
Goodwill and intangible assets	69,834	91,681	169,279	185,089	191,800
Deposits	6,781,170	6,510,246	6,085,146	6,040,437	5,453,879
Borrowed funds	813,435	862,213	980,192	625,902	507,009
Total shareholders’ equity	753,954	785,944	768,481	746,613	703,911
Nonperforming assets (2)	14,458	14,295	19,005	27,347	45,111
Net loans (charged-off)/ recovered	2,768	4,334	6,512	4,217	5,867
Assets under management and advisory ("AUM"):					
Wealth Management and Trust	$7,602,000	$7,865,000	$7,008,000	$7,976,000	$9,274,000
Affiliate Partners, excluding Anchor and BOS	8,319,000	8,920,000	8,096,000	8,107,000	8,491,000
Total AUM, excluding Anchor and BOS	$15,921,000	$16,785,000	$15,104,000	$16,083,000	$17,765,000
AUM at Anchor	—	9,277,000	8,768,000	8,111,000	8,750,000
AUM at BOS	—	4,434,000	3,696,000	3,422,000	3,414,000
LESS: Inter-company relationships	—	(11,000)	(11,000)	(21,000)	(22,000)
Total AUM, including Anchor and BOS	$15,921,000	$30,485,000	$27,557,000	$27,595,000	$29,907,000
For The Year Ended December 31:					
Net interest income	$234,566	$224,686	$200,438	$185,770	$179,701
Provision/ (credit) for loan losses	(2,198)	(7,669)	(6,935)	(1,555)	(6,400)
Net interest income after provision/ (credit) for loan losses	236,764	232,355	207,373	187,325	186,101
Fees and other income	149,997	153,966	158,787	161,169	140,798
Operating expense excluding restructuring and impairment of goodwill	259,527	275,035	253,408	251,457	226,390
Restructuring expense	7,828	—	2,017	3,724	739
Impairment of goodwill	—	24,901	9,528	—	—
Income from continuing operations before income taxes	119,406	86,385	101,207	93,313	99,770
Income tax expense (3)	37,537	46,196	30,963	30,392	32,365
Net income from continuing operations	81,869	40,189	70,244	62,921	67,405
Net income from discontinued operations	2,002	4,870	5,541	6,411	6,160
Less: Net income attributable to noncontrolling interests	3,487	4,468	4,157	4,407	4,750
Net income attributable to the Company	$80,384	$40,591	$71,628	$64,925	$68,815

(Continued)

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At December 31:	2018		2017		2016		2015		2014	
			(In thousands, except share data)							
Per Share Data:										
Total diluted earnings per share	$ 0.92		$0.42		$ 0.81		$ 0.74		$ 0.80	
Diluted earnings per share from continuing operations	$ 0.90		$0.36		$ 0.74		$ 0.66		$ 0.72	
Weighted average basic common shares outstanding	83,596,685		82,430,633		81,264,273		80,885,253		78,921,480	
Weighted average diluted common shares outstanding	85,331,314		84,802,565		83,209,126		83,393,090		81,308,144	
Cash dividends per share	$ 0.48		$0.44		$ 0.40		$ 0.36		$ 0.32	
Book value per share (4)	$ 9.01		$8.77		$ 8.61		$ 8.38		$ 7.91	
Selected Operating Ratios:										
Return on average assets, as adjusted (non-GAAP) (5)	1.00	%	0.97	%	1.02	%	0.95	%	1.05	%
Return on average common equity, as adjusted (non-GAAP) (5)	11.19	%	10.13	%	10.22	%	9.37	%	10.64	%
Return on average tangible common equity, as adjusted (non-GAAP) (5)	13.07	%	13.60	%	14.43	%	13.83	%	14.56	%
Efficiency ratio, FTE Basis (non-GAAP) (6)	66.20	%	69.06	%	66.91	%	68.37	%	67.19	%
Net interest margin (7)	2.96	%	3.04	%	2.93	%	2.92	%	2.98	%
Total fees and other income/ total revenue (8)	39.00	%	40.66	%	44.20	%	46.45	%	43.93	%
Asset Quality Ratios:										
Nonaccrual loans to total loans (excluding loans held for sale)	0.20	%	0.22	%	0.28	%	0.46	%	0.84	%
Nonperforming assets to total assets	0.17	%	0.17	%	0.24	%	0.36	%	0.66	%
Allowance for loan losses to total loans (excluding loans held for sale)	1.09	%	1.15	%	1.28	%	1.37	%	1.44	%
Allowance for loan losses to nonaccrual loans	5.36		5.23		4.51		2.95		1.72	
Other Ratios:										
Dividend payout ratio	52	%	105	%	49	%	49	%	40	%
Total equity to total assets ratio	8.88	%	9.46	%	9.64	%	9.90	%	10.35	%
Tangible common equity to tangible assets ratio (non-GAAP) (9)	8.12	%	7.33	%	7.07	%	6.98	%	7.03	%
Tier 1 common equity/ risk-weighted assets (9)	11.40	%	10.32	%	10.00	%	9.80	%	9.24	%

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Reconciliations from the Company's GAAP Return on average equity ratio to the Non-GAAP Return on average common equity ratio, and the Non-GAAP Return on average tangible common equity ratio are presented below:

	2018	2017	2016	2015	2014
	(In thousands)				
Total average shareholders' equity	$759,868	$797,756	$769,617	$729,489	$666,216
LESS: Average Series D preferred stock (non-convertible)	(21,718)	(47,753)	(47,753)	(47,753)	(47,753)
Average common equity (non-GAAP)	738,150	750,003	721,864	681,736	618,463
LESS: Average goodwill and intangible assets, net	(88,631)	(164,530)	(181,976)	(188,533)	(144,658)
Average tangible common equity (non-GAAP)	649,519	585,473	539,888	493,203	473,805
Net income attributable to the Company	$80,384	$40,591	$71,628	$64,925	$68,815
Less: Dividends on Series D preferred stock	(1,738)	(3,475)	(3,475)	(3,475)	(3,475)
Common net income (non-GAAP)	78,646	37,116	68,153	61,450	65,340
ADD: Amortization of intangibles, net of applicable tax	2,314	3,641	4,083	4,362	3,143
Tangible common net income (non-GAAP)	$80,960	$40,757	$72,236	$65,812	$68,483
LESS: (Gain)/ loss on sale of affiliates or offices	$(18,142)	$1,264	$(2,862)	$—	$—
ADD: Anchor divestiture legal expense	—	400	—	—	—
ADD: Impairment of goodwill	—	24,901	9,528	—	—
ADD: Restructuring	7,828	—	2,017	3,724	739
LESS: Tax effects of adjusting items, if any (10)	1,526	(582)	(3,039)	(1,303)	(259)
ADD: Impact on taxes from sale of Anchor	12,706	—	—	—	—
ADD: Impact from enactment of the Tax Act	—	12,880	—	—	—
Total adjustments due to notable items	$3,918	$38,863	$5,644	$2,421	$480
Net income attributable to the Company, as adjusted (non-GAAP)	$84,302	$79,454	$77,272	$67,346	$69,295
Common net income, as adjusted (non-GAAP)	$82,564	$75,979	$73,797	$63,871	$65,820
Tangible common net income, as adjusted (non-GAAP)	$84,878	$79,620	$77,880	$68,233	$68,963
Return on average assets	0.96 %	0.50 %	0.95 %	0.91 %	1.04 %
Return on average assets, as adjusted (non-GAAP) (5)	1.00 %	0.97 %	1.02 %	0.95 %	1.05 %
Return on average equity	10.58 %	5.09 %	9.31 %	8.90 %	10.33 %
Return on average equity, as adjusted (non-GAAP) (5)	11.09 %	9.96 %	10.04 %	9.23 %	10.40 %
Return on average common equity (non-GAAP) (5)	10.65 %	4.95 %	9.44 %	9.01 %	10.56 %
Return on average common equity, as adjusted (non-GAAP) (5)	11.19 %	10.13 %	10.22 %	9.37 %	10.64 %
Return on average tangible common equity (non-GAAP) (5)	12.46 %	6.96 %	13.38 %	13.34 %	14.45 %
Return on average tangible common equity, as adjusted (non-GAAP) (5)	13.07 %	13.60 %	14.43 %	13.83 %	14.56 %

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The Company calculates the Efficiency ratio, FTE basis, by reducing Total operating expenses by Amortization of intangibles, Goodwill impairment, and Restructuring expense and increasing Total revenue by the FTE adjustment. A reconciliation from the Efficiency ratio, unadjusted to the Efficiency ratio, FTE basis, as adjusted, is presented below:

	2018	2017	2016	2015	2014
	(In thousands)				
Total operating expense (GAAP)	$267,355	$299,936	$264,953	$255,181	$227,129
LESS: Amortization of intangibles	2,929	5,601	6,282	6,711	4,836
LESS: Goodwill impairment	—	24,901	9,528	—	—
LESS: Restructuring expense	7,828	—	2,017	3,724	739
Total operating expense, as adjusted (non-GAAP)	$256,598	$269,434	$247,126	$244,746	$221,554
Net interest income	$234,566	$224,686	$200,438	$185,770	$179,701
Fees and other income	149,997	153,966	158,787	161,169	140,798
FTE income	3,053	11,516	10,130	11,035	9,249
Total revenue (FTE basis) (8)	$387,616	$390,168	$369,355	$357,974	$329,748
Efficiency Ratio, unadjusted	69.52 %	79.21 %	73.76 %	73.55 %	70.87 %
Efficiency Ratio, FTE Basis excluding amortization of intangibles, goodwill impairment, and restructuring expense	66.20 %	69.06 %	66.91 %	68.37 %	67.19 %

A reconciliation from the Company’s GAAP Total shareholders' equity to total assets ratio to the non-GAAP Tangible common equity to tangible assets ratio and to the non-GAAP Tier 1 common equity to risk-weighted assets ratio is presented below:

	2018	2017	2016	2015	2014
	(In thousands)				
Total assets	$8,494,625	$8,311,744	$7,970,474	$7,542,508	$6,797,874
LESS: Goodwill and intangible assets, net (11)	(69,834)	(138,775)	(169,279)	(185,089)	(191,800)
Tangible assets (non-GAAP)	$8,424,791	$8,172,969	$7,801,195	$7,357,419	$6,606,074
Total shareholders’ equity	$753,954	$785,944	768,481	746,613	703,911
LESS: Goodwill and intangible assets, net	(69,834)	(138,775)	(169,279)	(185,089)	(191,800)
Series D preferred stock (non-convertible)	—	(47,753)	(47,753)	(47,753)	(47,753)
Total adjustments	(69,834)	(186,528)	(217,032)	(232,842)	(239,553)
Tangible common equity (non-GAAP)	$684,120	$599,416	$551,449	$513,771	$464,358
Total equity/total assets	8.88 %	9.46 %	9.64 %	9.90 %	10.35 %
Tangible common equity/tangible assets (non-GAAP)	8.12 %	7.33 %	7.07 %	6.98 %	7.03 %
Total risk-weighted assets (12)	$6,161,677	$5,892,286	$5,716,037	$5,449,239	$5,073,973
Tier 1 common equity (12)	$702,728	$607,800	$571,663	$534,241	$468,902
Tier 1 common equity/ risk-weighted assets (12)	11.40 %	10.32 %	10.00 %	9.80 %	9.24 %

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(1) Cash and investments include the following line items from the consolidated balance sheets: cash and cash equivalents, investment securities available-for-sale, investment securities held-to-maturity, equity securities at fair value, and stock in Federal Home Loan Bank and Federal Reserve Bank.

(2) The Company's Nonperforming assets include Nonaccrual loans and other real estate owned ("OREO"), if any.

(3) The Company’s Income tax expense in 2017 included the impact of the Tax Act that was enacted on December 22, 2017. Among the significant changes to the Code, the Tax Act reduced the federal corporate tax rate from 35% to 21% effective January 1, 2018. The Company re-measured its deferred tax assets and liabilities at the lower federal corporate tax rate of 21% and recorded the additional tax expense impact in the fourth quarter of 2017, the period in which the Tax Act was enacted. The Company's Income tax expense in 2018 included the tax expense associated with the sales of Anchor and BOS, partially offset by the aforementioned impact of the Tax Act.

(4) Book value per share is calculated by reducing the Company’s Total equity by the Series D preferred stock balance, if any, then dividing that value by the total common shares outstanding as of the end of that period.

(5) The Company uses certain non-GAAP financial measures, such as the Return on average common equity ratio and the Return on average tangible common equity ratio, to provide information for investors to effectively analyze financial trends of ongoing business activities, and to enhance comparability with peers across the financial sector.

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The Company calculates Average common equity by adjusting Average equity to exclude Average non-convertible preferred equity, if any. When Average non-convertible preferred equity is excluded, the Company also reduces Net income attributable to the Company by dividends paid on that preferred equity, if any.
The Company calculates Average tangible common equity by adjusting Average equity to exclude Average non-convertible preferred equity and Average goodwill and intangible assets, net. When Average non-convertible preferred equity and Average goodwill and intangible assets, net are excluded, the Company also reduces Net income attributable to the company by dividends paid on that preferred equity and adds back Amortization of intangibles, net of tax.

(6) The Company uses certain non-GAAP financial measures, such as the Efficiency Ratio on a fully taxable equivalent ("FTE") basis, to provide information for investors to effectively analyze financial trends of ongoing business activities, and to enhance comparability with peers across the financial sector. The Company excludes Impairment of goodwill and Amortization of intangibles in the calculation.

(7) Net interest margin represents net interest income on a FTE basis as a percent of average interest-earning assets.

(8) Total revenue is defined as net interest income plus fees and other income.

(9) The Company uses certain non-GAAP financial measures, such as the Tangible common equity to tangible assets ratio, to provide information for investors to effectively analyze financial trends of ongoing business activities, and to enhance comparability with peers across the financial sector.

The Company calculates Tangible assets by adjusting Total assets to exclude Goodwill and intangible assets. The Company calculates Tangible common equity by adjusting Total shareholders' equity to exclude Goodwill, intangible assets, and, the equity from the Series D preferred stock (non-convertible), if any.

(10) Tax effect applied to all adjusting items except for the 2017 impairment of goodwill due to the nature of the goodwill impaired during that time period.

(11) Includes the goodwill and intangibles, net for Anchor and BOS for the periods held. For regulatory reporting, the goodwill and intangibles for Anchor are reclassified from other assets held for sale to goodwill and intangibles in regulatory reports and ratios.

(12) Risk-weighted assets were calculated under the regulatory rules in effect at the time of the original filing of the Federal Reserve report for the respective periods. Components of Tier 1 common equity, for all years presented, are based on the capital rules currently in effect.

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

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements, the notes thereto, and other statistical information included in this annual report.

Executive Summary

The Company offers a wide range of private banking and wealth management services to high net worth individuals, families, businesses and select institutions through its three reportable segments: Private Banking, Wealth Management and Trust, and Affiliate Partners. This Executive Summary provides an overview of the most significant aspects of our operating segments and the Company's operations. Details of the matters addressed in this summary are provided elsewhere in this document and, in particular, in the sections immediately following.

In December 2017, the Company entered into an agreement to sell its entire ownership interest in Anchor Capital Advisors, LLC ("Anchor") in a transaction that resulted in Anchor being majority-owned by members of its management team. The transaction closed in April 2018. In October 2018, the Company entered into an agreement to sell its entire ownership interest in Bingham, Osborn & Scarborough, LLC ("BOS") to the management team of BOS. The transaction closed in December 2018. The results of Anchor and BOS for the periods held through the respective closing dates are included in the results of the Affiliate Partners segment and the Company.

Net income attributable to the Company was $80.4 million for the year ended December 31, 2018, compared to net income attributable to the Company of $40.6 million in 2017 and $71.6 million in 2016. The Company recognized diluted earnings per share of $0.92 for the year ended December 31, 2018, compared to diluted earnings per share of $0.42 in 2017 and $0.81 in 2016.

Key items that affected the Company's 2018 results include:

Net interest income for the year ended December 31, 2018 was $234.6 million, an increase of $9.9 million, or 4%, compared to 2017. The 2018 increase was primarily driven by the impact of higher interest rates and increased volume in the loan portfolio, particularly commercial real estate, residential mortgage, commercial and industrial, and construction and land loans. This was partially offset by the impact of higher interest rates on deposits, particularly money market accounts, and borrowings, and an increased volume of deposits and borrowings. Net interest margin ("NIM"), on an FTE basis, decreased eight basis points to 2.96% in 2018 from 3.04% in 2017, after increasing eleven basis points from 2.93% in 2016. The 2018 decrease was driven primarily by a lower FTE adjustment due to the lower federal corporate income tax rate as a result of the Tax Act, and the impact of higher interest rates on deposit and borrowing costs, as the average rate on total interest-bearing liabilities increased 42 basis points to 1.06% in 2018 from 0.64% in 2017.

Average total loans for the year ended December 31, 2018 were $6.7 billion, an increase of 6% from 2017, driven primarily by increases in residential mortgage and commercial real estate loans.

Average total deposits for the year ended December 31, 2018 were $6.6 billion, an increase of 3% from 2017, driven primarily by an increase in certificates of deposit and money market accounts.

Total core fees and income, which includes investment management fees, wealth advisory fees, wealth management and trust fees, other banking fee income, and gain on sale of loans, net, for the year ended December 31, 2018 were $131.6 million, a decrease of $21.2 million, or 14%, from 2017. The 2018 decrease was primarily driven by the impact of the sales of Anchor and BOS in 2018. Excluding the impact of the sales of Anchor and BOS, Wealth management and trust fees increased $1.1 million driven primarily by higher levels of assets under management and advisory ("AUM") throughout the year.

The Company recorded a credit to the provision for loan losses of $2.2 million for the year ended December 31, 2018, compared to a credit to the provision for loan losses of $7.7 million in 2017. The 2018 credit to the provision for loan losses was primarily driven by net recoveries and a decrease in criticized loans, partially offset by loan growth and the

composition of the loan portfolio.
The aforementioned sale of Anchor resulted in an income tax expense of $12.7 million in the second quarter of 2018. The sale of BOS resulted in an $18.1 million gain on sale and a $3.5 million income tax expense in the fourth quarter of 2018.

The Company recorded total operating expenses of $267.4 million for the year ended December 31, 2018, compared to total operating expenses of $299.9 million in 2017. The 2018 decrease was primarily driven by the impact of the sales of Anchor and BOS in 2018 and the $24.9 million of goodwill impairment charges in 2017. Excluding goodwill impairment charges in 2017 and restructuring charges in 2018, total operating expenses decreased $15.1 million or 6% in 2018 from 2017. This decrease in operating expense was primarily driven by the impact of the sale of Anchor in April 2018 and decreases in salaries and employee benefits from restructuring and cost initiatives in 2018.
AUM, excluding Anchor and BOS, decreased $0.9 billion, or 2%, for the year ended December 31, 2018 to $15.9 billion primarily driven by unfavorable market returns of $1.0 billion, partially offset by $0.1 billion of net inflows.

Private Banking

The following table presents a summary of selected financial data for the Private Banking segment for 2018, 2017, and 2016.

	As of and for the year ended December 31,			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
	(In thousands)						
Net interest income	$238,036	$227,280	$202,702	$10,756	5 %	$24,578	12 %
Fees and other income	9,366	10,856	18,947	(1,490)	(14)%	(8,091)	(43)%
Total revenues	247,402	238,136	221,649	9,266	4 %	16,487	7 %
Provision/ (credit) for loan losses	(2,198)	(7,669)	(6,935)	5,471	nm	(734)	11 %
Total operating expenses	165,263	149,008	125,116	16,255	11 %	23,892	19 %
Income before income taxes	84,337	96,797	103,468	(12,460)	(13)%	(6,671)	(6)%
Income tax expense	16,313	43,356	33,120	(27,043)	(62)%	10,236	31 %
Net income attributable to the Company	$68,024	$53,441	$70,348	$14,583	27 %	$(16,907)	(24)%
Total loans	$6,893,158	$6,505,028	$6,114,354	$388,130	6 %	$390,674	6 %
Assets	$8,424,967	$8,177,304	$7,816,671	$247,663	3 %	$360,633	5 %
Deposits (1)	$6,852,452	$6,600,934	$6,161,118	$251,518	4 %	$439,816	7 %

nm - not meaningful

(1) Deposits presented in this table do not include intercompany eliminations related to deposits in the Bank from Affiliate Partners or the Holding Company.

The Company's Private Banking segment reported net income attributable to the Company of $68.0 million in the year ended December 31, 2018, compared to net income attributable to the Company of $53.4 million in 2017 and $70.3 million in 2016. The increase in net income attributable to the Company from 2017 to 2018 was primarily driven by a decrease in income tax expense of $27.0 million due to the re-measurement of deferred tax assets at the new lower federal corporate tax rate enacted with the Tax Act in 2017, and an increase in total revenues of $9.3 million due to higher net interest income, partially offset by an increase in total operating expenses of $16.3 million due to restructuring and information services expense.
The decrease in net income attributable to the Company from 2016 to 2017 was primarily driven by an increase in total operating expenses of $23.9 million due to increased salaries and employee benefits, information systems, occupancy and equipment, and professional services, and an increase in income tax expense of $10.2 million due to the re-measurement of deferred tax assets at the new, lower, federal corporate tax rate enacted with the Tax Act, partially offset by an increase in total revenues of $16.5 million due to higher net interest income.
Total loans at the Bank increased $0.4 billion, or 6%, to $6.9 billion at December 31, 2018. Total loans were 82% of total assets at the Bank at December 31, 2018, up from 80% of total assets at December 31, 2017. A discussion of the

Company’s loan portfolio can be found below in Part II. Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Loan Portfolio and Credit Quality.”

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Deposits at the Bank increased $0.3 billion, or 4%, to $6.9 billion in 2018 from $6.6 billion in 2017. A discussion of the Company's deposits can be found below in Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition."

Wealth Management and Trust

The following table presents a summary of selected financial data for the Wealth Management and Trust segment for 2018, 2017, and 2016.

	As of and for the year ended December 31,			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
	(In thousands)						
Wealth management and trust fees	$46,507	$45,362	$43,980	$1,145	3 %	$1,382	3 %
Other income	493	451	421	42	9 %	30	7 %
Total revenues	47,000	45,813	44,401	1,187	3 %	1,412	3 %
Operating expenses, before restructuring and impairment of goodwill	42,566	49,287	53,299	(6,721)	(14)%	(4,012)	(8)%
Restructuring expense	421	—	2,017	421	nm	(2,017)	nm
Impairment of goodwill	—	—	9,528	—	nm	(9,528)	nm
Total operating expenses	42,987	49,287	64,844	(6,300)	(13)%	(15,557)	(24)%
Income/ (loss) before income taxes	4,013	(3,474)	(20,443)	7,487	nm	16,969	83 %
Income tax expense/ (benefit)	1,108	(509)	(8,279)	1,617	nm	7,770	94 %
Net income/ (loss) attributable to the Company	$2,905	$(2,965)	$(12,164)	$5,870	nm	$9,199	76 %
AUM	$7,602,000	$7,865,000	$7,008,000	$(263,000)	(3)%	$857,000	12 %

nm - not meaningful

The Company's Wealth Management and Trust segment reported net income attributable to the Company of $2.9 million in the year ended December 31, 2018, compared to a net loss attributable to the Company of $3.0 million in 2017 and a net loss attributable to the Company of $12.2 million in 2016. The 2018 improvement in operating results was primarily driven by a $6.3 million decrease in operating expenses due to cost initiatives and decreases in salaries and employee benefits, and a $1.2 million increase in total revenues due to higher wealth management and trust fees from higher levels of business throughout the year. The 2017 improvement in operating results was due to a $4.0 million decrease in operating expenses, primarily salaries and benefits, before restructuring and impairment of goodwill, as well as a $1.4 million increase in total revenues.

AUM decreased $0.3 billion, or 3%, to $7.6 billion at December 31, 2018 from $7.9 billion at December 31, 2017. In 2018, the decrease in AUM was primarily driven by unfavorable market returns of $0.5 billion, partially offset by net inflows of $0.2 billion. In 2017, the increase in AUM was primarily driven by favorable market returns of $0.6 billion and net inflows of $0.3 billion.

Affiliate Partners

The following table presents a summary of selected financial data for the Affiliate Partners segment for 2018, 2017, and 2016.

	As of and for the year ended December 31, [1]			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
	(In thousands)						
Investment management fees	$21,728	$45,515	$44,410	$(23,787)	(52)%	$1,105	2%
Wealth advisory fees	53,311	52,559	50,581	752	1%	1,978	4%
Other income and net interest income	84	113	138	(29)	(26)%	(25)	(18)%
Total revenues	75,471	98,332	95,161	(22,861)	(23)%	3,171	3%
Operating expenses, before restructuring and impairment of goodwill	53,402	69,884	67,654	(16,482)	(24)%	2,230	3%
Restructuring expense	790	—	—	790	nm	—	nm
Impairment of goodwill	—	24,901	—	(24,901)	nm	24,901	nm
Total operating expenses	54,192	94,785	67,654	(40,593)	(43)%	27,131	40%
Income before income taxes	21,279	3,547	27,507	17,732	nm	(23,960)	(87)%
Income tax expense	5,488	10,229	9,873	(4,741)	(46)%	356	4%
Noncontrolling interests	3,487	4,468	4,157	(981)	(22)%	311	7%
Net income/ (loss) attributable to the Company	$12,304	$(11,150)	$13,477	$23,454	nm	$(24,627)	nm
AUM, including Anchor and BOS	$8,319,000	$22,631,000	$20,560,000	$(14,312,000)	(63)%	$2,071,000	10%
Anchor AUM	$—	$9,277,000	$8,768,000	$(9,277,000)	nm	$509,000	6%
BOS AUM	$—	$4,434,000	$3,696,000	$(4,434,000)	nm	$738,000	20%
AUM, excluding Anchor and BOS	$8,319,000	$8,920,000	$8,096,000	$(601,000)	(7)%	$824,000	10%

nm - not meaningful

(1) The results for the Affiliate Partners segment include the results of Anchor, DGHM, BOS, and KLS for the periods held, except as specifically noted for AUM.

The Company's Affiliate Partners segment reported net income attributable to the Company of $12.3 million in the year ended December 31, 2018, compared to a net loss attributable to the Company of $11.2 million in 2017 and net income attributable to the Company of $13.5 million in 2016. Total revenues, total operating expenses, income tax expense, and noncontrolling interests decreased in 2018 due to the sales of Anchor and BOS. The 2018 income tax expense was also lower due to the lower federal corporate income tax rate as a result of the Tax Act. Additionally, the 2018 improvement in operating results was also driven by the $24.9 million impairment of goodwill at Anchor in the year ended December 31, 2017.

AUM, excluding Anchor and BOS, decreased $0.6 billion, or 7%, to $8.3 billion at December 31, 2018 from $8.9 billion at December 31, 2017 primarily driven by unfavorable market returns of $0.5 billion and net outflows of $0.1 billion during the year.

Critical Accounting Policies

Critical accounting policies reflect of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. The Company believes that its most critical accounting policies upon which its financial condition depends, and which involve the most complex or subjective decisions or assessments, are as follows:

Allowance for Loan Losses

The allowance for loan losses (the “allowance”) is an estimate of the inherent risk of loss in the loan portfolio as of the consolidated balance sheet dates. Management estimates the level of the allowance based on all relevant information available. Changes to the required level in the allowance result in either a provision for loan loss expense, if an increase is required, or a credit to the provision, if a decrease is required. Loan losses are charged to the allowance when available

information confirms that specific loans, or portions thereof, are uncollectible. Recoveries on loans previously charged-off are credited to the allowance when received in cash or when the Bank takes possession of other assets.
The Company's allowance is accounted for in accordance with guidance issued by various regulatory agencies, including: the Federal Financial Institutions Examination Council Policy Statement on the Allowance for Loan and Lease Losses (December 2006); SEC Staff Accounting Bulletin No. 102, Selected Loan Loss Methodology and Documentation Issues; Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 310, Receivables ("ASC 310"); and ASC 450, Contingencies.
The allowance consists of three primary components: general reserves on pass graded loans, allocated reserves on non-impaired special mention and substandard loans, and the specific reserves on impaired loans. The calculation of the allowance involves a high degree of management judgment and estimates designed to reflect the inherent risk of loss in the loan portfolio at the measurement date.
General reserves are calculated for each loan pool consisting of pass graded loans segregated by portfolio segment by applying estimated net loss percentages based upon the Bank's actual historical net charge-offs and, adjusted as appropriate, on a consistent manner based upon consideration of qualitative factors to arrive at a total loss factor for each portfolio segment. The rationale for qualitative adjustments is to more accurately reflect the current inherent risk of loss in the respective portfolio segments than would be determined through the sole consideration of the Bank's actual historical net charge-off rates. The numerical factors assigned to each qualitative factor are based upon observable data, if applicable, as well as management's analysis and judgment. The qualitative factors considered by the Company include:

- Volume and severity of past due, nonaccrual, and adversely graded loans,
- Volume and terms of loans,
- Concentrations of credit,
- Management's experience, as well as loan underwriting and loan review policy and procedures,
- Economic and business conditions impacting the Bank's loan portfolio, as well as consideration of collateral values, and
- External factors, including consideration of loss factor trends, competition, and legal and regulatory requirements.

The Bank makes a determination of the applicable loss rate for these factors based on relevant local market conditions, credit quality, and portfolio mix. Each quarter, management reviews the loss factors to determine if there have been any changes in its loan portfolio, market conditions, or other risk indicators which would result in a change to the current loss factor.
Allocated reserves on non-impaired special mention and substandard loans reflect management's assessment of increased risk of losses associated with these types of adversely graded loans. An allocated reserve is assigned to these pools of loans based upon management's consideration of the credit attributes of individual loans within each pool of loans, including consideration of loan to value ratios, past due status, strength and willingness of the guarantors, and other relevant attributes, as well as the qualitative factors considered for the general reserve as discussed above. These considerations are determined separately for each type of portfolio segment. The allocated reserves are a multiple of the general reserve for each respective portfolio segments, with a greater multiple for loans with increased risk (i.e., substandard loans versus special mention loans).
A loan is considered impaired in accordance with ASC 310 when, based upon current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impairment is measured based on the fair value of the loan, expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, impairment may be determined based upon the observable market price of the loan, or the fair value of the collateral, less estimated costs to sell, if the loan is "collateral dependent." A loan is collateral dependent if repayment of the loan is expected to be provided solely by the underlying collateral or sale of the underlying collateral. For collateral dependent loans, appraisals are generally used to determine the fair value. When a collateral dependent loan becomes impaired, an updated appraisal of the collateral is

obtained, if appropriate. Appraised values are generally discounted for factors such as the Bank's intention to liquidate the property quickly in a foreclosure sale or the date when the appraisal was performed if the Bank believes that collateral values have declined since the date the appraisal was done. The Bank may use a broker opinion of value in addition to an appraisal to validate the appraised value. In certain instances, the Bank may consider broker opinions of value as well as other qualitative factors while an appraisal is being prepared.

If the loan is deemed to be collateral dependent, generally the difference between the book balance (client balance less any prior charge-offs or client interest payments applied to principal) and the fair value of the collateral is taken as a partial charge-off through the allowance in the current period. If the loan is not determined to be collateral dependent, then a specific allocation to the general reserve is established for the difference between the book balance of the loan and the expected future cash flows discounted at the loan's effective interest rate. Charge-offs for loans not considered to be collateral dependent are made when it is determined a loss has been incurred. Impaired loans are removed from the general loan pools. There may be instances where the loan is considered impaired although based on the fair value of underlying collateral or the discounted expected future cash flows there is no impairment to be recognized. In addition, all loans which are classified as troubled debt restructurings ("TDRs") are considered impaired.

In addition to the three primary components of the allowance discussed above (general reserve, allocated reserves on non-impaired special mention and substandard loans, and the specific reserves on impaired loans), the Bank may also maintain an insignificant amount of additional allowance (the unallocated allowance for loan losses). The unallocated reserve reflects the fact that the allowance is an estimate and contains a certain amount of imprecision risk. It represents risks identified by Management that are not already captured in the qualitative factors discussed above. The unallocated allowance for loan losses is not considered significant by the Company and will remain at zero unless additional risk is identified.

While this evaluation process utilizes historical and other objective information, the classification of loans and the establishment of the allowance rely to a great extent on the judgment and experience of management. While management evaluates currently available information in establishing the allowance, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluations. In addition, various regulatory agencies, as an integral part of their examination process, periodically review a financial institution's allowance as well as loan grades/classifications. Such agencies may require the financial institution to recognize additions to the allowance or increases to adversely graded loans based on their judgments about information available to them at the time of their examination.

Valuation of Goodwill/Intangible Assets and Analysis for Impairment

The Company allocates the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Other intangible assets identified in acquisitions generally consist of advisory contracts and trade names. The value attributed to advisory contracts is based on the time period over which they are expected to generate economic benefits. The advisory contracts are generally amortized over 8-15 years, depending on the contract. Trade names are not amortized.

Long-lived intangible assets are subject to the impairment provisions of ASC 360-10, Property, Plant, and Equipment ("ASC 360"). Long-lived intangible assets are tested for recoverability by comparing the net carrying value of the asset or asset group to the undiscounted net cash flows to be generated from the use and eventual disposition of that asset (asset group) when events or changes in circumstances indicate that its carrying amount may not be recoverable. If the carrying amount of the asset exceeds its net undiscounted cash flows, then an impairment loss is recognized for the amount by which the carrying amount exceeds its fair value, determined based upon the discounted value of the expected cash flows generated by the asset. The intangible impairment test is performed at the reporting unit level, and each affiliate with goodwill and/or intangible assets is considered a reporting unit for goodwill and intangible impairment testing purposes.

The excess of the purchase price for acquisitions over the fair value of the net assets acquired, including other intangible assets, is recorded as goodwill. Goodwill is not amortized but is tested for impairment at the reporting unit level, defined as the affiliate level, at least annually in the fourth quarter or more frequently when events or circumstances occur that indicate that it is more likely than not that an impairment has occurred, based on the guidance in ASC 350, Intangibles -Goodwill and Other ("ASC 350"), as updated by ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value. In accordance with

ASC 350, intangible assets with an indefinite useful economic life are not amortized, but are subject to impairment testing at the reporting unit on an annual basis, or when events or changes in circumstances indicate that the carrying amounts are impaired.

An entity may assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount, including goodwill ("Step 0"). In evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, an entity assesses relevant events and circumstances, such as the following:

- Macroeconomic conditions, such as a deterioration in general economic conditions, limitations on accessing capital, or other developments in equity and credit markets.

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- Industry and market considerations, such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (considered in both absolute terms and relative to peers), a change in the market for an entity's products or services, or a regulatory or political development.
- Overall financial performance, such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods.
- Other relevant entity-specific events, such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation.
- Events affecting a reporting unit, such as a change in the composition or carrying amount of its net assets; a more-likely-than-not expectation of selling or disposing all, or a portion, of a reporting unit; the testing for recoverability of a significant asset group within a reporting unit; or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit.

If, after assessing the totality of events or circumstances such as those described in the preceding paragraph, an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the quantitative goodwill impairment test, as described below, is unnecessary.

Goodwill is tested for impairment by estimating the fair value of a reporting unit. Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions, and selecting an appropriate control premium. The selection and weighting of the various fair value techniques may result in a higher or lower fair value. Judgment is applied in determining the weightings that are most representative of fair value.

Quantitative impairment testing requires a comparison of each reporting unit's fair value to carrying value to identify potential impairment. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, an impairment loss is recognized. In adopting ASU 2017-04, the Company measures that loss as an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Additionally, the Company considers the income tax effect from any tax deductible goodwill on the carrying amount of the reporting unit, if applicable, when measuring the goodwill impairment loss.

The fair value of the reporting unit is determined using generally accepted approaches to valuation commonly referred to as the income approach and market approach. Within each category, a variety of methodologies exist to assist in the estimation of fair value. A valuation consultant may be engaged to assist with the valuations.

BPFH has two reportable segments that have goodwill: Wealth Management and Trust and Affiliate Partners. Boston Private Wealth is the only reporting unit within the Wealth Management and Trust segment. DGHM and KLS are the reporting units within the Affiliate Partners segment. DGHM does not have any remaining goodwill and segment management regularly reviews the operating results of KLS.

For the reporting units within the segments, the Company utilizes both the income and market approaches to determine fair value of the reporting units. The income approach is primarily based on discounted cash flows derived from assumptions of income statement activity. For the market approach, earnings before interest, taxes, depreciation and amortization ("EBITDA") and revenue multiples of comparable companies are selected and applied to the reporting unit's applicable metrics.

The aggregate fair values of the reporting units are compared to market capitalization as an assessment of the appropriateness of the fair value measurements. A control premium analysis is performed to determine whether the implied control premium was within range of overall control premiums observed in the market place.

If the carrying amount of the reporting unit's goodwill is greater than the fair value of the reporting unit's goodwill, an impairment loss must be recognized for the excess (i.e., recorded goodwill must be written down to the implied fair value of the reporting unit's goodwill). After a goodwill impairment loss for a reporting unit is measured and recognized, the adjusted carrying amount of the reporting unit's goodwill becomes the new accounting basis for that goodwill.

Income Tax Estimates

The Company accounts for income taxes in accordance with ASC 740, Income Taxes (“ASC 740”). The deferred tax assets and/or liabilities are determined by multiplying the differences between the financial reporting and tax reporting basis for assets and liabilities by the enacted tax rates expected to be in effect when such differences are recovered or settled. The effect on deferred taxes for a change in tax rates is recognized in income tax expense/ (benefit) attributable to continuing operations in the period that includes the enactment date. Valuation allowances on deferred tax assets are estimated based on our assessment of the realizability of such amounts. Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance recorded against our deferred tax assets.

In accordance with ASC 740, deferred tax assets are to be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of the tax benefit depends upon the existence of sufficient taxable income of the appropriate character within the carry-forward periods.

Management considered the following items in evaluating the need for a valuation allowance:

- The Company had cumulative pre-tax income, as adjusted for permanent book-to-tax differences, during the period 2016 through 2018.
- Deferred tax assets are expected to reverse in periods when there will be taxable income.
- The Company projects sufficient future taxable income to be generated by operations during the available carry-forward period.
- Certain tax planning strategies are available, such as reducing investments in tax-exempt securities.
- The Company has not had any operating loss or tax credit carryovers expiring unused in recent years.

The Company believes that it is more likely than not that the net deferred tax asset as of December 31, 2018 will be realized based primarily upon the ability to generate future taxable income. The Company does not have any capital losses in excess of capital gains as of December 31, 2018.

Results of Operations

Comparison of Years Ended December 31, 2018, 2017 and 2016

Net Income. The Company recorded net income from continuing operations for the year ended December 31, 2018 of $81.9 million, compared to net income from continuing operations of $40.2 million and $70.2 million in 2017 and 2016, respectively. Net income attributable to the Company, which includes income from both continuing and discontinued operations less net income attributable to noncontrolling interests, for the year ended December 31, 2018 was $80.4 million, compared to income of $40.6 million and $71.6 million in 2017 and 2016, respectively.

The Company recognized diluted earnings per share from continuing operations for the year ended December 31, 2018 of $0.90 per share, compared to earnings of $0.36 per share and $0.74 per share in 2017 and 2016, respectively. Diluted earnings per share attributable to common shareholders, which includes both continuing and discontinued operations, for the year ended December 31, 2018 was $0.92 per share, compared to earnings of $0.42 per share and $0.81 per share in 2017 and 2016, respectively. Net income from continuing operations in 2018, 2017 and 2016 was partially offset by dividends paid on preferred stock and decreases in the redemption value of certain redeemable noncontrolling interests, which reduce income available to common shareholders. See Part II. Item 8. “Financial Statements and Supplementary Data - Note 16: Earnings Per Share” for further detail on the charges made to arrive at income attributable to the common shareholder.

The Company's 2018 earnings were impacted by the sale of BOS, which resulted in a gain of $18.1 million and a corresponding income tax expense of $3.5 million, a tax expense of $12.7 million related to the sale of Anchor, and restructuring expense of $7.8 million. Net interest income in 2018 was higher driven primarily by higher yields and volumes on loans and investment securities, partially offset by higher deposit and borrowing rates. Additionally, the impact of the sale of BOS and Anchor decreased total core fees and income and operating expenses.

The Company’s 2017 earnings were impacted by a goodwill impairment charge and higher operating expenses as well as lower banking fee income and the loss on the sale of Anchor booked in 2017. These changes were partially offset by higher net interest income, a larger credit to the provision for loan losses, and higher fee based revenue from the nonbank affiliates. In addition, in December 2017, the Tax Act, was enacted by the U.S. government. The Company re-measured its

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deferred tax assets and liabilities at the 21% federal corporate tax rate, reevaluated its investments in affordable housing projects using the 21% federal corporate tax rate, and reduced its deferred tax assets associated with executive compensation that is no longer deductible. As a result of these changes, the Company recorded a federal tax expense of $12.9 million in the fourth quarter of 2017.

The Company’s 2016 earnings benefited from higher net interest income, and a larger credit to the provision for loan losses, partially offset by a goodwill impairment charge.

The following discussions are based on the Company’s continuing operations, unless otherwise stated.

Condensed Consolidated Statement of Operations

The following table presents selected financial highlights:

	Year ended December 31,			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
	(In thousands)						
Net interest income	$234,566	$224,686	$200,438	$9,880	4 %	$24,248	12 %
Provision/ (credit) for loan losses	(2,198)	(7,669)	(6,935)	5,471	(71)%	(734)	11 %
Fees and other income:							
Investment management fees	21,728	45,515	44,410	(23,787)	(52)%	1,105	2 %
Wealth advisory fees	53,311	52,559	50,581	752	1 %	1,978	4 %
Wealth management and trust fees	46,507	45,362	43,980	1,145	3 %	1,382	3 %
Other banking fee income	9,826	8,915	12,050	911	10 %	(3,135)	(26)%
Gain on sale of loans, net	243	451	667	(208)	(46)%	(216)	(32)%
Gain/ (loss) on sale of affiliates or offices	18,142	(1,264)	2,862	19,406	nm	(4,126)	nm
Other income	240	2,428	4,237	(2,188)	(90)%	(1,809)	(43)%
Total fees and other income	149,997	153,966	158,787	(3,969)	(3)%	(4,821)	(3)%
Expenses:							
Operating expenses	259,527	275,035	253,408	(15,508)	(6)%	21,627	9 %
Restructuring expense	7,828	—	2,017	7,828	nm	(2,017)	nm
Impairment of goodwill	—	24,901	9,528	(24,901)	nm	15,373	nm
Total operating expenses	267,355	299,936	264,953	(32,581)	(11)%	34,983	13 %
Income before income taxes	119,406	86,385	101,207	33,021	38 %	(14,822)	(15)%
Income tax expense	37,537	46,196	30,963	(8,659)	(19)%	15,233	49 %
Net income from continuing operations	81,869	40,189	70,244	41,680	nm	(30,055)	(43)%
Net income from discontinued operations	2,002	4,870	5,541	(2,868)	(59)%	(671)	(12)%
Less: Net income attributable to noncontrolling interests	3,487	4,468	4,157	(981)	(22)%	311	7 %
Net income attributable to the Company	$80,384	$40,591	$71,628	$39,793	98 %	$(31,037)	(43)%

nm - not meaningful

Net Interest Income and Margin

Net interest income represents the difference between interest earned, primarily on loans and investments, and interest paid on funding sources, primarily deposits and borrowings. Interest rate spread is the difference between the average rate earned on total interest-earning assets and the average rate paid on total interest-bearing liabilities. Net interest margin (“NIM”) is the amount of net interest income, on a fully taxable-equivalent (“FTE”) basis, expressed as a percentage of average interest-earning assets. The average rate earned on earning assets is the amount of annualized taxable equivalent interest income expressed as a percentage of average earning assets. The average rate paid on interest-bearing liabilities is equal to annualized interest expense as a percentage of average interest-bearing liabilities. When credit quality declines and loans are

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placed on nonaccrual status, NIM can decrease because the same assets are earning less income. $54.1 million of loans that were graded substandard but were still accruing interest income at December 31, 2018 could be placed on nonaccrual status if their credit quality declines further.

Net interest income for the year ended December 31, 2018 was $234.6 million, an increase of $9.9 million, or 4%, compared to 2017, after an increase of $24.2 million, or 12%, from 2016 to 2017. The increase in net interest income in 2018 was primarily driven by increased yields and volumes on loans and investment securities, partially offset by an increase in rates paid on borrowings and deposits and higher volumes. The increase in net interest income in 2017 was also due to higher yields and volumes on loans and investment securities, partially offset by an increase in the volume of and average rate paid on deposits and borrowings. NIM was 2.96%, 3.04%, and 2.93% for the years ended December 31, 2018, 2017, and 2016, respectively.

The following table presents the composition of the Company's NIM on a FTE basis for the years ended December 31, 2018, 2017, and 2016; however, the discussion following these tables reflects non-FTE data.

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	Year Ended December 31, Average Balance			Interest Income/ Expense			Average Yield/ Rate		
AVERAGE BALANCE SHEET:	2018	2017	2016	2018	2017	2016	2018	2017	2016
AVERAGE ASSETS	(In thousands)								
Interest-earning assets:									
Cash and investments (1):									
Taxable investment securities	$325,159	$363,760	$373,937	$6,007	$6,393	$6,230	1.85%	1.76%	1.67%
Non-taxable investment securities (2)	298,450	296,117	270,320	8,984	10,187	8,850	3.01%	3.44%	3.27%
Mortgage-backed securities	561,929	641,157	615,873	12,091	13,391	12,416	2.15%	2.09%	2.02%
Short-term investments and other	164,712	170,017	152,616	5,187	3,325	1,890	3.15%	1.96%	1.24%
Total cash and investments	1,350,250	1,471,051	1,412,746	32,269	33,296	29,386	2.39%	2.26%	2.08%
Loans: (3)									
Commercial and industrial (2)	983,699	981,822	1,081,658	38,607	38,680	43,250	3.92%	3.94%	4.00%
Commercial real estate (2)	2,449,039	2,358,658	1,964,544	112,516	102,030	80,369	4.59%	4.33%	4.09%
Construction and land (2)	181,315	119,530	134,651	8,791	5,604	5,385	4.85%	4.69%	4.00%
Residential	2,806,046	2,533,437	2,284,478	92,893	80,236	70,553	3.31%	3.17%	3.09%
Home equity	94,823	109,815	120,878	4,320	4,376	4,310	4.56%	3.99%	3.57%
Consumer and other	167,139	188,122	176,683	6,561	5,989	4,516	3.92%	3.18%	2.56%
Total loans	6,682,061	6,291,384	5,762,892	263,688	236,915	208,383	3.95%	3.77%	3.62%
Total earning assets	8,032,311	7,762,435	7,175,638	295,957	270,211	237,769	3.68%	3.48%	3.31%
Less: Allowance for loan losses	74,174	77,365	78,368						
Cash and due from banks (non-interest bearing)	49,282	42,420	39,669						
Other assets	402,821	440,268	430,972						
TOTAL AVERAGE ASSETS	$8,410,240	$8,167,758	$7,567,911						
AVERAGE LIABILITIES, RNCI, AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Interest-bearing deposits (4):									
Savings and NOW	$694,674	$688,453	$629,958	$1,197	$669	$526	0.17%	0.10%	0.08%
Money market	3,202,616	3,156,305	2,960,702	27,469	13,799	11,422	0.86%	0.44%	0.39%
Certificates of deposits	714,827	653,486	565,274	11,180	6,416	4,623	1.56%	0.98%	0.82%
Total interest-bearing deposits	4,612,117	4,498,244	4,155,934	39,846	20,884	16,571	0.86%	0.46%	0.40%

Junior subordinated debentures	106,363	106,363	106,363	3,925	2,919	2,427	3.69%	2.71%	2.28%
FHLB borrowings and other	795,050	723,672	652,998	14,567	10,206	8,203	1.83%	1.41%	1.26%
Total interest-bearing liabilities	5,513,530	5,328,279	4,915,295	58,338	34,009	27,201	1.06%	0.64%	0.55%
Noninterest bearing demand deposits (4)	1,984,660	1,901,510	1,736,637						
Payables and other liabilities	137,323	118,904	126,039						
Total average liabilities	7,635,513	7,348,693	6,777,971						
Redeemable noncontrolling interests	14,859	21,309	20,323						
Average shareholders' equity	759,868	797,756	769,617						
TOTAL AVERAGE LIABILITIES, RNCI, AND SHAREHOLDERS' EQUITY	$8,410,240	$8,167,758	$7,567,911						
Net interest income - on a FTE basis				$237,619	$236,202	$210,568			
FTE adjustment (2)				3,053	11,516	10,130			
Net interest income (GAAP basis)				$234,566	$224,686	$200,438			
Interest rate spread							2.62%	2.84%	2.76%
Net interest margin							2.96%	3.04%	2.93%

(1) Investment securities are shown in the average balance sheet at amortized cost.

(2) Interest income on non-taxable investments and loans is presented on a FTE basis using statutory rates. The discussion following these tables reflects non-FTE data, except where noted.

(3) Average loans include loans held for sale and nonaccrual loans.

(4) Includes deposits held for sale, if any.

Rate-Volume Analysis

The following table describes the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected the Company's interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volumes (changes in average balance multiplied by prior year average rate) and (ii) changes attributable to changes in rate (change in average interest rate multiplied by prior year average balance), while (iii) changes attributable to the combined impact of volumes and rates have been allocated proportionately to separate volume and rate categories. Changes in rate are presented on a non-FTE basis in the table below.

	2018 vs. 2017			2017 vs. 2016		
	Change Due To			Change Due To		
	Rate	Volume	Total	Rate	Volume	Total
	(In thousands)					
Interest income on interest-earning assets:						
Cash and investments (1)	$3,206	$(2,558)	$648	$2,326	$1,115	$3,441
Loans:						
Commercial and industrial (1)	4,293	64	4,357	591	(3,411)	(2,820)
Commercial real estate (1)	8,972	3,901	12,873	2,521	16,504	19,025
Construction and land (1)	188	2,970	3,158	833	(645)	188
Residential	3,748	8,909	12,657	1,835	7,848	9,683
Home equity	583	(639)	(56)	481	(415)	66
Consumer and other	1,290	(718)	572	1,166	307	1,473
Total interest and dividend income	22,280	11,929	34,209	9,753	21,303	31,056
Interest expense on interest-bearing liabilities:						
Deposits:						
Savings and NOW	521	7	528	95	49	144
Money market	13,465	205	13,670	1,589	788	2,377
Certificates of deposit	4,113	651	4,764	1,008	785	1,793
Junior subordinated debentures	1,006	—	1,006	492	—	492
FHLB borrowings and other	3,280	1,081	4,361	1,063	939	2,002
Total interest expense	22,385	1,944	24,329	4,247	2,561	6,808
Net interest income	$(105)	$9,985	$9,880	$5,506	$18,742	$24,248

(1) Interest income on non-taxable investments and loans is presented on a non-FTE basis in this rate-volume table. The discussion following this table also reflects non-FTE data, except where noted.

Net Interest Income. Net interest income increased 4% from 2017 to 2018, after increasing 12% from 2016 to 2017. The increase in net interest income in 2018 was primarily driven by increased yields and volumes on loans and investment securities, partially offset by an increase in rates paid on borrowings and deposits and higher volumes. The increase in net interest income in 2017 was also due to higher yields and volumes on loans and investment securities, partially offset by an increase in the volume of and average rate paid on deposits and borrowings. These changes are discussed in more detail below.

The Company's net interest margin, on a FTE basis, decreased 8 basis points to 2.96% in 2018 from 3.04% in 2017, after increasing 11 basis points in 2017 from 2.93% in 2016. The decrease in the Company's net interest margin in 2018 was driven primarily by a lower FTE adjustment due to the lower federal corporate income tax rate as a result of the Tax Act, and the increased cost of all deposits and borrowings as market interest rates rose throughout the year, partially offset by higher yields on the loan portfolio as rates rose and interest recoveries on previously nonaccrual loans. The increase in the Company's net interest margin in 2017 was primarily driven by the higher yields on investments and loans, partially offset by higher interest rates paid on deposits and borrowings.

Total interest and dividend income. Total interest and dividend income for the year ended December 31, 2018 was $292.9 million, an increase of $34.2 million, or 13%, compared to 2017, after an increase of $31.1 million, or 14%, in 2017 from 2016. The 2018 increase was primarily driven by higher yields on investments and loans as interest rates rose throughout the year and higher volume of loans, partially offset by lower volume of cash and investments. The 2017 increase was primarily driven by higher volume of loans, specifically commercial real estate and residential mortgages, and higher rates.

The Bank generally has interest income that is either recovered or reversed related to nonaccruing loans each quarter. Based on the net amount recovered or reversed, the impact on interest income and related yields can be either positive or negative. In addition, the Bank collects prepayment penalties on certain commercial loans that pay off prior to maturity which could also impact interest income and related yields positively. The amount and timing of prepayment penalties varies from quarter to quarter.

Interest income on commercial and industrial loans (including other commercial loans and commercial tax-exempt loans), on a non-FTE basis, for the year ended December 31, 2018 was $38.0 million, an increase of $4.4 million, or 13%, compared to 2017, after a decrease of $2.8 million, or 8%, in 2017 from 2016. The 2018 increase was primarily driven by a 44 basis point increase in average yield and the average balance remaining flat. The 2017 decrease was primarily the result of a 9% decrease in average balance, partially offset by a six basis point increase in average yield. The 2018 and 2017 changes in the average yield were primarily driven by increases to the benchmark interest rates to which the variable rate loans are tied. The 2017 decrease in average balance was due to a reclassification of approximately $165.7 million of loans in the Company’s portfolio at December 31, 2016 from commercial and industrial into commercial real estate, partially offset by organic growth.

Interest income on commercial real estate loans, on a non-FTE basis, for the year ended December 31, 2018 was $112.0 million, an increase of $12.9 million, or 13%, compared to 2017, after increasing $19.0 million, or 24%, in 2017 from 2016. The 2018 increase was primarily driven by a 37 basis point increase in average yield and a 4% increase in average balance. The 2017 increase was primarily driven by a 20% increase in average balance and a 20 basis point increase in average yield. The 2018 and 2017 changes in the average yield were primarily driven by increases to the benchmark interest rates to which the variable rate loans are tied. The 2018 increase in average balances was primarily driven by organic growth in all regions, while the 2017 increase in average balance was primarily driven by organic growth and a reclassification of approximately $165.7 million of loans in the Company’s portfolio at December 31, 2016 from commercial and industrial into commercial real estate.

Interest income on construction and land loans, on a non-FTE basis, for the year ended December 31, 2018 was $8.8 million, an increase of $3.2 million, or 57%, compared to 2017, after increasing $0.2 million or 3% in 2017 from 2016. The 2018 increase was primarily driven by a 52% increase in average balance and a 15 basis point increase in average yield. The 2017 increase was primarily driven by a 66 basis point increase in average yield, partially offset by an 11% decrease in average balance. The 2018 and 2017 fluctuations in average balances were primarily driven by organic fluctuations in the portfolio which show as large percentage changes given the relative size of the total loan balance.

Interest income on residential mortgage loans for the year ended December 31, 2018 was $92.9 million, an increase of $12.7 million, or 16%, compared to 2017, after also increasing $9.7 million, or 14%, in 2017 from 2016. The 2018 increase was primarily driven by an 11% increase in average balance and a 14 basis point increase in average yield. The 2017 increase was primarily the result of an 11% increase in average balance and an eight basis point increase in average yield. The 2018 and 2017 increases in the average balances were primarily driven by organic growth of the residential loan portfolio, specifically in the New England and Southern California markets. The 2018 and 2017 changes in the average yield were primarily driven by new loans being originated at higher interest rates and increases to the benchmark interest rates to which the variable rate loans are tied.

Interest income on home equity loans for the year ended December 31, 2018 was $4.3 million, a decrease of $0.1 million, or 1%, compared to 2017, after increasing $0.1 million, or 2%, in 2017 from 2016. The 2018 decrease was primarily driven by a 14% decrease in average balance, partially offset by a 57 basis point increase in average yield. The 2017 increase was primarily the result of a 42 basis point increase in average yield, partially offset by a 9% decrease in average balance. The 2018 and 2017 changes in the average yield were primarily driven by increases to the benchmark interest rates to which the variable rate loans are tied. The 2018 and 2017 changes in average balances were primarily due to changes in client demand as the loans are lines of credit.

Interest income on other consumer loans for the year ended December 31, 2018 was $6.6 million, an increase of $0.6 million, or 10%, compared to 2017, after increasing $1.5 million, or 33%, in 2017 from 2016. The 2018 increase was primarily the result of a 74 basis point increase in average yield, partially offset by an 11% decrease in average balance. The 2017 increase was primarily the result of a 62 basis point increase in average yield and a 6% increase in average balance. The 2018 and 2017 increases in average yield were primarily driven by the increases in the Prime rate. The 2018 and 2017 increases in average balances were primarily due to changes in client demand.

Investment income, on a non-FTE basis, for the year ended December 31, 2018 was $30.4 million, an increase of $0.6 million, or 2%, compared to 2017, after increasing $3.4 million, or 13%, in 2017 from 2016. The 2018 increase was the result of a 23 basis point increase in the average yield, partially offset by an 8% decrease in average balance. The 2017 increase was the result of a 16 basis point increase in the average yield and a 4% increase in average balance. The changes in the average yields in 2018 and 2017 were primarily driven by increases in the federal discount rate and higher dividends paid on FHLB stock. The decrease in cash and investments average balances in 2018 was primarily driven by the use of investment and other cash flows to fund loan growth instead of reinvesting in additional investment securities in response to a flattening yield curve.

Total interest expense. Total interest expense on deposits and borrowings for the year ended December 31, 2018 was $58.3 million, an increase of $24.3 million, or 72%, compared to 2017, after increasing $6.8 million, or 25%, in 2017 from 2016.

Interest expense on deposits for the year ended December 31, 2018 was $39.8 million, an increase of $19.0 million, or 91%, compared to 2017, after increasing $4.3 million, or 26%, in 2017 from 2016. The 2018 increase was primarily driven by a 40 basis point increase in average rate paid on deposits and a 3% increase in the average balance of total deposits. The 2017 increase was primarily the result of a six basis point increase in average rate paid on deposits and an 8% increase in the average balance of deposits. The increase in rates in 2018 and 2017 impacted all deposit types, specifically money market deposits and certificates of deposits, and was primarily driven by increases to market interest rates. The increase in 2018 average balances was driven by increases to all deposit types and the 2017 increase in average deposits was driven primarily by increases to money market deposits and certificate of deposit accounts.

Interest paid on borrowings for the year ended December 31, 2018 was $18.5 million, an increase of $5.4 million, or 41%, compared to 2017, after increasing $2.5 million, or 23%, in 2017 from 2016. The 2018 increase was primarily the result of a 42 basis point increase in average rate paid on FHLB borrowings and a 95 basis point increase in the average rate paid on junior subordinated debentures, as well as a 10% increase in average balance of FHLB borrowings and other. The average rate paid on FHLB borrowings is affected by both the yield and the structure or term of the borrowing. The 2017 increase was primarily the result of a 15 basis point increase in average rate paid on FHLB borrowings and other, and a 43 basis point increase in the average rate paid on junior subordinated debentures, as well as an 11% increase in average balance of FHLB borrowings. The 2018 and 2017 increases in average rates paid were the result of increases in market interest rates.

Discussion of Noninterest Condensed Consolidated Statement of Operations

Provision/ (credit) for loan losses. For the year ended December 31, 2018, the provision/ (credit) for loan losses was a credit of $2.2 million, compared to credits of $7.7 million and $6.9 million in 2017 and 2016, respectively. The 2018 credit to the provision for loan losses was primarily driven by net recoveries, an improvement in loss factors, and a decrease in criticized loans, partially offset by loan growth and the composition of the loan portfolio. The 2017 credit to the provision for loan losses was primarily due to net recoveries and an improvement in loss factors, partially offset by an increase in criticized loans and commercial and residential loan growth.

The provision/ (credit) for loan losses is determined as a result of the required level of the allowance for loan losses, estimated by management, which reflects the inherent risk of loss in the loan portfolio as of the balance sheet dates. The factors used by management to determine the level of the allowance for loan losses include the trends in problem loans, economic and business conditions, strength of management, real estate collateral values, and underwriting standards. For further details, see Part II. Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Loan Portfolio and Credit Quality” below.

Total fees and other income. For the year ended December 31, 2018, total fees and other income was $150.0 million, a decrease of $4.0 million, or 3%, compared to 2017, after a decrease of $4.8 million, or 3%, from 2016 to 2017. The 2018 decrease is primarily driven by the impact of the sales of Anchor and BOS decreasing investment management fees and wealth advisory fees, partially offset by the $18.1 million gain on the sale of BOS in 2018 compared to the $1.3 million loss on the sale of Anchor in 2017. The 2017 decrease is primarily driven by the 2017 loss on sale of Anchor, versus the 2016 gain on sale of offices, and decreases in other banking fee income and other, partially offset by increases in wealth management and trust, investment management, and wealth advisory fee income.

Investment management fees income for the year ended December 31, 2018 was $21.7 million, a decrease of $23.8 million, or 52%, compared to 2017, after an increase of $1.1 million, or 2%, from 2016 to 2017. The decrease in revenue in 2018 is primarily driven by the sale of Anchor in the second quarter of 2018 and the absence of performance fees in 2018 at DGHM compared to $0.9 million of performance fees in 2017.

Wealth advisory fees income for the year ended December 31, 2018 was $53.3 million, an increase of $0.8 million, or 1%, compared to 2017, after an increase of $2.0 million or 4% from 2017 as compared to 2016. The increase in income in 2018 is primarily driven by higher levels of business throughout the year, partially offset by the sale of BOS in late 2018.

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AUM excluding Anchor and BOS in the Affiliate Partners segment that drives the investment management fees income and wealth advisory fees income as of December 31, 2018 was $8.3 billion, a decrease of $0.6 billion, or 7%, compared to December 31, 2017. The decrease in 2018 is primarily driven by unfavorable market returns of $0.5 billion and net outflows of $0.1 billion during the year.

Wealth management and trust fees income for the year ended December 31, 2018 was $46.5 million, an increase of $1.1 million, or 3%, after an increase of $1.4 million, or 3%, from 2016 to 2017. AUM in the Wealth Management and Trust segment decreased $0.3 billion, or 3%, to $7.6 billion at December 31, 2018 from $7.9 billion at December 31, 2017. The AUM decrease in 2018 was the result of unfavorable market returns of $0.5 billion, partially offset by net inflows of $0.2 billion. Wealth management and trust fees are typically calculated based on a percentage of AUM, so the increase in fee income for the year was driven by AUM that was higher on average throughout 2018 before unfavorable market returns reduced the AUM as of December 31, 2018.

Gain/ (loss) on sale of affiliates or offices for the year ended December 31, 2018 was a gain of $18.1 million, compared to a loss of $1.3 million in 2017. As discussed above, the gain of $18.1 million in 2018 relates to the sale of BOS and the loss off $1.3 million in 2017 relates to the sale of Anchor.

Other revenue for the year ended December 31, 2018 was $0.9 million, a decrease of $1.2 million, or 59%, compared to 2017, after a decrease of $1.3 million from 2016 to 2017. The decrease in 2018 was primarily driven by a decrease in the value of the rabbi trust securities related to the Company's deferred compensation plan and decreases in the market value adjustments on derivatives. The decrease in 2017 was primarily driven by the decrease in the market value adjustments on derivatives, partially offset by an increase in the value of the rabbi trust securities related to the Company's deferred compensation plan.

Total operating expense. Total operating expense for the year ended December 31, 2018 was $267.4 million, a decrease of $32.6 million, or 11%, compared to 2017, after an increase of $35.0 million, or 13%, from 2016 to 2017. Included in operating expense were a restructuring expense of $7.8 million in 2018 and a goodwill impairment charge of $24.9 million in 2017. Excluding the goodwill impairment and the restructuring expenses, operating expense for the year ended December 31, 2018 decreased $15.5 million, or 6%, compared to 2017, after increasing $21.6 million, or 9%, from 2016 to 2017. The decrease in 2018 was primarily driven by the impact of the sales of Anchor and BOS.

Salaries and employee benefits expense, the largest component of operating expense, for the year ended December 31, 2018 was $161.5 million, a decrease of $17.0 million, or 10%, compared to 2017, after an increase of $13.8 million, or 8%, from 2016 to 2017. The decrease in 2018 was driven primarily by the impact of the sale of Anchor, lower performance based compensation, and the impact of the Company's formal restructuring plan announced in 2018. The increase in 2017 was primarily driven by higher variable and performance based compensation, commissions and sales incentives, and stock compensation.

Occupancy and equipment expense for the year ended December 31, 2018 was $32.1 million, an increase of $2.0 million, or 6%, compared to 2017, after an increase of $2.2 million, or 8%, from 2016 to 2017. The increases in 2018 and 2017 were due to the increases in rent expense related to new office locations as well as leasehold improvements related to office upgrades and new offices.

Professional services expense for the year ended December 31, 2018 was $13.2 million, a decrease of $0.6 million, or 4%, compared to the same period in 2017 after an increase of $2.2 million, or 19%, from 2016 to 2017. The 2018 decrease was primarily driven by a reduction in recruitment expense and legal expense. The 2017 increase was primarily driven by higher consulting and recruiting fees at the Bank, partially offset by lower loan workout fees.

Marketing and business development expense for the year ended December 31, 2018 was $7.6 million a decrease of $0.1 million, or 2%, compared to the same period in 2017 after an increase of $0.1 million, or 2%, from 2016 to 2017. The 2018 and 2017 changes were primarily driven by general Company strategy and marketing campaigns.

Information systems expense consists of contract servicing, computer hardware and software charges, and technology service agreements. Information systems expense for the year ended December 31, 2018 was $25.2 million, an increase of $3.4 million, or 16%, compared to 2017, after an increase of $2.6 million, or 13%, from 2016 to 2017. The increase in 2018 was related to higher software depreciation, technology service, and telecommunications costs as compared to 2017 and 2016 related to an initiative that the Company entered into in 2017 to upgrade its information technology.

The Company did not record a goodwill impairment charge for the year ended December 31, 2018, but did record a charge of $24.9 million in 2017 related to goodwill impairment taken at Anchor and a charge of $9.5 million in 2016 related to goodwill impairment taken at Boston Private Wealth. See Part II. Item 8. “Financial Statements and Supplementary Data - Note 8: Goodwill and Other Intangible Assets” for a discussion of the annual goodwill impairment testing and results.

FDIC insurance expense for the year ended December 31, 2018 was $2.9 million a decrease of $0.1 million, or 4%, compared to the same period in 2017 after a decrease of $0.5 million, or 15%, from 2016 to 2017. The 2018 and 2017 decreases were primarily driven by a decrease in the FDIC insurance rate, partially offset by an increase in total asset size. In January 2019, the Bank received notification from the FDIC that it will be eligible for small bank assessment credits of $2.0 million because the DIF ratio reached 1.36% in September 2018. The FDIC will apply the credits to the Bank's quarterly insurance assessment when the DIF fund is at or above 1.38%. As of December 31, 2018, the DIF reserve ratio was 1.36%. Therefore, the Bank will not receive a credit for their fourth quarter 2018 assessment. The FDIC is planning to announce the March 31, 2019 ratio in May 2019. The Bank will not know whether it will receive a credit for its first quarter 2019 assessment until the second quarter of 2019.

The Company incurred $7.8 million restructuring expense in the year ended December 31, 2018 as part of an efficiency program guided by a focus on improving operating efficiency and sustained earnings enhancement. There were no restructuring expense charges incurred in 2017, while $2.0 million of expense was incurred in 2016 related to refining the management structure within the Wealth Management and Trust segment. See Part II. Item 8. “Financial Statements and Supplementary Data - Note 2: Restructuring” for further detail.

Other expense for the year ended December 31, 2018 was $14.2 million, a decrease of $0.3 million, or 2%, compared to 2017, after increasing $2.0 million, or 16% from 2016 to 2017. The 2018 decrease was primarily driven by lower operational losses and employee travel expense. The 2016 increase was primarily driven by higher operational losses at the Bank, a lower provision credit for off balance sheet exposure at the Bank, and higher employee travel expenses.

Income Tax Expense. Income tax expense for continuing operations for the year ended December 31, 2018 was $37.5 million. The effective tax rate for continuing operations for the year ended December 31, 2018 was 31.4%, compared to effective tax rates of 53.5% and 30.6% in 2017 and 2016, respectively. The effective tax rate for 2018 was lower than 2017 primarily due to the impact of the Tax Act that was enacted on December 22, 2017 as well as the related reduction of the federal corporate tax rate from 35% to 21% effective January 1, 2018, partially offset by the income tax expense related to the Anchor transaction closing in 2018. The 2017 effective tax rate included the expense related to the re-measurement of the Company’s deferred tax assets and liabilities at the lower federal corporate tax rate of 21% and the impairment of nondeductible goodwill. The effective tax rate in 2017 was higher than 2016 primarily due to the aforementioned impact of the Tax Act. See Part II. Item 8. “Financial Statements and Supplementary Data - Note 17: Income Taxes” for further detail.

Net Income from discontinued operations. Net income from discontinued operations for the year ended December 31, 2018, was $2.0 million, a decrease of $2.9 million, or 59%, compared to 2017, after a decrease of $0.7 million, or 12%, from 2016 to 2017. The Company received the final quarterly payment from a revenue sharing agreement from Westfield in the first quarter of 2018. When the Company filed its 2017 Federal tax return in the fourth quarter of 2018 there was also an adjustment to deferred taxes related to the Westfield revenue share which resulted in an additional tax credit which was recorded to discontinued operations in the fourth quarter of 2018.

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Financial Condition

Condensed Consolidated Balance Sheets and Discussion

	December 31, 2018	2017	$ Change	% Change
	(In thousands)			
Assets:				
Total cash and investments	$1,255,253	$1,425,418	$(170,165)	(12)%
Loans held for sale	2,812	4,697	(1,885)	(40)%
Total loans	6,893,158	6,505,028	388,130	6 %
Less: allowance for loan losses	75,312	74,742	570	1 %
Net loans	6,817,846	6,430,286	387,560	6 %
Goodwill and intangible assets, net	69,834	91,681	(21,847)	(24)%
Other assets	348,880	359,662	(10,782)	(3)%
Total assets	$8,494,625	$8,311,744	$182,881	2 %
Liabilities and Equity:				
Deposits	$6,781,170	$6,510,246	$270,924	4 %
Total borrowings	813,435	862,213	(48,778)	(6)%
Other liabilities	143,540	135,880	7,660	6 %
Total liabilities	7,738,145	7,508,339	229,806	3 %
Redeemable noncontrolling interests	2,526	17,461	(14,935)	(86)%
Total shareholders' equity	753,954	785,944	(31,990)	(4)%
Total liabilities, redeemable noncontrolling interests and shareholders' equity	$8,494,625	$8,311,744	$182,881	2 %

Total assets. Total assets increased $0.2 billion to $8.5 billion at December 31, 2018 from $8.3 billion at December 31, 2017. This increase was due primarily to the increase in loans partially offset by a decrease in total cash and investments.

Cash and investments. Total cash and investments (consisting of cash and cash equivalents, investment securities available-for-sale, investment securities held-to-maturity, equity securities at fair value, and stock in the FHLB and Federal Reserve Bank) decreased $170.2 million, or 12%, to $1.3 billion, or 15% of total assets at December 31, 2018 from $1.4 billion, or 17% of total assets at December 31, 2017. The decrease was driven primarily by a $162.0 million, or 14%, decrease in available-for-sale securities, the $4.1 million, or 6%, decrease in held-to-maturity securities, and the $10.7 million, or 18%, decrease in stock in the FHLB and Federal Reserve Bank, partially offset by the $6.7 million, or 6%, increase in cash and cash equivalents. The decrease in cash and investments was primarily due to the use of investment and other cash flows to pay down borrowings and fund total loan growth in response to a flattening yield curve.

The majority of the investments held by the Company are held by the Bank. The Bank's investment policy requires management to maintain a portfolio of securities which will provide liquidity necessary to facilitate funding of loans, to cover deposit fluctuations, and to mitigate the Bank's overall balance sheet exposure to interest rate risk, while at the same time earning a satisfactory return on the funds invested. The securities in which the Bank may invest are subject to regulation and are generally limited to securities that are considered "investment grade."

Investment maturities, calls, principal payments, and sales, net of the purchase of investment securities generated $138.0 million of cash during the year ended December 31, 2018, compared to $108.0 million of cash generated from investment securities for the year ended December 31, 2017. Proceeds from investment securities are generally used to fund a portion of loan growth, pay down borrowings or purchase new investments. The timing of sales and reinvestments is based on various factors, including management's evaluation of interest rate trends, credit risk, and the

Company's liquidity. The Company's available-for-sale investment portfolio carried a total of $2.4 million of unrealized gains and $27.1 million of unrealized losses at December 31, 2018, compared to $5.1 million of unrealized gains and $17.2 million of unrealized losses at December 31, 2017. For information regarding the weighted average yield and maturity of investments, see Part II. Item 8. "Financial Statements and Supplementary Data - Note 4: Investment Securities."

No impairment losses were recognized through earnings related to investment securities during the years ended December 31, 2018 and 2017. The amount of investment securities in an unrealized loss position greater than 12 months, as well as the total amount of unrealized losses, was primarily due to changes in interest rates since the securities were purchased and not due to credit quality or other risk factors.

The Company had no intent to sell any securities in an unrealized loss position at December 31, 2018, and it was not more likely than not that the Company would be forced to sell any of these securities prior to the full recovery of all unrealized losses.

The following table summarizes the Company's carrying value of available-for-sale investments, held-to-maturity investments, and equity securities at the dates indicated:

	December 31,	
	2018	2017
	(In thousands)	
Available-for-sale securities at fair value:		
U.S. government and agencies	$29,114	$34,299
Government-sponsored entities	207,703	302,501
Municipal bonds	308,959	303,058
Mortgage-backed securities (1)	448,289	509,676
Total available-for-sale	$994,065	$1,149,534
Held-to-maturity securities at amortized cost:		
U.S. government and agencies	$9,898	$—
Mortgage-backed securities (1)	60,540	74,576
Total	$70,438	$74,576
Equity securities at fair value:		
Money market mutual funds	$14,228	$20,794
Total	$14,228	$20,794

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(1) All mortgage-backed securities are guaranteed by U.S. government agencies or government-sponsored entities.

Loans held for sale. Loans held for sale decreased $1.9 million, or 40%, to $2.8 million at December 31, 2018 from $4.7 million at December 31, 2017. The balance of loans held for sale relates to the timing and volume of residential loans originated for sale and the ultimate sale transaction which is typically executed within a short period of time following the loan origination.

Goodwill and intangible assets, net. Goodwill and intangible assets decreased $21.8 million, or 24%, to $69.8 million at December 31, 2018 from $91.7 million at December 31, 2017. The decrease was driven by the sale of BOS where $18.0 million of goodwill was eliminated as part of the sale, and $2.9 million of amortization of intangible assets. See Part II. Item 8. "Financial Statements and Supplementary Data - Note 8: Goodwill and Other Intangible Assets" for a discussion of the annual goodwill impairment testing and resulting impairment of goodwill.

Goodwill and indefinite-lived intangible assets such as trade names are subject to annual impairment tests, or more frequently, if there is indication of impairment, based on guidance in ASC 350, Intangibles-Goodwill and Other. Long-lived intangible assets such as advisory contracts are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset or asset group may not be recoverable in accordance with ASC 360, Property, Plant, and Equipment ("ASC 360").

Management performed its annual goodwill and indefinite-lived intangible asset impairment testing during the fourth quarters of 2018 and 2017 for applicable reporting units. Based on the qualitative assessment, the estimated fair value of KLS and Boston Private Wealth each exceeded their carrying value in 2018. For information regarding the 2018 goodwill impairment testing, see Part II. Item 8. "Financial Statements and Supplementary Data - Note 8: Goodwill and Other Intangible Assets."

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The 2017 goodwill impairment testing resulted in a $24.9 million goodwill impairment charge at Anchor as a result of a fair value of $56.6 million compared to a carrying value of $81.5 million. The decline in fair value and the related goodwill impairment was related to the fair market terms in the proposed Anchor purchase and sale agreement. Due to the terms of the transaction that were required for a mutual agreement, the fair value obtained related to the sale transaction was substantially below the carrying value. The fair value was based on the terms of the sale transaction. As a result of the goodwill impairment charge of $24.9 million, the carrying value of goodwill at Anchor was reduced to $42.1 million. This reduced carrying value of $42.1 million, along with the other assets and liabilities of Anchor, were classified as held for sale at December 31, 2017 and are included within other assets and other liabilities, respectively, on the Company's consolidated balance sheet.

Other assets. Other assets, consisting of OREO, if any, premises and equipment, net, fees receivable, accrued interest receivable, deferred income taxes, net, and other assets, which includes assets held for sale at December 31, 2017, decreased $10.8 million, or 3%, to $348.9 million at December 31, 2018, compared to $359.7 million at December 31, 2017.

There was one OREO property with a value of $0.4 million held at December 31, 2018, compared to no properties held at December 31, 2017. In 2017, one property held at December 31, 2016 was sold for a loss of less than $0.1 million in the first quarter of 2017.

Deferred income taxes, net, decreased $2.4 million, or 8%, to $26.6 million at December 31, 2018 from $29.0 million at December 31, 2017. The decrease was primarily due to deferred tax liabilities established in connection with future contingent payments from the sale of Anchor and BOS. At December 31, 2018, no valuation allowance on the net deferred tax asset was required due primarily to the ability to generate future taxable income. The Company does not have any capital losses in excess of capital gains as of December 31, 2018.

Other assets, which consist primarily of Bank-owned life insurance ("BOLI"), assets held for sale at December 31, 2017, prepaid expenses, investment in partnerships, interest rate derivatives, and other receivables, decreased $12.6 million, or 5%, to $247.0 million at December 31, 2018 from $259.5 million at December 31, 2017. The decrease was primarily due to the completion of the sale of Anchor in April 2018 whose $58.8 million of assets where classified as held for sale at December 31, 2017, partially offset by an increase of $28.7 million in accounts receivable related to the estimated future payments from the sales of Anchor and BOS.

As required by recent FASB updates under Topic 842, the Company will be required to recognize leases on-balance sheet and disclose key information about leasing arrangements beginning on January 1, 2019. The new standard establishes a right-of-use model ("ROU") that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. On adoption, the Company recognized approximately $117 million of ROU assets which will be in other assets going forward. For more information on the expected impact of the adoption of this standard, see Part II. Item 8. "Financial Statements and Supplementary Data - Note 1: Basis of Presentation and Summary of Significant Accounting Policies."

Deposits. Deposits increased $0.3 billion, or 4%, to $6.8 billion, at December 31, 2018 from $6.5 billion at December 31, 2017. Deposits are the principal source of the Bank's funds for use in lending, investments, and liquidity. Certificates of deposits represented approximately 11% and 10% of total deposits at December 31, 2018 and December 31, 2017, respectively. See Part II. Item 8. "Financial Statements and Supplementary Data - Note 10: Deposits" for further information.

The following table summarizes the average balances and interest rates paid on the Bank's deposits:

	Year ended December 31, 2018	
	Average Balance	Weighted Average Rate
	(In thousands)	

Noninterest-bearing deposits:			
Checking accounts	$1,984,660	—	%
Interest bearing deposits:			
Savings and NOW	694,674	0.17	%
Money market	3,202,616	0.86	%
Certificates of deposit	714,827	1.56	%
Total interest bearing deposits	$4,612,117	0.86	%
Total deposits	$6,596,777	0.60	%

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Certificates of deposit in denominations of $100,000 or greater had the following schedule of maturities:

	December 31,	
	2018	2017
	(In thousands)	
Less than 3 months remaining	$139,954	$116,796
3 to 6 months remaining	144,630	99,629
6 to 12 months remaining	183,486	109,261
More than 12 months remaining	56,532	70,693
Total	$524,602	$396,379

Borrowings. Total borrowings, which consists primarily of securities sold under agreements to repurchase, federal funds purchased, FHLB borrowings, and junior subordinated debentures decreased $48.8 million, or 6%, to $0.8 billion at December 31, 2018 from $0.9 billion at December 31, 2017. The decrease was primarily driven by the use of investment and other cash flows to pay down borrowings and fund loan growth in response to a flattening yield curve.

Repurchase agreements increased $4.8 million, or 15%, to $36.9 million at December 31, 2018 from $32.2 million at December 31, 2017. Repurchase agreements are generally linked to commercial demand deposit accounts with an overnight sweep feature.

From time to time, the Company purchases federal funds from the FHLB and other banking institutions to supplement its liquidity position. At December 31, 2018, the Company had $250.0 million outstanding in federal funds purchased, an increase of $220.0 million, or 733%, from $30.0 million at December 31, 2017.

FHLB borrowings decreased $273.5 million, or 39%, to $420.1 million at December 31, 2018 from $693.7 million at December 31, 2017. FHLB borrowings are generally used to provide additional funding for loan growth when the rate of loan growth exceeds deposit growth and to manage interest rate risk, but can also be used as an additional source of liquidity for the Bank.

Other liabilities. Other liabilities, which consist primarily of accrued interest, liabilities held for sale, if any, accrued bonus, interest rate derivatives, and other accrued expenses increased $7.7 million, or 6%, to $143.5 million at December 31, 2018 from $135.9 million at December 31, 2017. The increase was primarily due to an increase in the value of back to back swap derivatives and accrued employee severance.

Redeemable noncontrolling interests. Redeemable noncontrolling interests decreased $14.9 million, or 86%, to $2.5 million at December 31, 2018 from $17.5 million at December 31, 2017. The decrease was primarily due to the sale of BOS.

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Loan Portfolio and Credit Quality

Loans. Total portfolio loans increased $388.1 million, or 6%, to $6.9 billion, or 78% of total assets, at December 31, 2018, from $6.5 billion, or 78% of total assets, at December 31, 2017. The following table presents a summary of the loan portfolio based on the portfolio segment and changes in balances as of the dates indicated:

	December 31, 2018	December 31, 2017	$ Change	% Change
	(In thousands)			
Commercial and industrial	$623,037	$ 520,992	$102,045	20 %
Commercial tax-exempt	451,671	418,698	32,973	8 %
Total commercial and industrial	1,074,708	939,690	135,018	14 %
Commercial real estate	2,395,692	2,440,220	(44,528)	(2)%
Construction and land	240,306	164,990	75,316	46 %
Residential	2,948,973	2,682,533	266,440	10 %
Home equity	90,421	99,958	(9,537)	(10)%
Consumer and other	143,058	177,637	(34,579)	(19)%
Total loans	$6,893,158	$ 6,505,028	$388,130	6 %

The Bank specializes in lending to individuals, real estate investors, and middle market businesses, including corporations, partnerships, associations and nonprofit organizations. Loans made by the Bank to individuals may include residential mortgage loans and mortgage loans on investment or vacation properties, unsecured and secured personal lines of credit, home equity loans, and overdraft protection. Loans made by the Bank to businesses include commercial and mortgage loans, revolving lines of credit, working capital loans, equipment financing, community lending programs, and construction and land loans. The types and sizes of loans the Bank originates are limited by regulatory requirements.

The Bank’s loans are affected by the economic and real estate markets in which they are located. Generally, commercial real estate, construction, and land loans are affected more than residential loans in an economic downturn. The ability to grow the loan portfolio is partially related to the Bank's ability to increase deposit levels. If, as a result of general economic conditions, market interest rates, competitive pressures, or otherwise, deposit levels at the Bank decrease relative to its overall banking operations, the Bank may be limited in its ability to grow its loan portfolio or may need to increase higher cost borrowings to fund growth in the loan portfolio.

The Bank’s commercial real estate loan portfolio, the largest portfolio segment after residential, includes loans secured by the following types of collateral as of the dates indicated:

	December 31, 2018	December 31, 2017
	(In thousands)	
Multifamily and residential investment	$687,395	$ 729,792
Retail	635,222	634,843
Office and medical	543,697	543,894
Manufacturing, industrial, and warehouse	193,472	197,950
Hospitality	187,132	148,354
Other	148,774	185,387
Commercial real estate	$2,395,692	$ 2,440,220

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Geographic concentration. The following tables present the Company's outstanding loan balance concentrations at the dates indicated based on the location of the regional offices to which they are attributed.

	As of December 31, 2018											
	New England			San Francisco Bay Area			Southern California			Total		
	Amount	Percent		Amount	Percent		Amount	Percent		Amount	Percent	
	(In thousands)											
Commercial and industrial	$503,201	7	%	$43,702	1	%	$76,134	1	%	$623,037	9	%
Commercial tax-exempt	344,079	5	%	96,387	2	%	11,205	—	%	451,671	7	%
Commercial real estate	1,022,061	15	%	714,449	10	%	659,182	10	%	2,395,692	35	%
Construction and land	153,929	2	%	41,516	—	%	44,861	1	%	240,306	3	%
Residential	1,689,318	25	%	559,578	8	%	700,077	10	%	2,948,973	43	%
Home equity	57,617	1	%	19,722	—	%	13,082	—	%	90,421	1	%
Consumer and other	120,402	2	%	12,663	—	%	9,993	—	%	143,058	2	%
Total loans (1)	$3,890,607	57	%	$1,488,017	21	%	$1,514,534	22	%	$6,893,158	100	%

	As of December 31, 2017											
	New England			San Francisco Bay Area			Southern California			Total		
	Amount	Percent		Amount	Percent		Amount	Percent		Amount	Percent	
	(In thousands)											
Commercial and industrial	$438,322	7	%	$23,311	—	%	$59,359	1	%	$520,992	8	%
Commercial tax-exempt	305,792	5	%	101,340	1	%	11,566	—	%	418,698	6	%
Commercial real estate	1,002,092	15	%	725,454	11	%	712,674	11	%	2,440,220	37	%
Construction and land	86,874	1	%	27,891	1	%	50,225	1	%	164,990	3	%
Residential	1,598,072	24	%	512,189	8	%	572,272	9	%	2,682,533	41	%
Home equity	67,435	1	%	22,462	1	%	10,061	—	%	99,958	2	%
Consumer and other	149,022	3	%	14,707	—	%	13,908	—	%	177,637	3	%
Total loans (1)	$3,647,609	56	%	$1,427,354	22	%	$1,430,065	22	%	$6,505,028	100	%

(1) Regional percentage totals may not reconcile due to rounding.

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Loan Portfolio Composition. The following table presents the outstanding loan balances by class of receivable at the dates indicated and the percent of each category to total loans.

	2018		2017		2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(In thousands)									
Commercial and industrial	$623,037	9 %	$520,992	8 %	$611,370	10 %	$633,019	11 %	$541,087	10 %
Commercial tax-exempt	451,671	7 %	418,698	6 %	398,604	6 %	331,767	6 %	294,761	6 %
Commercial real estate	2,395,692	35 %	2,440,220	37 %	2,302,244	38 %	2,060,903	36 %	1,905,640	36 %
Construction and land	240,306	3 %	164,990	3 %	104,839	2 %	183,434	3 %	125,349	2 %
Residential	2,948,973	43 %	2,682,533	41 %	2,379,861	39 %	2,229,540	39 %	2,132,095	41 %
Home equity	90,421	1 %	99,958	2 %	118,817	2 %	119,828	2 %	114,859	2 %
Consumer and other	143,058	2 %	177,637	3 %	198,619	3 %	160,721	3 %	156,145	3 %
Subtotal: Bank loans	6,893,158	100 %	6,505,028	100 %	6,114,354	100 %	5,719,212	100 %	5,269,936	100 %
Less: Allowance for loan losses	75,312		74,742		78,077		78,500		75,838	
Net Bank loans	$6,817,846		$6,430,286		$6,036,277		$5,640,712		$5,194,098	

Commercial and Industrial Loans. Commercial and industrial loans include working capital and revolving lines of credit, term loans for equipment and fixed assets, and Small Business Administration (“SBA”) loans.

Commercial Tax-Exempt Loans. Commercial tax-exempt loans include loans to not-for-profit private schools, colleges, and public charter schools.

Commercial Real Estate Loans. Commercial real estate loans are generally acquisition financing for commercial properties such as office buildings, retail properties, apartment buildings, and industrial/warehouse space. In addition, tax-exempt commercial real estate loans are provided for affordable housing development and rehabilitation. These loans are often supplemented with federal, state, and/or local subsidies.

Construction and Land Loans. Construction and land loans include loans for financing of new developments as well as financing for improvements to existing buildings. In addition, tax-exempt construction and land loans are provided for the construction phase of the commercial tax-exempt and commercial real estate tax-exempt loans described above.

Residential Loans. While the Bank has no minimum size for mortgage loans, it concentrates its origination activities in the “Jumbo” segment of the market. This segment consists of loans secured by single-family and one- to four-unit properties in excess of the amount eligible for purchase by the Federal National Mortgage Association, which was $453 thousand at December 31, 2018 for the “General” limit and $680 thousand for single-family properties for the “High-Cost” limit, depending on from which specific geographic region of the Bank’s primary market areas the loan originated. The majority of the Bank’s residential loan portfolio, including jumbo mortgage loans, is ARMs. The ARM loans the Bank originates generally have a fixed interest rate for the first 3 to 10 years and then adjust annually based on a market index such as U.S. Treasury or LIBOR yields. ARM loans may negatively impact the Bank’s interest income when they reprice if yields on U.S. Treasuries or LIBOR are lower than the yields at the time of origination. If rates reset higher, the Bank could see increased delinquencies if clients’ ability to make payments is impacted by the higher payments.

Home Equity Loans. Home equity loans consist of balances outstanding on second mortgages and home equity lines of credit extended to individual clients. Personal lines of credit are typically for high net worth clients whose assets

may not be liquid due to investments or closely held stock. The amount of home equity loans typically depends on client demand.
Consumer and Other Loans. Consumer and other loans consist of balances outstanding on consumer loans including personal lines of credit, and loans arising from overdraft protection extended to individual and business clients. Personal lines of credit are typically for high net worth clients whose assets may not be liquid due to investments or closely held stock. The amount of consumer and other loans typically depends on client demand.
The following tables disclose the scheduled contractual maturities of portfolio loans by class of receivable at December 31, 2018. Loans having no stated maturity are reported as due in one year or less. The following tables also set forth

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the dollar amounts of loans that are scheduled to mature after one year segregated between fixed and adjustable interest rate loans.

	Amounts due:							
	One year or less		After one through five years		Beyond five years		Total	
	Balance	%	Balance	%	Balance	%	Balance	%
	(In thousands)							
Commercial and industrial	$236,077	3%	$174,420	3 %	$212,540	3 %	$623,037	9 %
Commercial tax-exempt	—	—%	17,316	1 %	434,355	6 %	451,671	7 %
Commercial real estate	183,884	3%	969,379	14%	1,242,429	18%	2,395,692	35 %
Construction and land	91,261	1%	24,003	—%	125,042	2 %	240,306	3 %
Residential	—	—%	4,120	—%	2,944,853	43%	2,948,973	43 %
Home equity	—	—%	—	—%	90,421	1 %	90,421	1 %
Consumer and other	140,456	2%	1,293	—%	1,309	—%	143,058	2 %
Total loans	$651,678	9%	$1,190,531	18%	$5,050,949	73%	$6,893,158	100%

	Interest rate terms on amounts due after one year:					
	Fixed		Adjustable		Total	
	Balance	%	Balance	%	Balance	%
	(In thousands)					
Commercial and industrial	$161,528	3 %	$225,432	4 %	$386,960	7 %
Commercial tax-exempt	381,429	6 %	70,242	1 %	451,671	7 %
Commercial real estate	952,864	15%	1,258,944	20%	2,211,808	35 %
Construction and land	55,621	1 %	93,424	1 %	149,045	2 %
Residential	660,947	11%	2,288,026	37%	2,948,973	48 %
Home equity	—	—%	90,421	1 %	90,421	1 %
Consumer and other	667	—%	1,935	—%	2,602	— %
Total loans	$2,213,056	36%	$4,028,424	64%	$6,241,480	100%

Scheduled contractual maturities typically do not reflect the actual maturities of loans. The average maturity of loans is substantially less than their average contractual terms because of prepayments and, in the case of conventional mortgage loans, due on sale clauses, which generally give the Bank the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells the real property subject to the mortgage. The average life of mortgage loans tends to increase when current market rates are substantially higher than rates on existing mortgage loans and decrease when current market rates are substantially lower than rates on existing mortgages (due to refinancing of adjustable-rate and fixed-rate loans at lower rates). Under the latter circumstances, the weighted average yield on loans decreases as higher yielding loans are repaid or refinanced at lower rates. In addition, due to the likelihood that the Bank will, consistent with industry practice, “rollover” a significant portion of commercial real estate and commercial loans at or immediately prior to their maturity by renewing credit on substantially similar or revised terms, the principal repayments actually received by the Bank are anticipated to be significantly less than the amounts contractually due in any particular period. A portion of such loans also may not be repaid due to the borrowers’ inability to satisfy the contractual obligations of the loan.

The interest rates charged on loans vary with the degree of risk, maturity, and amount of the loan and are further subject to competitive pressures, market rates, the availability of funds, and legal and regulatory requirements. At December 31, 2018, approximately 64% of the Bank’s outstanding loans due after one year had interest rates that were either floating or adjustable in nature. See Part II. Item 7A. “Quantitative and Qualitative Disclosures about Market Risk - Interest Rate Sensitivity and Market Risk.”

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Allowance for Loan Losses. The following table is an analysis of the Company’s allowances for loan losses for the periods indicated:

	Year ended December 31,				
	2018	2017	2016	2015	2014
	(In thousands)				
Total loans outstanding	$6,893,158	$6,505,028	$6,114,354	$5,719,212	$5,269,936
Average loans outstanding (1)	6,682,061	6,291,384	5,762,892	5,445,597	5,159,752
Allowance for loan losses, beginning of year	$74,742	$78,077	$78,500	$75,838	$76,371
Charged-off loans:					
Commercial and industrial (2)	(709)	(393)	(2,851)	(253)	(717)
Commercial real estate	(135)	—	—	(1,400)	(3,160)
Construction and land	—	—	(400)	—	(1,100)
Residential	(16)	(58)	(605)	(313)	(263)
Home equity	—	—	—	—	—
Consumer and other	(39)	(412)	(93)	(70)	(56)
Total charged-off loans	(899)	(863)	(3,949)	(2,036)	(5,296)
Recoveries on loans previously charged-off:					
Commercial and industrial (2)	680	472	3,212	2,471	2,231
Commercial real estate	2,389	4,621	6,040	2,482	3,975
Construction and land	—	25	1,117	1,158	2,581
Residential	429	47	65	141	2,152
Home equity	1	—	—	—	15
Consumer and other	168	32	27	1	209
Total recoveries	3,667	5,197	10,461	6,253	11,163
Net loans (charged-off)/ recoveries	2,768	4,334	6,512	4,217	5,867
Provision/(credit) for loan losses	(2,198)	(7,669)	(6,935)	(1,555)	(6,400)
Allowance for loan losses, end of year	$75,312	$74,742	$78,077	$78,500	$75,838
Net loans charged-off/ (recoveries) to average loans	(0.04)%	(0.07)%	(0.11)%	(0.08)%	(0.11)%
Allowance for loan losses to total loans	1.09%	1.15%	1.28%	1.37%	1.44%
Allowance for loan losses to nonaccrual loans	5.36	5.23	4.51	2.95	1.72

(1) Includes loans held for sale.

(2) Includes both commercial and industrial loans and commercial tax-exempt loans.

The allowance for loan losses is formulated based on the judgment and experience of management. See Part II. Item 7. “Management’s Discussion and Analysis of Financial Conditions and Results of Operations - Critical Accounting Policies” for details on the Company’s allowance for loan loss policy.

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The following table represents the allocation of the Bank's allowance for loan losses and the percent of loans in each category to total loans as of the dates indicated:

	December 31,									
	2018		2017		2016		2015		2014	
	Amount	%(1)	Amount	%(1)	Amount	%(1)	Amount	%(1)	Amount	%(1)
	(In thousands)									
Loan category:										
Total commercial and industrial (2)	$15,912	16 %	$11,735	13 %	$12,751	16 %	$15,814	17 %	$14,114	18 %
Commercial real estate	41,934	35 %	46,820	38 %	50,412	38 %	44,215	36 %	43,854	34 %
Construction and land	6,022	3 %	4,949	3 %	3,039	2 %	6,322	3 %	4,041	2 %
Residential	10,026	43 %	9,773	41 %	10,449	39 %	10,544	39 %	10,374	41 %
Home equity	1,284	1 %	835	2 %	1,035	2 %	1,085	2 %	1,003	2 %
Consumer and other	134	2 %	630	3 %	391	3 %	520	3 %	382	3 %
Unallocated (3)	—	— %	—	— %	—	— %	—	— %	2,070	— %
Total allowance for loan losses	$75,312	100%	$74,742	100%	$78,077	100%	$78,500	100%	$75,838	100%

(1) Percent refers to the amount of loans in each category as a percent of total loans.

(2) Includes both commercial and industrial loans and commercial tax-exempt loans.

(3) As of December 31, 2015, the unallocated reserve was allocated to the qualitative factors as part of the general reserves (ASC 450). The allocation had no effect on the 2015 provision/ (credit) for loan losses.

The allowance for loan losses increased $0.6 million to $75.3 million at December 31, 2018, from $74.7 million at December 31, 2017. The increase in the balance in the allowance for loan losses was due to the following factors: the growth and mix in the loan portfolio ($3.9 million) and the impact of impaired loans ($0.6 million), partially offset by a decline in loss factors ($2.7 million) and the net change in criticized loans ($1.2 million). The allowance for loan losses as a percentage of total loans was 1.09% and 1.15% at December 31, 2018 and December 31, 2017, respectively. The decrease in the allowance for loan losses as a percentage of total loans from December 31, 2017 to December 31, 2018 was driven primarily by the decline in loss factors and the net change in criticized loans partially offset by the composition of the loan portfolio.

An analysis of the risk in the loan portfolio as well as management judgment is used to determine the estimated appropriate amount of the allowance for loan losses. The Company's allowance for loan losses is comprised of three primary components (general reserves, allocated reserves on non-impaired special mention and substandard loans, and specific reserves on impaired loans). See Part II. Item 8. "Financial Statements and Supplementary Data - Note 6: Allowance for Loan Losses" for an analysis of the Company's allowance for loan losses.

The following table presents a summary of loans charged-off, net of recoveries, by geography, for the periods indicated. The geography assigned to the data is based on the location of the regional offices to which the loans are attributed.

	For the year ended December 31,				
	2018	2017	2016	2015	2014
	(In thousands)				
Net loans (charged-off)/ recoveries:					
New England	$(226)	$1,839	$1,954	$(502)	$(1,686)
San Francisco Bay Area	2,668	3,161	4,693	4,217	3,671
Southern California	326	(666)	(135)	502	3,882
Total net loans (charged-off)/ recoveries	$2,768	$4,334	$6,512	$4,217	$5,867

Nonperforming assets. The Company's nonperforming assets include nonaccrual loans and OREO, if any. OREO consists of real estate acquired through foreclosure proceedings and real estate acquired through acceptance of deeds in lieu of foreclosure. As of December 31, 2018, nonperforming assets totaled $14.5 million, or 0.17% of total assets, an increase of $0.2 million, or 1.4%, compared to $14.3 million, or 0.17% of total assets, as of December 31, 2017.

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The Bank's policy is to discontinue the accrual of interest on a loan when the collectability of principal or interest in accordance with the contractual terms of the loan agreement is in doubt. Despite a loan having a current payment status, if the Bank has reason to believe it may not collect all principal and interest on the loan in accordance with the related contractual terms, the Bank will generally discontinue the accrual of interest income and will apply any future interest payments received to principal. Of the $14.1 million of loans on nonaccrual status as of December 31, 2018, $3.6 million, or 26%, had a current payment status, $0.8 million, or 5%, were 30-89 days past due, and $9.7 million, or 69%, were 90 days or more past due. Of the $14.3 million of loans on nonaccrual status as of December 31, 2017, $1.3 million, or 9%, had a current payment status, $3.4 million, or 24%, were 30-89 days past due, and $9.6 million, or 67%, were 90 days or more past due.

The Bank continues to evaluate the underlying collateral of each nonperforming loan and pursue the collection of interest and principal. Where appropriate, the Bank obtains updated appraisals on collateral. Reductions in fair values of the collateral for nonaccrual loans, if they are collateral dependent, could result in additional future provision for loan losses depending on the timing and severity of the decline. See Part II. Item 8. "Financial Statements and Supplementary Data - Note 5: Loan Portfolio and Credit Quality" for further information on nonperforming loans.

The Bank's policy for returning a loan to accrual status requires the loan to be brought current and for the client to show a history of making timely payments (generally six consecutive months). For nonaccruing TDRs, a return to accrual status generally requires timely payments for a period of six months in accordance with restructured terms, along with meeting other criteria.

Delinquencies. The past due status of a loan is determined in accordance with its contractual repayment terms. All loan types are reported past due when one scheduled payment is due and unpaid for 30 days or more. Loans 30-89 days past due decreased $2.7 million, or 11%, to $22.3 million as of December 31, 2018 from $25.0 million as of December 31, 2017. Loan delinquencies can be attributed to many factors, such as continuing weakness in, or deteriorating, economic conditions in the region in which the collateral is located, the loss of a tenant or lower lease rates for commercial borrowers, or the loss of income for consumers and the resulting liquidity impacts on the borrowers. Further deterioration in the credit condition of these delinquent loans could lead to the loans going to nonaccrual status and/or being downgraded. Downgrades would generally result in additional provision for loan losses. Past due loans may be included with accruing substandard loans.

In certain instances, although very infrequently, loans that have become 90 days or more past due may remain on accrual status if the value of the collateral securing the loan is sufficient to cover principal and interest and the loan is in the process of collection. There were no loans 90 days or more past due, but still accruing, as of December 31, 2018 and 2017.

Impaired Loans. When management determines that it is probable that the Bank will not collect all principal and interest on a loan in accordance with the original loan terms, the loan is considered impaired. Certain impaired loans may continue to accrue interest based on factors such as the restructuring terms, if any, the historical payment performance, the value of collateral, and the financial condition of the borrower. Impaired commercial loans and impaired construction loans are individually evaluated for impairment in accordance with ASC 310. Large groups of smaller-balance homogeneous loans may be collectively evaluated for impairment. Such groups of loans may include, but are not limited to, residential loans, home equity loans, and consumer loans. However, if the terms of any of such loans are modified in a TDR, then such loans would be individually evaluated for impairment in the allowance for loan and lease losses.

Loans that are individually evaluated for impairment require an analysis to determine the amount of impairment, if any. For collateral dependent loans, impairment would be indicated as a result of the carrying value of the loan exceeding the estimated collateral value, less costs to sell, or, for loans not considered to be collateral dependent, the net present value of the projected cash flow, discounted at the loan's contractual effective interest rate. Generally, when a collateral dependent loan becomes impaired, an updated appraisal of the collateral, if appropriate, is obtained. If the impaired loan has not been upgraded to a performing status within a reasonable amount of time, the Bank will

continue to obtain updated appraisals, as deemed necessary, especially during periods of declining property values. Normally, shortfalls in the analysis of collateral dependent loans would result in the impairment amount being charged-off to the allowance for loan losses. Shortfalls on cash flow dependent loans may be carried as specific allocations to the general reserve unless a known loss is determined to have occurred, in which case such known loss is charged-off. Based on the impairment analysis, the provision could be higher or lower than the amount of provision associated with a loan prior to its classification as impaired. See Part II. Item 7. “Management’s Discussion and Analysis of Financial Conditions and Results of Operations - Critical Accounting Policies” for detail on the Company’s treatment of impaired loans in the allowance for loan losses.
Impaired loans individually evaluated for impairment in the allowance for loan and lease losses totaled $15.6 million as of December 31, 2018, a decrease of $7.0 million, or 31%, compared to $22.6 million at December 31, 2017. As of December 31, 2018, $4.2 million of the individually evaluated impaired loans had $1.2 million in specific reserve allocations. The remaining $11.4 million of individually evaluated impaired loans did not have specific reserve allocations due to the

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adequacy of collateral, prior charge-offs taken, interest collected and applied to principal, or a combination of these items. As of December 31, 2017, $8.1 million of individually evaluated impaired loans had $0.7 million in specific reserve allocations, and the remaining $14.5 million of individually evaluated impaired loans did not have specific reserve allocations.

The Bank may, under certain circumstances, restructure loans as a concession to borrowers who are experiencing financial difficulty. Such loans are classified as TDRs and are included in impaired loans. TDRs typically result from the Bank's loss mitigation activities which, among other things, could include rate reductions, payment extensions, and/or principal forgiveness. As of December 31, 2018 and 2017, TDRs totaled $8.0 million and $13.6 million, respectively. The decrease in TDRs primarily related to the payoff of two loans in the San Francisco Bay Area. As of December 31, 2018, $3.8 million of the $8.0 million of TDRs were on accrual status. As of December 31, 2017, $11.1 million of the $13.6 million of TDR loans were on accrual status. As of December 31, 2018 and 2017, the Company had no commitments to lend additional funds to debtors for loans whose terms had been modified in a TDR.

The following table sets forth information regarding nonaccrual loans, OREO, loans past due 90 days or more but still accruing, delinquent loans 30-89 days past due as to interest or principal held by the Bank, and TDRs at the dates indicated.

	December 31,				
	2018	2017	2016	2015	2014
	(In thousands)				
Loans accounted for on a nonaccrual basis	$14,057	$14,295	$17,315	$26,571	$44,182
OREO	401	—	1,690	776	929
Total nonperforming assets	$14,458	$14,295	$19,005	$27,347	$45,111
Loans past due 90 days or more, but still accruing	$—	$—	$—	$—	$—
Delinquent loans 30-89 days past due	$22,299	$25,048	$15,137	$13,094	$6,960
Troubled debt restructured loans (1)	$8,043	$13,580	$18,078	$30,583	$44,768
Nonaccrual loans as a % of total loans	0.20 %	0.22 %	0.28 %	0.46 %	0.84 %
Nonperforming assets as a % of total assets	0.17 %	0.17 %	0.24 %	0.36 %	0.66 %
Delinquent loans 30-89 days past due as a % of total loans	0.32 %	0.39 %	0.25 %	0.23 %	0.13 %

(1) Includes $4.2 million, $2.5 million, $5.7 million, $12.0 million, and $20.5 million also reported in nonaccrual loans as of December 31, 2018, 2017, 2016, 2015, and 2014 respectively.

A roll forward of nonaccrual loans for the years ended December 31, 2018 and 2017 is presented in the table below:

	December 31,	
	2018	2017
	(In thousands)	
Nonaccrual loans, beginning of year	$14,295	$17,315
Transfers in to nonaccrual status	11,886	11,217
Transfers out to OREO	(108)	—
Transfers out to accrual status	(4,379)	(3,585)
Charge-offs	(884)	(800)
Paid off/ paid down	(6,753)	(9,852)
Nonaccrual loans, end of year	$14,057	$14,295

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The following table presents a summary of credit quality by geography, based on the location of the regional offices:

	December 31,	
	2018	2017
	(In thousands)	
Nonaccrual loans:		
New England	$6,728	$6,061
San Francisco Bay Area	2,488	1,473
Southern California	4,841	6,761
Total nonaccrual loans	$14,057	$14,295
Loans 30-89 days past due and accruing:		
New England	$15,961	$19,725
San Francisco Bay Area	2,246	1,911
Southern California	4,092	3,412
Total loans 30-89 days past due	$22,299	$25,048
Accruing classified loans: (1)		
New England	$10,392	$10,911
San Francisco Bay Area	24,584	11,615
Southern California	19,119	30,826
Total accruing classified loans	$54,095	$53,352

(1) Accruing Classified includes both Substandard and Doubtful classifications.

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The following table presents a summary of the credit quality by loan type. The loan type assigned to the credit quality data is based on the purpose of the loan.

	December 31, 2018	December 31, 2017
	(In thousands)	
Nonaccrual loans:		
Commercial and industrial	$2,554	$748
Commercial tax-exempt	—	—
Commercial real estate	546	1,985
Construction and land	—	110
Residential	7,914	8,470
Home equity	3,031	2,840
Consumer and other	12	142
Total nonaccrual loans	$14,057	$14,295
Loans 30-89 days past due and accruing:		
Commercial and industrial	$9,794	$11,752
Commercial tax-exempt	—	—
Commercial real estate	—	4,043
Construction and land	—	—
Residential	6,843	8,874
Home equity	602	355
Consumer and other	5,060	24
Total loans 30-89 days past due	$22,299	$25,048
Accruing classified loans: (1)		
Commercial and industrial	$22,992	$10,951
Commercial tax-exempt	4,051	—
Commercial real estate	27,052	34,455
Construction and land	—	6,596
Residential	—	1,349
Home equity	—	—
Consumer and other	—	1
Total accruing classified loans	$54,095	$53,352

(1) Accruing Classified includes both Substandard and Doubtful classifications.

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Interest income recorded on nonaccrual loans and accruing TDRs and interest income that would have been recorded if the nonaccrual loans and accruing TDRs had been performing in accordance with their original terms for the full year or, if originated during the year, since origination are presented in the table below:

	Year ended December 31,				
	2018	2017	2016	2015	2014
	(In thousands)				
Loans accounted for on a nonaccrual basis	$14,057	$14,295	$17,315	$26,571	$44,182
Interest income recorded during the year on these loans (1)	387	384	322	315	1,202
Interest income that would have been recorded on these nonaccrual loans during the year if the loans had been performing in accordance with their original terms and had been outstanding for the full year or since origination, if held for part of the year	748	701	1,091	2,041	3,001
Accruing troubled debt restructured loans	3,850	11,115	12,401	18,614	24,305
Interest income recorded during the year on these accruing TDR loans	199	616	652	822	1,094
Interest income that would have been recorded on these accruing TDR loans during the year if the loans had been performing in accordance with their original terms and had been outstanding for the full year or since origination, if held for part of the year	210	623	685	1,239	1,618

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(1) Represents interest income recorded while loans were in a performing status, prior to being placed on nonaccrual status and any interest income recorded on a cash basis while the loan was on nonaccrual status.

Potential Problem Loans. Loans that evidence weakness or potential weakness related to repayment history, the borrower’s financial condition, or other factors are reviewed by the Bank’s management to determine if the loan should be adversely classified. Delinquent loans may or may not be adversely classified depending upon management’s judgment with respect to each individual loan. The Bank classifies certain loans as “substandard,” “doubtful,” or “loss” based on criteria consistent with guidelines provided by banking regulators. Potential problem loans consist of accruing classified loans where known information about possible credit problems of the related borrowers causes management to have doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in classification of such loans as nonperforming at some time in the future. Management cannot predict the extent to which economic conditions may worsen or other factors which may impact borrowers and the potential problem loans. Triggering events for loan downgrades include updated appraisal information, inability of borrowers to cover debt service payments, loss of tenants or notification by the tenant of non-renewal of lease, inability of borrowers to sell completed construction projects, and the inability of borrowers to sell properties. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, be restructured, or require increased allowance coverage and provision for loan losses.

The Bank has identified approximately $54.1 million in potential problem loans at December 31, 2018, an increase of $0.7 million, or 1%, compared to $53.4 million at December 31, 2017. Numerous factors impact the level of potential problem loans including economic conditions and real estate values. These factors affect the borrower’s liquidity and, in some cases, the borrower’s ability to comply with loan covenants such as debt service coverage. When there is a loss of a major tenant in a commercial real estate building, the appraised value of the building generally declines. Loans may be downgraded when this occurs as a result of the additional risk to the borrower in obtaining a new tenant in a timely manner and negotiating a lease with similar or better terms than the previous tenant. In many cases, these loans are still current and paying as agreed, although future performance may be impacted.

Liquidity

Liquidity is defined as the Company's ability to generate adequate cash to meet its needs for day-to-day operations and material long and short-term commitments. Liquidity risk is the risk of potential loss if the Company were unable to meet its funding requirements at a reasonable cost. The Company manages its liquidity based on demand, commitments, specific events and uncertainties to meet current and future financial obligations of a short-term nature. The Company's objective in managing liquidity is to respond to the needs of depositors and borrowers as well as to earnings enhancement opportunities in a changing marketplace.

At December 31, 2018, the Company's cash and cash equivalents amounted to $127.3 million. The Holding Company's cash and cash equivalents amounted to $51.1 million at December 31, 2018. Management believes that the Holding Company and its affiliates, including the Bank, have adequate liquidity to meet their commitments for the foreseeable future.

Management is responsible for establishing and monitoring liquidity targets as well as strategies to meet these targets. At December 31, 2018, consolidated cash and cash equivalents, investment securities available-for-sale, and equity securities at fair value, fewer securities pledged against current borrowings and derivatives, amounted to $1.1 billion, or 13% of total assets, compared to $1.3 billion, or 15% of total assets at December 31, 2017. Future loan growth may depend upon the Company's ability to grow its core deposit levels. In addition, the Company has access to available borrowings through the FHLB totaling $1.4 billion as of December 31, 2018 compared to $1.2 billion at December 31, 2017. Combined, this liquidity totals $2.5 billion, or 29% of assets and 37% of total deposits as of December 31, 2018 compared to $2.5 billion, or 30% of assets and 38% of total deposits at December 31, 2017.

The Bank has various internal policies and guidelines regarding liquidity, both on- and off-balance sheet, loans-to-assets ratio, and limits on the use of wholesale funds. These policies and/or guidelines require certain minimum or maximum balances or ratios be maintained at all times. In light of the provisions in the Bank's internal liquidity policies and guidelines, the Bank will carefully manage the amount and timing of future loan growth along with its relevant liquidity policies and balance sheet guidelines. As a general matter, deposits are a cheaper source of funds than borrowings, because interest rates paid for deposits are typically less than interest rates charged for borrowings. If, as a result of general economic conditions, market interest rates, competitive pressures, or otherwise, the amount of deposits at the Bank decreases relative to its overall banking operations, the Bank may be limited in its ability to grow its loan portfolio or may have to rely more heavily on higher cost borrowings as a source of funds in the future.

Holding Company Liquidity. The Company has call options in one majority-owned affiliate that if exercised would require the Company to purchase (and the noncontrolling interest owners of the majority-owned affiliates to sell) the remaining noncontrolling interests in this company at either a contractually predetermined fair value, a multiple of EBITDA, or fair value, as determined by the operating agreement. At December 31, 2018, the estimated maximum redemption value for this affiliate related to outstanding call options was $2.5 million, all of which could be redeemed within the next 12 months, under certain circumstances, and is classified on the consolidated balance sheets as redeemable noncontrolling interests. These put and call options are discussed in detail in Part II. Item 8. "Financial Statements and Supplementary Data - Note 14: Noncontrolling Interests."

The Holding Company's primary sources of funds are dividends from its affiliates and access to the capital and debt markets. The Holding Company recognized $2.0 million in net income from discontinued operations during the year ended December 31, 2018 related to the final payment of a revenue sharing agreement with Westfield received in the first quarter of 2018 and a subsequent tax benefit related to deferred taxes when filing the tax return in the fourth quarter of 2018. The Company will not receive additional income from Westfield now that the final payment has been received.

Although not a primary source of funds, the Holding Company has generated liquidity from the sale of affiliates in the past. Additional funds were generated at the time of the Anchor sale closing in April 2018 and the BOS sale closing in December 2018. Pursuant to the Anchor sale agreement, the Holding Company will be entitled to payments that had a net present value of $15.4 million in addition to the $34.2 million of cash received at the time of the sale closing in April 2018. The Company also incurred a tax liability of $12.7 million attributable to the transaction, which is primarily the result of a book-to-tax basis difference associated with nondeductible goodwill. Based on the current assumption, the Company expects to receive approximately $2.7 million in 2019 from these payments from Anchor.

On December 3, 2018, the Company completed the sale of its ownership interest in BOS to the management team of BOS for an upfront cash payment of $21.1 million and an eight year revenue share that, at signing, had a net present value of $13.9 million. The financial impact of the transaction resulted in a pre-tax gain of $18.1 million and a related tax expense of $3.5 million. Based on the current assumption, the Company expects to receive approximately $1.9 million in 2019 from the revenue sharing agreement with BOS.

Dividends from the Bank are limited by various regulatory requirements relating to capital adequacy and retained earnings. See Part II. Item 5. “Market for Registrant’s Common Equity, Related Stockholders Matters, and Issuers Purchases of Equity Securities” for further details.

The Bank pays dividends to the Holding Company, subject to the approval of the Bank’s Board of Directors, depending on its profitability and asset growth. If regulatory agencies were to require banks to increase their capital ratios, or impose other restrictions, it may limit the ability of the Bank to pay dividends to the Holding Company and/or limit the amount that the Bank could grow.

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Although the Bank's capital currently exceeds regulatory requirements for capital, the Holding Company could downstream additional capital to increase the rate that the Bank could grow. Depending upon the amount of capital downstreamed by the Holding Company, the approval of the Holding Company's Board of Directors may be required prior to the payment, if any.

The Company is required to pay interest quarterly on its junior subordinated debentures. The estimated cash outlay for 2019 for the interest payments is approximately $3.5 million based on the debt outstanding at December 31, 2018 and estimated London Interbank Offered Rate ("LIBOR"). LIBOR is anticipated to be phased out as a benchmark by the end of 2021. The Company will need to negotiate an alternative benchmark rate to be used at that time.

The Company presently plans to pay cash dividends on its common stock on a quarterly basis dependent upon a number of factors such as profitability, Holding Company liquidity, and the Company's capital levels. However, the ultimate declaration of dividends by the Board of Directors of the Company will depend on consideration of, among other things, recent financial trends and internal forecasts, regulatory limitations, alternative uses of capital deployment, general economic conditions, and regulatory changes to capital requirements. Additionally, the Company is required to inform and consult with the Federal Reserve in advance of declaring a dividend that exceeds earnings for the period for which the dividend is being paid. Based on the current quarterly dividend rate of $0.12 per share, as announced by the Company on January 30, 2019, and estimated shares outstanding, the Company estimates that the amount to be paid out for dividends to common shareholders in 2019 will be approximately $40.3 million. The estimated dividend payments in 2019 could increase or decrease if the Company's Board of Directors votes to increase or decrease, respectively, the current dividend rate, and/or the number of shares outstanding changes significantly.

On June 15, 2018, the Company redeemed all $50 million of the outstanding Series D preferred stock.

In the first quarter of 2018, the Company's Board of Directors approved, and the Company received regulatory non-objection for, a share repurchase program of up to $20.0 million of the Company's outstanding common shares. Under the program, shares may be repurchased from time to time in the open market for a two year period. As of December 31, 2018, the Company completed the $20.0 million share repurchase program. See Part II. Item 5. "Market for Registrant's Common Equity, Related Stockholders Matters, and Issuers Purchases of Equity Securities" for further details.

Bank Liquidity. The Bank has established various borrowing arrangements to provide additional sources of liquidity and funding. Management believes that the Bank currently has adequate liquidity available to respond to current demands. The Bank is a member of the FHLB of Boston, and as such, has access to short- and long-term borrowings from that institution. The FHLB can change the advance amounts that banks can utilize based on a bank's current financial condition as obtained from publicly available data such as FDIC Call Reports. Decreases in the amount of FHLB borrowings available to the Bank would lower its liquidity and possibly limit the Bank's ability to grow in the short-term. Management believes that the Bank has adequate liquidity to meet its commitments for the foreseeable future.

In addition to the above liquidity, the Bank has access to the FRB discount window facility, which can provide short-term liquidity as "lender of last resort," brokered deposits, and federal funds lines. The use of non-core funding sources, including brokered deposits and borrowings, by the Bank may be limited by regulatory agencies. Generally, the regulatory agencies prefer that banks rely on core-funding sources for liquidity.

From time to time, the Bank purchases federal funds from the FHLB and other banking institutions to supplement its liquidity position. At December 31, 2018, the Bank had unused federal fund lines of credit totaling $465.0 million with correspondent institutions to provide it with immediate access to overnight borrowings, compared to $435.0 million at December 31, 2017. At December 31, 2018, the Bank had $100.0 million outstanding borrowings under the federal funds lines with these correspondent institutions along with an additional $150.0 million of outstanding borrowings under federal funds lines with the FHLB. The Bank had $30.0 million of outstanding borrowings under the federal fund lines at December 31, 2017. Certain liquidity sources, such as federal funds lines, may be withdrawn by the correspondent bank at any time especially in the event of financial deterioration of the institution.

The Bank has negotiated brokered deposit agreements with several institutions that have nationwide distribution capabilities. The Bank also participates in deposit placement services that can be used to provide customers to expanded deposit insurance coverage. At December 31, 2018, the Bank had $541.1 million of brokered deposits outstanding under these agreements compared to $780.2 million at December 31, 2017.

If the Bank is no longer able to utilize the FHLB for borrowing, collateral currently used for FHLB borrowings could be transferred to other facilities such as the FRB's discount window. In addition, the Bank could increase its usage of brokered deposits. Other borrowing arrangements may have higher rates than the FHLB would typically charge.

Consolidated cash flow comparison for the years ended December 31, 2018 and 2017

Net cash provided by operating activities of continuing operations totaled $91.5 million and $97.1 million for the years ended December 31, 2018 and 2017, respectively. Cash flows from operating activities of continuing operations are generally the cash effects of transactions and other events. Cash provided by operating activities of continuing operations decreased $5.6 million from 2017 to 2018 primarily driven by the $24.9 million goodwill impairment expense in 2017, the $18.1 gain on sale of BOS in 2018, and the impairment of goodwill in 2017, partially offset by higher net income in 2018 after adjusting for noncash items.

Net cash used in investing activities totaled $198.4 million and $354.3 million for the years ended December 31, 2018 and 2017, respectively. Investing activities of the Company include certain loan activities, investment activities and capital expenditures. Cash used in investing activities decreased $155.9 million from 2017 to 2018 primarily due to lower purchases of investment securities available-for-sale net of sales, maturities, redemptions and principal payments as well as no additional purchase of BOLI in 2018.

Net cash provided by financing activities totaled $111.6 million and $266.3 million for the years ended December 31, 2018 and 2017, respectively. Cash provided by financing activities decreased $154.7 million from 2017 to 2018. The decrease in cash provided by financing activities is driven primarily by the redemption of the Series D preferred stock, and completion of the share repurchase program in 2018, partially offset by a lower net change in FHLB borrowings and federal funds purchased in 2017.

Net cash provided by operating activities of discontinued operations totaled $2.0 million for the year ended December 31, 2018, compared to net cash provided by operating activities of discontinued operations of $4.9 million for the year ended December 31, 2017. Cash flows from operating activities of discontinued operations relate to the ongoing revenue share agreement with a divested affiliate, which ended in the first quarter of 2018 and the related income tax impact. The Company will not receive additional income from Westfield now that the final payment has been received.

Consolidated cash flow comparison for the years ended December 31, 2017 and 2016

Net cash provided by operating activities of continuing operations totaled $97.1 million and $100.6 million for the years ended December 31, 2017 and 2016, respectively. Cash flows from operating activities of continuing operations are generally the cash effects of transactions and other events that enter into the determination of net income of continuing operations. Cash provided by operating activities of continuing operations decreased $3.5 million from 2016 to 2017 primarily driven by net income after adjusting for noncash items as well as lower net proceeds from sale of loans originated and held for sale.

Net cash used in investing activities totaled $354.3 million and $692.8 million for the years ended December 31, 2017 and 2016, respectively. Investing activities of the Company include certain loan activities, investment activities and capital expenditures. Cash used in investing activities decreased $338.5 million from 2016 to 2017 primarily due to lower purchases of investments net of sales, maturities, redemptions and principal payments as well as the net payment in 2016 for sale of offices and related deposits which was not repeated in 2017. These changes were partially offset by an additional purchase of BOLI in 2017.

Net cash provided by financing activities totaled $266.3 million and $454.5 million for the years ended December 31, 2017 and 2016, respectively. Cash provided by financing activities decreased $188.2 million from 2016 to 2017. The decrease in cash provided by financing activities is related primarily to the higher net change in FHLB borrowings and federal funds purchased in 2016, partially offset by higher deposit growth in 2017.

Net cash provided by operating activities of discontinued operations totaled $4.9 million for the year ended December 31, 2017, compared to cash provided by operating activities of discontinued operations of $5.5 million for the year ended December 31, 2016. Cash flows from operating activities of discontinued operations relate to the ongoing revenue share agreement with a divested affiliate, which ended in the first quarter of 2018.

Capital Resources

Total shareholders’ equity at December 31, 2018 was $754.0 million, compared to $785.9 million at December 31, 2017, a decrease of $32.0 million, or 4%. The decrease in shareholders’ equity was primarily the result of the redemption of the Series D preferred stock, dividends paid to common shareholders, the completion of the share repurchase program, and the decrease in accumulated other comprehensive income, partially offset by net income.

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As a bank holding company, the Company is subject to various regulatory capital requirements administered by federal agencies. Failure to meet minimum capital requirements can result in certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company's financial statements.
See Part II. Item 8. "Financial Statements and Supplementary Data - Note 24: Regulatory Matters" for additional details, including the regulatory capital and capital ratios table, and Part I, Item 1. "Business Supervision and Regulation - Capital Adequacy and Safety and Soundness."

Contractual Obligations
The tables below present a detail of the maturities of the Company's contractual obligations and commitments as of December 31, 2018. See Part II. Item 8. "Financial Statements and Supplementary Data - Notes 11 through 13" for terms of borrowing arrangements and interest rates.

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(In thousands)				
Federal Home Loan Bank Borrowings	$420,144	$ 244,018	$161,261	$11,355	$ 3,510
Securities sold under agreements to repurchase	36,928	36,928	—	—	—
Federal fund purchased	250,000	250,000	—	—	—
Junior subordinated debentures	106,363	—	—	—	106,363
Operating lease obligations	135,227	20,053	38,408	35,354	41,412
Deferred compensation and benefits (1)	28,084	3,256	7,177	2,998	14,653
Data processing	19,457	19,457	—	—	—
Bonus and commissions	9,259	9,259	—	—	—
Severance accrual	3,896	3,896	—	—	—
Other long-term obligations	93	54	39	—	—
Total contractual obligations at December 31, 2018	$1,009,451	$ 586,921	$206,885	$49,707	$ 165,938

(1) Includes supplemental executive retirement plans, deferred compensation plan, salary continuation plans, long-term incentive plans, and split dollar life insurance.

The amounts below related to commitments to originate loans, unused lines of credit, and standby letters of credit are at the discretion of the client and may never actually be drawn upon. Generally for commercial lines of credit the borrower must be in compliance with the applicable loan covenants to be able to draw on an unused line. The contractual amount of the Company's financial instruments with off-balance sheet risk is as follows:

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(In thousands)				
Unadvanced portion of loans, unused lines of credit, and commitments to originate loans	$1,511,835	$977,888	$157,500	$50,172	$ 326,275
Standby letters of credit	36,755	36,597	158	—	—
Forward commitments to sell loans	4,657	4,657	—	—	—
Total commitments at December 31, 2018	$1,553,247	$1,019,142	$157,658	$50,172	$ 326,275

Off-Balance Sheet Arrangements

The Company and its affiliates own equity interests in certain limited partnerships and limited liability companies. Most of these are investment vehicles that are managed by the Company's investment adviser affiliates. The Company accounts for these investments under the equity method of accounting so the total amount of assets and liabilities of the investment partnerships are not included in the consolidated financial statements of the Company.

Impact of Accounting Estimates

In preparing the consolidated financial statements, management is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to change, in the near term, relate to the determination of the allowance for loan losses, evaluation of potential impairment of goodwill and other intangibles, and income tax estimates.

Impact of Inflation and Changing Prices

The consolidated financial statements and related notes thereto presented in Part II. Item 8. "Financial Statements and Supplementary Data," have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Unlike many industrial companies, substantially all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the general level of inflation. Over short periods of time, interest rates may not necessarily move in the same direction or in the same magnitude as inflation. See Part II. Item 7A. "Quantitative and Qualitative Disclosures about Market Risk - Interest Rate Sensitivity and Market Risk."

Recent Accounting Pronouncements

See Part II. Item 8. "Financial Statements and Supplementary Data - Note 1: Basis of Presentation and Summary of Significant Accounting Policies" for a description of upcoming changes to accounting principles generally accepted in the United States that may impact the Company.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
Interest Rate Sensitivity and Market Risk

The Company considers interest rate risk to be a significant market risk for the Bank. Interest rate risk is the exposure to adverse changes in the net income of the Company as a result of changes in interest rates. Consistency in the Company's earnings is related to the effective management of interest rate-sensitive assets and liabilities due to changes in interest rates, and on the degree of fluctuation of wealth advisory, wealth management and trust, and investment management fee income due to movements in the bond and equity markets.

Fee income from our Affiliate Partners and Wealth Management and Trust businesses is not directly dependent on market interest rates and may provide the Company a relatively stable source of income in varying market interest rate environments. However, this fee income is generally based upon the value of AUM and, therefore, can be significantly affected by changes in the values of equities and bonds. Furthermore, performance fees and partnership income earned by some of the Company's affiliates, as managers of limited partnerships, are directly dependent upon short-term investment performance that can fluctuate significantly with changes in the capital markets. The Company does not have any trading operations for its own account

In addition to directly impacting net interest income ("NII"), changes in the level of interest rates can also affect (i) the amount of loans originated and sold by the Company; (ii) the ability of borrowers to repay variable or adjustable rate loans; (iii) the average maturity of loans and mortgage-backed securities; (iv) the rate of amortization of premiums paid on securities; (v) the amount of unrealized gains and losses on securities available-for-sale; and (v) prepayment and refinancing.

The principal objective of the Bank's asset/liability management ("ALM") is to maximize profit potential while minimizing the vulnerability of its operations to changes in interest rates by means of managing the ratio of interest rate-sensitive assets to interest rate-sensitive liabilities within specified maturities or repricing dates. The Bank's actions in this regard are taken under the guidance of its Asset/Liability Committee ("ALCO"), which is composed of members of the Bank's senior management. This committee is actively involved in formulating the economic assumptions that the Bank uses in its financial planning and budgeting process and establishes policies which control and monitor the sources, uses and pricing of funds. The Bank may utilize hedging techniques to reduce interest rate risk. See Part II. Item 8. "Financial Statements and Supplementary Data - Note 9: Derivatives and Hedging Activities" for additional information.

ALCO primarily manages interest rate risk by examining detailed simulations that model the impact that various interest rate environments may have on NII and which take into account the re-pricing, maturity and prepayment characteristics of individual products and investments. ALCO most directly looks at the impact of parallel ramp scenarios over one-year and two-year horizons in which market interest rates are gradually increased or decreased up to 200 basis points. These particular simulation results, along with longer horizons and other complementary analyses that model interest rate shocks and economic value of equity ("EVE"), are reviewed to determine whether the exposure of NII to interest rate changes is within risk limits set and monitored at both the ALCO and Board levels. While ALCO and ALM practitioners review simulation assumptions to ensure reasonability, future results are not fully predictable. Both market assumptions and the actual re-pricing, maturity, and prepayment characteristics of individual products may differ from the estimates used in the simulations.

ALCO reviews the results with regard to the established tolerance levels and recommends appropriate strategies to manage this exposure.

Model Methodologies

- The base model is built as a static balance sheet simulation. Growth and/or contraction are not incorporated into the base model to avoid masking of the inherent interest rate risk in the balance sheet as it stands at a point in time, however, balance sheet adjustments may be incorporated into the model to reflect anticipated changes in certain balance sheet categories
- The model utilizes the FHLB, LIBOR, and Treasury yield curves in effect as of December 31, 2018. Other market rates used in this analysis include the Prime rate and Federal Funds rate, which were 5.50% and 2.50% respectively, at December 31, 2018. All interest rate changes are assumed to occur in the first 12 months and remain flat thereafter. All market rates are floored at 0.00% (Federal Funds, Treasury yields, LIBOR, FHLB), while the Prime rate is floored at 3.00%. All points on the market yield curves increase/decrease congruently.

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The following table presents the estimated impact of interest rate changes on pro-forma NII for the Company over a 12-month period:

	Twelve months beginning January 1, 2019	
	$ Change	% Change
	(In thousands)	
Parallel ramp up 200 basis points	$ 498	0.21 %
Down parallel ramp 100 basis points	$ (642)	(0.27)%

	Twelve months beginning January 1, 2018	
	$ Change	% Change
	(In thousands)	
Parallel ramp up 200 basis points	$ 2,252	1.08 %
Down parallel ramp 100 basis points	$ (2,361)	(1.00)%

The Bank also uses interest rate sensitivity "gap" analysis to provide a general overview of its interest rate risk profile. An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds interest rate sensitive assets. During a period of falling interest rates, a positive gap would tend to adversely affect net interest income, while a negative gap would tend to result in an increase in net interest income. During a period of rising interest rates, a positive gap would tend to result in an increase in net interest income, while a negative gap would tend to affect net interest income adversely.

At December 31, 2018, the Company's overall balance sheet was immediately asset-sensitive. The actual ability to reprice certain interest-bearing liabilities depends on other factors in addition to the movement of interest rates. These factors include competitor pricing, the current rate paid on interest-bearing liabilities, and alternative products offered in the financial market place. Most importantly, non-maturity deposits do not have a formal re-pricing date and are priced based on management discretion. They are gapped as re-pricing in 3-6 months when, in fact, they may not. The Bank does not attempt to perfectly match interest rate sensitive assets and liabilities and will selectively mismatch its assets and liabilities to a controlled degree when management considers such a mismatch both appropriate and prudent.

The repricing schedule for the Company's interest-earning assets and interest-bearing liabilities is measured on a cumulative basis. The simulation analysis is based on expected cash flows and repricing characteristics, and incorporates market-based assumptions regarding the impact of changing interest rates on the prepayment speeds of certain assets and liabilities. Actual results will differ from simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies.

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The following table presents the repricing schedule for the Company’s interest-earning assets and interest-bearing liabilities at December 31, 2018:

	Within Three Months	Over Three to Six Months	Over Six to Twelve Months	Over One Year to Five Years	Over Five Years	Total
	(In thousands)					
Interest-earning assets (1):						
Interest bearing cash	$83,119	$ —	$—	$—	$—	$83,119
Investment securities	55,906	42,251	71,447	429,534	479,593	1,078,731
FHLB and Federal Reserve stock	49,263					49,263
Loans held for sale (2)	2,812	—	—	—	—	2,812
Loans—Fixed rate (5)	116,688	130,433	233,008	1,335,462	491,507	2,307,098
Loans—Variable rate	1,827,930	244,644	402,450	1,599,240	511,796	4,586,060
Total interest-earning assets	$2,135,718	$ 417,328	$706,905	$3,364,236	$1,482,896	$8,107,083
Interest-bearing liabilities (3):						