

Section 1: 10-Q (BPFH Q2 2019 10-Q)

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2019**

Or

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

For the transition period from _____ to _____.

Commission File Number: **001-35070**

BOSTON PRIVATE FINANCIAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction of
incorporation or organization)

04-2976299

(I.R.S. Employer
Identification Number)

Ten Post Office Square

Boston, Massachusetts

(Address of Principal Executive Offices)

02109

(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	Trading Symbol(s)	Name of each exchange which registered
Common Stock	BPFH	NASDAQ Stock Market LLC

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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.

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 1, 2019:

Common Stock, Par Value \$1.00 Per Share

(class)

83,902,110

(outstanding)

BOSTON PRIVATE FINANCIAL HOLDINGS, INC.
FORM 10-Q
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PART I. FINANCIAL INFORMATION, ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

BOSTON PRIVATE FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)

	June 30, 2019	December 31, 2018
	(In thousands, except share and per share data)	
Assets:		
Cash and cash equivalents	\$ 65,756	\$ 127,259
Investment securities available-for-sale (amortized cost of \$960,550 and \$1,018,774 at June 30, 2019 and December 31, 2018, respectively)	966,731	994,065
Investment securities held-to-maturity (fair value of \$53,929 and \$68,595 at June 30, 2019 and December 31, 2018, respectively)	54,482	70,438
Equity securities at fair value	19,092	14,228
Stock in Federal Home Loan Bank and Federal Reserve Bank	64,453	49,263
Loans held for sale	3,640	2,812
Total loans	7,080,260	6,893,158
Less: Allowance for loan losses	75,067	75,312
Net loans	7,005,193	6,817,846
Other real estate owned ("OREO")	—	401
Premises and equipment, net	40,244	45,412
Goodwill	57,607	57,607
Intangible assets, net	10,884	12,227
Fees receivable	3,611	5,101
Accrued interest receivable	26,411	24,366
Deferred income taxes, net	17,183	26,638
Right-of-use assets	110,880	—
Other assets	266,706	246,962
Total assets	\$ 8,712,873	\$ 8,494,625
Liabilities:		
Deposits	\$ 6,437,963	\$ 6,781,170
Securities sold under agreements to repurchase	62,372	36,928
Federal funds purchased	135,000	250,000
Federal Home Loan Bank borrowings	920,068	420,144
Junior subordinated debentures	106,363	106,363
Lease liabilities	126,740	—
Other liabilities	124,370	143,540
Total liabilities	7,912,876	7,738,145
Redeemable Noncontrolling Interests	1,786	2,526
Shareholders' Equity:		
Common stock, \$1.00 par value; authorized: 170,000,000 shares; issued and outstanding: 83,774,335 shares at June 30, 2019 and 83,655,651 shares at December 31, 2018	83,774	83,656
Additional paid-in capital	603,869	600,196
Retained earnings	106,443	87,821
Accumulated other comprehensive income/ (loss)	4,125	(17,719)
Total shareholders' equity	798,211	753,954
Total liabilities, redeemable noncontrolling interests and shareholders' equity	\$ 8,712,873	\$ 8,494,625

See accompanying notes to consolidated financial statements.

BOSTON PRIVATE FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
(In thousands, except share and per share data)				
Interest and dividend income:				
Loans	\$ 71,943	\$ 64,048	\$ 141,876	\$ 124,977
Taxable investment securities	1,121	1,501	2,306	3,011
Non-taxable investment securities	1,901	1,752	3,802	3,482
Mortgage-backed securities	2,706	3,049	5,603	6,227
Short-term investments and other	1,057	1,205	1,965	2,214
Total interest and dividend income	<u>78,728</u>	<u>71,555</u>	<u>155,552</u>	<u>139,911</u>
Interest expense:				
Deposits	14,515	8,365	28,573	14,889
Federal Home Loan Bank borrowings	5,027	4,447	7,807	7,791
Junior subordinated debentures	1,080	1,008	2,201	1,854
Repurchase agreements and other short-term borrowings	646	190	1,173	449
Total interest expense	<u>21,268</u>	<u>14,010</u>	<u>39,754</u>	<u>24,983</u>
Net interest income	<u>57,460</u>	<u>57,545</u>	<u>115,798</u>	<u>114,928</u>
Provision/ (credit) for loan losses	1,363	453	(63)	(1,342)
Net interest income after provision/ (credit) for loan losses	<u>56,097</u>	<u>57,092</u>	<u>115,861</u>	<u>116,270</u>
Fees and other income:				
Investment management fees	2,455	4,227	5,105	15,652
Wealth advisory fees	8,141	13,693	16,306	27,205
Wealth management and trust fees	10,771	11,169	21,664	23,320
Other banking fee income	2,867	2,745	5,366	5,018
Gain on sale of loans, net	58	63	131	137
Gain/ (loss) on sale of investments, net	—	7	—	(17)
Gain/ (loss) on OREO, net	—	—	91	—
Other	88	191	965	523
Total fees and other income	<u>24,380</u>	<u>32,095</u>	<u>49,628</u>	<u>71,838</u>
Operating expense:				
Salaries and employee benefits	32,706	39,433	68,432	86,517
Occupancy and equipment	7,852	8,229	16,200	15,977
Professional services	3,313	2,872	6,873	6,049
Marketing and business development	1,934	2,070	3,019	3,663
Information systems	5,137	6,770	10,997	12,656
Amortization of intangibles	672	749	1,344	1,499
FDIC insurance	585	708	1,245	1,452
Restructuring	—	—	1,646	—
Other	3,460	3,553	6,456	7,428
Total operating expense	<u>55,659</u>	<u>64,384</u>	<u>116,212</u>	<u>135,241</u>
Income before income taxes	<u>24,818</u>	<u>24,803</u>	<u>49,277</u>	<u>52,867</u>
Income tax expense	5,369	17,399	10,286	23,425
Net income from continuing operations	<u>19,449</u>	<u>7,404</u>	<u>38,991</u>	<u>29,442</u>
Net income/ (loss) from discontinued operations	—	(2)	—	1,696
Net income before attribution to noncontrolling interests	<u>19,449</u>	<u>7,402</u>	<u>38,991</u>	<u>31,138</u>

(Continued)

BOSTON PRIVATE FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Less: Net income attributable to noncontrolling interests	69	968	169	2,018
Net income attributable to the Company	\$ 19,380	\$ 6,434	\$ 38,822	\$ 29,120
Adjustments to net income attributable to the Company to arrive at net income attributable to common shareholders	(816)	(3,524)	741	(3,547)
Net income attributable to common shareholders for earnings per share calculation	\$ 18,564	\$ 2,910	\$ 39,563	\$ 25,573
Basic earnings per share attributable to common shareholders:				
From continuing operations:	\$ 0.22	\$ 0.03	\$ 0.47	\$ 0.29
From discontinued operations:	\$ —	\$ —	\$ —	\$ 0.02
Total attributable to common shareholders:	\$ 0.22	\$ 0.03	\$ 0.47	\$ 0.31
Weighted average basic common shares outstanding	83,565,780	83,509,115	83,426,213	83,304,573
Diluted earnings per share attributable to common shareholders:				
From continuing operations:	\$ 0.22	\$ 0.03	\$ 0.47	\$ 0.28
From discontinued operations:	\$ —	\$ —	\$ —	\$ 0.02
Total attributable to common shareholders:	\$ 0.22	\$ 0.03	\$ 0.47	\$ 0.30
Weighted average diluted common shares outstanding	84,048,972	85,413,575	84,036,050	85,221,974

See accompanying notes to consolidated financial statements.

BOSTON PRIVATE FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	(In thousands)			
Net income attributable to the Company	\$ 19,380	\$ 6,434	\$ 38,822	\$ 29,120
Other comprehensive income/ (loss), net of tax:				
Net unrealized gain/ (loss) on securities available-for-sale	10,665	(1,953)	22,233	(14,848)
Unrealized gain/ (loss) on cash flow hedges	(6)	124	(33)	712
Reclassification adjustment for net realized (gain)/ loss included in net income	(136)	(187)	(356)	(201)
Net unrealized gain/ (loss) on cash flow hedges	(142)	(63)	(389)	511
Net unrealized gain/ (loss) on other	—	1	—	1
Other comprehensive income/ (loss), net of tax	10,523	(2,015)	21,844	(14,336)
Total comprehensive income attributable to the Company, net	\$ 29,903	\$ 4,419	\$ 60,666	\$ 14,784

See accompanying notes to consolidated financial statements.

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BOSTON PRIVATE FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (Loss)	Non- controlling Interests	Total
(In thousands, except share data)							
Balance, December 31, 2017	\$ 47,753	\$ 84,208	\$ 607,929	\$ 49,526	\$ (8,658)	\$ 5,186	\$ 785,944
Reclassification due to change in accounting principles (1)	—	—	—	334	(334)	—	—
Net income attributable to the Company	—	—	—	29,120	—	—	29,120
Other comprehensive income/ (loss), net	—	—	—	—	(14,336)	—	(14,336)
Dividends paid to common shareholders: \$0.24 per share	—	—	—	(20,330)	—	—	(20,330)
Dividends paid to preferred shareholders	—	—	—	(1,738)	—	—	(1,738)
Net change in noncontrolling interests	—	—	—	—	—	(3,190)	(3,190)
Redemption of Series D preferred stock	(47,753)	—	(2,247)	—	—	—	(50,000)
Net proceeds from issuance of:							
63,434 shares of common stock	—	63	770	—	—	—	833
2,547 shares of incentive stock grants, net of 126,752 shares canceled or forfeited and 112,565 shares withheld for employee taxes	—	(236)	(1,656)	—	—	—	(1,892)
Exercise of warrants	—	294	(273)	—	—	—	21
Amortization of stock compensation and employee stock purchase plan	—	—	3,399	—	—	—	3,399
Stock options exercised	—	150	1,107	—	—	—	1,257
Other equity adjustments	—	—	4,889	—	—	—	4,889
Balance at June 30, 2018	<u>\$ —</u>	<u>\$ 84,479</u>					