Section 1: 10-Q (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 September 30, 2020

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	**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	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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 October 30, 2020:

Common Stock, Par Value $1.00 Per Share	82,254,594
(class)	**(outstanding)**

BOSTON PRIVATE FINANCIAL HOLDINGS, INC.
FORM 10-Q
TABLE OF CONTENTS
PART I—FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION, ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	September 30, 2020	December 31, 2019
	(In thousands, except share and per share data)	
Assets:		
Cash and cash equivalents	**$ 546,263**	$ 292,479
Investment securities available-for-sale (amortized cost of $967,730 and $966,900 at September 30, 2020 and December 31, 2019, respectively)	**1,011,327**	978,284
Investment securities held-to-maturity (fair value of $39,348 and $47,949 at September 30, 2020 and December 31, 2019, respectively)	**38,600**	48,212
Equity securities at fair value	**32,818**	18,810
Stock in Federal Home Loan Bank and Federal Reserve Bank	**36,618**	39,078
Loans held for sale	**15,074**	7,386
Total loans	**7,222,569**	6,976,704
Less: Allowance for loan losses	**84,551**	71,982
Net loans	**7,138,018**	6,904,722
Premises and equipment, net	**42,907**	44,527
Goodwill	**57,607**	57,607
Intangible assets, net	**8,898**	10,352
Fees receivable	**3,259**	4,095
Accrued interest receivable	**25,935**	24,175
Deferred income taxes, net	**8,250**	11,383
Right-of-use assets	**94,879**	102,075
Other assets	**370,852**	287,316
Total assets	**$ 9,431,305**	$ 8,830,501
Liabilities:		
Deposits	**$ 7,827,719**	$ 7,241,476
Securities sold under agreements to repurchase	**42,544**	53,398
Federal Home Loan Bank borrowings	**296,236**	350,829
Junior subordinated debentures	**106,363**	106,363
Lease liabilities	**108,932**	117,214
Other liabilities	**203,342**	140,820
Total liabilities	**8,585,136**	8,010,100
Redeemable Noncontrolling Interests	**—**	1,383
Shareholders' Equity:		
Common stock, $1.00 par value; authorized: 170,000,000 shares; issued and outstanding: 82,254,594 shares at September 30, 2020 and 83,265,674 shares at December 31, 2019	**82,255**	83,266
Additional paid-in capital	**597,113**	600,708
Retained earnings	**136,394**	127,469
Accumulated other comprehensive income	**30,407**	7,575
Total shareholders' equity	**846,169**	819,018
Total liabilities, redeemable noncontrolling interests and shareholders' equity	**$ 9,431,305**	$ 8,830,501

See accompanying notes to Unaudited Consolidated Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
	(In thousands, except share and per share data)			
Interest and dividend income:				
Loans	**$ 59,618**	$ 71,036	**$ 188,783**	$ 212,912
Taxable investment securities	**853**	938	**2,580**	3,244
Non-taxable investment securities	**1,974**	1,924	**5,977**	5,726
Mortgage-backed securities	**2,354**	2,622	**7,707**	8,225
Short-term investments and other	**654**	1,084	**2,307**	3,049
Total interest and dividend income	**65,453**	77,604	**207,354**	233,156
Interest expense:				
Deposits	**6,434**	15,487	**26,565**	44,060
Federal Home Loan Bank borrowings	**664**	4,337	**4,453**	12,144
Junior subordinated debentures	**508**	1,022	**2,189**	3,223
Repurchase agreements and other short-term borrowings	**23**	605	**128**	1,778
Total interest expense	**7,629**	21,451	**33,335**	61,205
Net interest income	**57,824**	56,153	**174,019**	171,951
Provision/(credit) for loan losses	**(4,569)**	167	**34,997**	104
Net interest income after provision/(credit) for loan losses	**62,393**	55,986	**139,022**	171,847
Fees and other income:				
Wealth management and trust fees	**18,240**	19,067	**53,872**	57,037
Investment management fees	**1,393**	2,496	**5,088**	7,601
Other banking fee income	**1,320**	2,658	**6,205**	8,024
Gain on sale of loans, net	**1,006**	934	**1,310**	1,065
Gain on OREO, net	**—**	—	**—**	91
Other	**1,086**	(29)	**753**	936
Total fees and other income	**23,045**	25,126	**67,228**	74,754
Operating expense:				
Salaries and employee benefits	**34,671**	31,684	**103,704**	100,116
Occupancy and equipment	**8,150**	8,260	**23,356**	24,460
Information systems	**7,096**	5,169	**20,934**	16,166
Professional services	**4,025**	4,435	**11,072**	11,308
Marketing and business development	**935**	1,403	**5,138**	4,422
Amortization of intangibles	**714**	671	**2,131**	2,015
FDIC insurance	**960**	59	**1,727**	1,304
Restructuring	**—**	—	**—**	1,646
Other	**4,386**	3,856	**15,236**	10,312
Total operating expense	**60,937**	55,537	**183,298**	171,749
Income before income taxes	**24,501**	25,575	**22,952**	74,852
Income tax expense	**1,821**	5,517	**2,764**	15,803
Net income before attribution to noncontrolling interests	**22,680**	20,058	**20,188**	59,049

(Continued)

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Less: Net income attributable to noncontrolling interests	—	96	**6**	265
Net income attributable to the Company	**$ 22,680**	$ 19,962	**$ 20,182**	$ 58,784
Adjustments to net income attributable to the Company to arrive at net income attributable to common shareholders	—	304	**414**	1,045
Net income attributable to common shareholders	**$ 22,680**	$ 20,266	**$ 20,596**	$ 59,829
Basic earnings per share attributable to common shareholders:				
Total attributable to common shareholders:	**$ 0.28**	$ 0.24	**$ 0.25**	$ 0.72
Weighted average basic common shares outstanding	**82,221,705**	83,631,403	**82,382,050**	83,495,361
Diluted earnings per share attributable to common shareholders:				
Total attributable to common shareholders:	**$ 0.28**	$ 0.24	**$ 0.25**	$ 0.71
Weighted average diluted common shares outstanding	**82,362,338**	83,956,708	**82,746,866**	84,003,281

See accompanying notes to Unaudited Consolidated Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
	(In thousands)			
Net income attributable to the Company	**$ 22,680**	$ 19,962	**$ 20,182**	$ 58,784
Other comprehensive income/(loss), net of tax:				
Net unrealized gain on securities available-for-sale	**368**	5,236	**23,055**	27,469
Unrealized gain/(loss) on cash flow hedges	**202**	2	**(100)**	(31)
Reclassification adjustment for net realized (gain)/loss included in net income	**(200)**	(4)	**(93)**	(360)
Net unrealized gain/(loss) on cash flow hedges	**2**	(2)	**(193)**	(391)
Net unrealized gain/(loss) on other	**—**	—	**(30)**	—
Other comprehensive income, net of tax	**370**	5,234	**22,832**	27,078
Total comprehensive income attributable to the Company, net of tax	**$ 23,050**	$ 25,196	**$ 43,014**	$ 85,862

See accompanying notes to Unaudited Consolidated Financial Statements.

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

Nine months ended September 30, 2020 and 2019

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
	(In thousands, except share data)				
Balance at December 31, 2018	$ 83,656	$ 600,196	$ 87,821	$ (17,719)	$ 753,954
Net income attributable to the Company	—	—	58,784	—	58,784
Other comprehensive income/(loss), net	—	—	—	27,078	27,078
Dividends paid to common shareholders: $0.36 per share	—	—	(30,395)	—	(30,395)
Repurchase of 678,165 shares of common stock	(678)	(6,515)	—	—	(7,193)
Net proceeds from issuance of:					
265,937 shares of common stock	266	2,008	—	—	2,274
42,004 shares of incentive stock grants, net of 9,377 shares canceled or forfeited and 115,173 shares withheld for employee taxes	(83)	(522)	—	—	(605)
Amortization of stock compensation and employee stock purchase plan	—	3,359	—	—	3,359
Stock options exercised	81	464	—	—	545
Other equity adjustments	—	887	—	—	887
Balance at September 30, 2019	$ 83,242	$ 599,877	$ 116,210	$ 9,359	$ 808,688
Balance at December 31, 2019	$ 83,266	$ 600,708	$ 127,469	$ 7,575	$ 819,018
Impact due to change in accounting principle (1)	—	—	13,492	—	13,492
Net income attributable to the Company	—	—	20,182	—	20,182
Other comprehensive income/(loss), net	—	—	—	22,832	22,832
Dividends paid to common shareholders: $0.30 per share	—	—	(24,748)	—	(24,748)
Repurchase of 1,565,060 shares of common stock	(1,565)	(11,242)	—	—	(12,807)
Net proceeds from issuance of:					
278,961 shares of common stock	279	1,777	—	—	2,056
309,416 shares of incentive stock grants, net of 41,366 shares withheld for employee taxes	268	3,747	—	—	4,015
Amortization of stock compensation and employee stock purchase plan	—	607	—	—	607
Stock options exercised	7	48	—	—	55
Other equity adjustments	—	1,468	(1)	—	1,467
Balance at September 30, 2020	$ 82,255	$ 597,113	$ 136,394	$ 30,407	$ 846,169

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(1) Impact due to the adoption of ASU 2016-13, *Financial Instruments (Topic 326)* ("ASU 2016-13"). See Part I. Item 1. "Notes to Unaudited Consolidated Financial Statements - Note 15: Recent Accounting Pronouncements."

See accompanying notes to Unaudited Consolidated Financial Statements.

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

Three months ended September 30, 2020 and 2019

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
	(In thousands, except share data)				
Balance at June 30, 2019	$ 83,774	$ 603,869	$ 106,443	$ 4,125	$ 798,211
Net income attributable to the Company	—	—	19,962	—	19,962
Other comprehensive income/(loss), net	—	—	—	5,234	5,234
Dividends paid to common shareholders: $0.12 per share	—	—	(10,195)	—	(10,195)
Repurchase of 678,165 shares of common stock	(678)	(6,515)	—	—	(7,193)
Net proceeds from issuance of:					
122,790 shares of common stock	123	1,018	—	—	1,141
4,493 shares of incentive stock grants	5	65	—	—	70
Amortization of stock compensation and employee stock purchase plan	—	1,019	—	—	1,019
Stock options exercised	18	92	—	—	110
Other equity adjustments	—	329	—	—	329
Balance at September 30, 2019	$ 83,242	$ 599,877	$ 116,210	$ 9,359	$ 808,688
Balance at June 30, 2020	$ 82,058	$ 594,463	$ 118,647	$ 30,037	$ 825,205
Net income attributable to the Company	—	—	22,680	—	22,680
Other comprehensive income/(loss), net	—	—	—	370	370
Dividends paid to common shareholders: $0.06 per share	—	—	(4,932)	—	(4,932)
Net proceeds from issuance of:					
167,906 shares of common stock	168	828	—	—	996
38,412 shares of incentive stock grants, net of 10,207 shares withheld for employee taxes	28	311	—	—	339
Amortization of stock compensation and employee stock purchase plan	—	1,486	—	—	1,486
Other equity adjustments	1	25	(1)	—	25
Balance at September 30, 2020	$ 82,255	$ 597,113	$ 136,394	$ 30,407	$ 846,169

See accompanying notes to Unaudited Consolidated Financial Statements.

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

	Nine months ended September 30,	
	2020	2019
	(In thousands)	
Cash flows from operating activities:		
Net income attributable to the Company	**$ 20,182**	$ 58,784
Adjustments to arrive at net income:		
Net income attributable to noncontrolling interests	**6**	265
Net income before attribution to noncontrolling interests	**20,188**	59,049
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	**17,202**	17,726
Net income attributable to noncontrolling interests	**(6)**	(265)
Stock compensation, net of cancellations	**4,886**	4,022
Provision/(credit) for loan losses	**34,997**	104
Loans originated for sale	**(89,510)**	(32,796)
Proceeds from sale of loans held for sale	**82,582**	29,176
Deferred income tax expense/(benefit)	**(11,476)**	432
Decrease/(increase) in right-of-use assets	**7,196**	1,416
Increase/(decrease) in operating lease liabilities	**(8,282)**	(1,465)
Net decrease/(increase) in other operating activities	**(28,948)**	(36,916)
Net cash provided by/(used in) operating activities	**28,829**	40,483
Cash flows from investing activities:		
Investment securities available-for-sale:		
Purchases	**(71,634)**	(24,977)
Maturities, calls, redemptions, and principal payments	**64,457**	115,857
Investment securities held-to-maturity:		
Principal payments	**9,316**	18,880
Equity securities at fair value:		
Transfers out	**(36,463)**	(44,537)
Transfers in	**22,455**	36,985
(Investments)/distributions in trusts, net	**(625)**	357
Contingent considerations from divestitures	**3,648**	3,254
(Purchase)/redemption of Federal Home Loan Bank and Federal Reserve Bank stock	**2,460**	1,507
Net increase in portfolio loans	**(319,627)**	(268,238)
Proceeds from recoveries of loans previously charged-off	**276**	887
Proceeds from sale of OREO	**—**	492
Proceeds from sale of portfolio loans	**71,992**	92,304
Capital expenditures	**(6,531)**	(5,795)
Net cash provided by/(used in) investing activities	**(260,276)**	(73,024)

(Continued)

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

	Nine months ended September 30,	
	2020	**2019**
	(In thousands)	
Cash flows from financing activities:		
Net increase/(decrease) in deposits	**586,243**	(122,928)
Net increase/(decrease) in securities sold under agreements to repurchase	**(10,854)**	11,932
Net increase/(decrease) in federal funds purchased	**—**	(20,000)
Net increase/(decrease) in short-term Federal Home Loan Bank borrowings	**(75,000)**	110,000
Advances of long-term Federal Home Loan Bank borrowings	**525,000**	340,000
Repayments of long-term Federal Home Loan Bank borrowings	**(504,593)**	(299,240)
Dividends paid to common shareholders	**(24,748)**	(30,395)
Repurchase of common stock	**(12,807)**	(7,193)
Proceeds from stock option exercises	**55**	545
Proceeds from issuance of common stock	**2,056**	2,274
Tax withholding for share based compensation awards	**(264)**	(1,268)
Distributions paid to noncontrolling interests	**(6)**	(265)
Other equity adjustments	**149**	(170)
Net cash provided by/(used in) financing activities	**485,231**	(16,708)
Net increase/(decrease) in cash and cash equivalents	**253,784**	(49,249)
Cash and cash equivalents at beginning of year	**292,479**	127,259
Cash and cash equivalents at end of period	**$ 546,263**	$ 78,010
Supplemental disclosure of cash flow items:		
Cash paid for interest	**$ 33,104**	$ 60,489
Cash paid for income taxes, (net of refunds received)	**$ 5,948**	$ 18,122
Change in unrealized gain/(loss) on available-for-sale securities, net of tax	**$ 23,055**	$ 27,469
Change in unrealized gain/(loss) on cash flow hedges, net of tax	**$ (193)**	$ (391)
Change in unrealized gain/(loss) on other, net of tax	**$ (30)**	$ —
Non-cash transactions:		
Loans charged-off	**$ (2,319)**	$ (944)

See accompanying notes to Unaudited Consolidated Financial Statements.

1. Basis of Presentation and Summary of Significant Accounting Policies

Boston Private Financial Holdings, Inc. (the "Company" or "BPFH"), is a bank holding company (the "Holding Company") with two reportable segments: (i) Private Banking and (ii) Wealth Management and Trust.

The Private Banking segment is comprised of the banking operations of Boston Private Bank & Trust Company (the "Bank" or "Boston Private Bank"), a trust company chartered by the Commonwealth of Massachusetts, whose deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC"), and a wholly-owned subsidiary of the Company. Boston Private Bank is a member of the Federal Reserve Bank of Boston and primarily operates in three geographic markets: New England, Northern California, and Southern California. The Private Banking segment is principally engaged in providing private 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.

The Wealth Management and Trust segment is comprised of Boston Private Wealth LLC ("Boston Private Wealth"), a registered investment adviser ("RIA") and wholly-owned subsidiary of the Bank, as well as the trust operations of Boston Private Bank. The Wealth Management and Trust segment offers planning-based financial strategies, wealth management, family office, financial planning, tax planning, and trust services to individuals, families, institutions, and nonprofit institutions. On September 1, 2019, KLS Professional Advisors Group, LLC ("KLS") merged with and into Boston Private Wealth. Prior to the merger, the results of KLS were reported in a third reportable segment, "Affiliate Partners", as discussed below. The Wealth Management and Trust segment operates in New England, New York, Southeast Florida, Northern California, and Southern California.

Prior to the third quarter of 2019, the Company had three reportable segments: Affiliate Partners, Private Banking, and Wealth Management and Trust. The Affiliate Partners segment was comprised of two affiliates: KLS and Dalton, Greiner, Hartman, Maher & Co., LLC ("DGHM"), each of which are RIAs. With the integration of KLS into Boston Private Wealth in September of 2019, the Company reorganized its segment reporting structure to align with how its financial performance and strategy are reviewed and managed. The results of KLS are included in the results of Boston Private Wealth within the Wealth Management and Trust segment, and the results of DGHM are included within the Holding Company and Eliminations for all periods presented. See Part II. Item 8. "Financial Statements and Supplementary Data - Note 3: Asset Sales and Divestitures" in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 for additional information.

The Company conducts substantially all of its business through its two reportable segments. All significant intercompany accounts and transactions have been eliminated in consolidation, and the portion of income allocated to the owners other than the Company is included in "Net income attributable to noncontrolling interests", if any, in the Consolidated Statements of Operations for the periods owned. Redeemable noncontrolling interests, if any, in the Consolidated Balance Sheets reflect the maximum redemption value of agreements with the owners of DGHM.

The unaudited interim Consolidated Financial Statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and include all necessary adjustments of a normal recurring nature, which, in the opinion of management, are required for a fair presentation of the results of operations and financial condition of the Company. The interim results of consolidated operations are not necessarily indicative of the results for the entire year.

The information in this report should be read in conjunction with the Consolidated Financial Statements and accompanying notes included in the Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission ("SEC"). Prior period amounts are reclassified whenever necessary to conform to the current period presentation. With the integration of KLS into Boston Private Wealth and the related change to reportable segments, fee revenue from KLS is reported in Wealth management and trust fees for all periods on the Consolidated Statements of Operations, which was presented as Wealth advisory fees in prior periods.

The Company's significant accounting policies are described in Part II. Item 8. "Financial Statements and Supplementary Data - Note 1: Basis of Presentation and Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the SEC. For interim reporting purposes, the Company follows the same significant accounting policies, except for the following new accounting pronouncements from the Financial Accounting Standards Board (the "FASB") that were adopted effective January 1, 2020:

- In June 2016, the FASB issued ASU 2016-13. In 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments* ("ASU 2019-04"); ASU 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief* ("ASU 2019-05"); ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 942)—Effective Dates* ("ASU 2019-10"); and ASU 2019-11, *Codification Improvements* *to Topic 326, Financial Instruments—Credit Losses* (“ASU 2019-11”). This update and related amendments to Topic 326 are intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology with a current expected credit losses (“CECL”) model methodology that reflects expected credit losses and requires consideration of a reasonable and supportable forecast to inform credit loss estimates. This ASU is effective for fiscal years beginning after December 15, 2019. The Company adopted this update on January 1, 2020 utilizing a modified retrospective approach. On adoption of ASU 2016-13 on January 1, 2020, the Company recognized a decrease in the Allowance for loan losses of $20.4 million and an increase in the reserve for unfunded loan commitments of $1.4 million. The net, after-tax impact of the decrease in the Allowance for loan losses and the increase in the reserve for unfunded loan commitments was an increase to Retained earnings of $13.5 million as shown in the Consolidated Statements of Changes in Shareholders’ Equity.

2. Earnings Per Share

The treasury stock method of calculating earnings per share (“EPS”) is presented below for the three and nine months ended September 30, 2020 and 2019. The following tables present the computations of basic and diluted EPS:

	Three months ended September 30,		**Nine months ended September 30,**	
	2020	**2019**	**2020**	**2019**
	(In thousands, except share and per share data)			
Basic earnings per share - Numerator:				
Net income before attribution to noncontrolling interests	**$ 22,680**	$ 20,058	**$ 20,188**	$ 59,049
Less: Net income attributable to noncontrolling interests	**—**	96	**6**	265
Net income attributable to the Company	**22,680**	19,962	**20,182**	58,784
Decrease in noncontrolling interests’ redemption values (1)	**—**	304	**414**	1,045
Net income attributable to common shareholders, treasury stock method	**$ 22,680**	$ 20,266	**$ 20,596**	$ 59,829
Basic earnings per share - Denominator:				
Weighted average basic common shares outstanding	**82,221,705**	83,631,403	**82,382,050**	83,495,361
Per share data - Basic earnings per share:				
Total attributable to common shareholders	**$ 0.28**	$ 0.24	**$ 0.25**	$ 0.72

	Three months ended September 30,		**Nine months ended September 30,**	
	2020	**2019**	**2020**	**2019**
	(In thousands, except share and per share data)			
Diluted earnings per share - Numerator:				
Net income attributable to common shareholders, after assumed dilution	**$ 22,680**	$ 20,266	**$ 20,596**	$ 59,829
Diluted earnings per share - Denominator:				
Weighted average basic common shares outstanding	**82,221,705**	83,631,403	**82,382,050**	83,495,361
Dilutive effect of: Time-based and market-based stock options, performance-based and time-based restricted stock, and performance-based and time-based restricted stock units, and other dilutive securities (2)	**140,633**	325,305	364,816	507,920
Weighted average diluted common shares outstanding (2)	**82,362,338**	83,956,708	**82,746,866**	84,003,281
Per share data - Diluted earnings per share:				
Total attributable to common shareholders	**$ 0.28**	$ 0.24	**$ 0.25**	$ 0.71
Dividends per share declared and paid on common stock	**$ 0.06**	$ 0.12	**$ 0.30**	$ 0.36

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(1) See Part II. Item 8. “Financial Statements and Supplementary Data - Note 14: Noncontrolling Interests” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 for a description of the redemption values related to the redeemable noncontrolling interests. In accordance with the FASB Accounting Standards Codification *Distinguishing Liabilities from Equity* (“ASC 480”), an increase in redemption value from period to period reduces income attributable to common shareholders. A decrease in redemption value from period to period increases income attributable to common shareholders, but only to the extent that the cumulative change in redemption value remains a cumulative increase since adoption of this standard in the first quarter of 2009.

(2) The diluted EPS computations for the three and nine months ended September 30, 2020 and 2019 do not assume the conversion, exercise, or contingent issuance of the following shares for the following periods because the result would have been anti-dilutive for the periods indicated. This includes shares excluded from the computation of diluted EPS because the

effect would have been anti-dilutive and out-of-the money options, where the exercise prices were greater than the average market price of common shares for the period, because their inclusion would have been anti-dilutive As a result of the anti-dilution, the potential common shares excluded from the diluted EPS computation are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Anti-dilutive shares excluded from computation of average dilutive EPS	**(In thousands)**			
Potential common shares from: options, restricted stock, or other dilutive securities	**2,655**	808	**1,901**	760
Total anti-dilutive shares excluded from computation of average dilutive EPS	**2,655**	808	**1,901**	760

3. Reportable Segments

Management reporting

The Company has two reportable segments: (i) Private Banking and (ii) Wealth Management and Trust, as well as Boston Private Financial Holdings, Inc. (the “Holding Company”) within Holding Company and Eliminations. The financial performance of the Company is managed and evaluated according to these two segments. Each segment is managed by a segment leader (“Segment Leader”) who has full authority and responsibility for the performance and the allocation of resources within their segment. The Company’s Chief Executive Officer (“CEO”) is the Company’s Chief Operating Decision Maker (“CODM”).

The Segment Leader for Private Banking is the CEO of Boston Private Bank, who is also the Company’s CEO. The Bank’s banking operations are reported in the Private Banking segment. The Segment Leader for Wealth Management and Trust is the President of Private Banking, Wealth and Trust. The Segment Leader of Wealth Management and Trust reports to the CEO of the Company. The Segment Leaders have authority with respect to the allocation of capital within their respective segments, management oversight responsibility, performance assessments, and overall authority and accountability within their respective segment. The Company’s CODM communicates with the President of Private Banking, Wealth and Trust regarding profit and loss responsibility, strategic planning, priority setting and other matters. The Company’s Chief Financial Officer reviews all financial detail with the CODM on a monthly basis.

Description of reportable segments

Private Banking

The Private Banking segment operates primarily in three geographic markets: New England, Northern California and Southern California. The Bank conducts business under the name of Boston Private Bank & Trust Company in all markets. The Bank is chartered by the Commonwealth of Massachusetts and is insured by the FDIC. The Bank is principally engaged in providing private banking services to high net worth individuals, privately-owned businesses and partnerships, and nonprofit organizations. In addition, the Bank 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 the trust operations of the Bank and the operations of Boston Private Wealth. On September 1, 2019, KLS merged into Boston Private Wealth. As a result, the results of KLS are included in the results of Boston Private Wealth within the Wealth Management and Trust segment for all periods presented. The Wealth Management and Trust segment offers planning-based financial strategies, wealth management, family office, financial planning, tax planning, and trust services to individuals, families, institutions, and nonprofit institutions. The Wealth Management and Trust segment operates in New England, New York, Southeast Florida, Northern California and Southern California.

Changes to segment reporting

With the integration of KLS into Boston Private Wealth in the third quarter of 2019, the Company reorganized the segment reporting structure to align with how the Company's financial performance and strategy is reviewed and managed. The results of KLS are included in the results of Boston Private Wealth within the Wealth Management and Trust segment, and the results of DGHM are included in Holding Company and Eliminations for all periods presented.

Measurement of segment profit and assets

The accounting policies of the segments are the same as those described in Part I. Item 1. "Notes to Unaudited Consolidated Financial Statements - Note 1: Basis of Presentation and Summary of Significant Accounting Policies."

Reconciliation of reportable segment items

The following tables present a reconciliation of the revenues, expenses, assets, and other significant items of the reportable segments as of and for the three and nine months ended September 30, 2020 and 2019.

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Private Banking (1)	(In thousands)			
Net interest income	**$ 58,325**	$ 57,058	**$ 176,105**	$ 174,814
Fees and other income	**2,487**	3,403	**7,192**	9,465
Total revenue	**60,812**	60,461	**183,297**	184,279
Provision/(credit) for loan losses	**(4,569)**	167	**34,997**	104
Operating expense (2)	**43,128**	38,134	**128,630**	117,256
Income before income taxes	**22,253**	22,160	**19,670**	66,919
Income tax expense	**2,946**	4,212	**760**	13,520
Net income before attribution to noncontrolling interests	**19,307**	17,948	**18,910**	53,399
Net income attributable to the Company	**$ 19,307**	$ 17,948	**$ 18,910**	$ 53,399
Assets	**$ 9,366,642**	$ 8,617,207	**$ 9,366,642**	$ 8,617,207
Amortization of intangibles	**$ 76**	$ —	**$ 217**	$ —
Depreciation	**$ 2,684**	$ 2,229	**$ 7,921**	$ 7,271

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Wealth Management and Trust (1)	(In thousands)			
Net interest income	**$ 1**	$ 99	**$ 80**	$ 309
Fees and other income	**18,272**	19,106	**54,049**	57,188
Total revenue	**18,273**	19,205	**54,129**	57,497
Operating expense (2)	**15,540**	13,888	**45,640**	43,864
Income before income taxes	**2,733**	5,317	**8,489**	13,633
Income tax expense	**808**	1,751	**2,780**	4,465
Net income before attribution to noncontrolling interests	**1,925**	3,566	**5,709**	9,168
Net income attributable to the Company	**$ 1,925**	$ 3,566	**$ 5,709**	$ 9,168
Assets	**$ 149,105**	$ 143,326	**$ 149,105**	$ 143,326
Amortization of intangibles	**$ 638**	$ 671	**$ 1,914**	$ 2,015
Depreciation	**$ 282**	$ 290	**$ 862**	$ 991

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Holding Company and Eliminations (1)	(In thousands)			
Net interest income (3)	**$ (502)**	$ (1,004)	**$ (2,166)**	$ (3,172)
Fees and other income	**2,286**	2,617	**5,987**	8,101
Total revenue	**1,784**	1,613	**3,821**	4,929
Operating expense	**2,269**	3,515	**9,028**	10,629
Income/(loss) before income taxes	**(485)**	(1,902)	**(5,207)**	(5,700)
Income tax expense/(benefit)	**(1,933)**	(446)	**(776)**	(2,182)
Net income/(loss) before attribution to noncontrolling interests	**1,448**	(1,456)	**(4,431)**	$ (3,518)
Noncontrolling interests	**—**	96	**6**	265
Net income/(loss) attributable to the Company	**$ 1,448**	$ (1,552)	**$ (4,437)**	$ (3,783)
Assets (including eliminations)	**$ (84,442)**	$ (69,589)	**$ (84,442)**	$ (69,589)
Depreciation	**$ 36**	$ 51	**$ 113**	$ 147

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Total Company (1)		(In thousands)		
Net interest income	**$ 57,824**	$ 56,153	**$ 174,019**	$ 171,951
Fees and other income	**23,045**	25,126	**67,228**	74,754
Total revenue	**80,869**	81,279	**241,247**	246,705
Provision/(credit) for loan losses	**(4,569)**	167	**34,997**	104
Operating expense	**60,937**	55,537	**183,298**	171,749
Income before income taxes	**24,501**	25,575	**22,952**	74,852
Income tax expense	**1,821**	5,517	**2,764**	15,803
Net income before attribution to noncontrolling interests	**22,680**	20,058	**20,188**	59,049
Noncontrolling interests	**—**	96	**6**	265
Net income attributable to the Company	**$ 22,680**	$ 19,962	**$ 20,182**	$ 58,784
Assets	**$ 9,431,305**	$ 8,690,944	**$ 9,431,305**	$ 8,690,944
Amortization of intangibles	**$ 714**	$ 671	**$ 2,131**	$ 2,015
Depreciation	**$ 3,002**	$ 2,570	**$ 8,896**	$ 8,409

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(1) Due to rounding, the sum of individual segment results may not add up to the Total Company results.

(2) Operating expense related to the Private Banking and Wealth Management and Trust segments includes restructuring expense of $1.3 million and $0.4 million, respectively, for the nine months ended September 30, 2019. There were no other restructuring expenses in other periods presented.

(3) Interest expense on junior subordinated debentures is included in Holding Company and Eliminations.

4. Investments

The following table presents a summary of investment securities at September 30, 2020 and December 31, 2019:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In thousands)			
At September 30, 2020				
Available-for-sale securities at fair value:				
U.S. government and agencies	**$ 19,960**	**$ 1,130**	**$ —**	**$ 21,090**
Government-sponsored entities	**153,105**	**5,432**	**—**	**158,537**
Municipal bonds	**319,749**	**20,026**	**(119)**	**339,656**
Mortgage-backed securities (1)	**474,916**	**17,344**	**(216)**	**492,044**
Total	**$ 967,730**	**$ 43,932**	**$ (335)**	**$ 1,011,327**
Held-to-maturity securities at amortized cost:				
Mortgage-backed securities (1)	**$ 38,600**	**$ 748**	**$ —**	**$ 39,348**
Total	**$ 38,600**	**$ 748**	**$ —**	**$ 39,348**
Equity securities at fair value:				
Money market mutual funds (2)	**$ 32,818**	**$ —**	**$ —**	**$ 32,818**
Total	**$ 32,818**	**$ —**	**$ —**	**$ 32,818**
At December 31, 2019				
Available-for-sale securities at fair value:				
U.S. government and agencies	$ 19,955	$ 42	$ (57)	$ 19,940
Government-sponsored entities	154,963	1,292	—	156,255
Municipal bonds	312,977	12,551	(73)	325,455
Mortgage-backed securities (1)	479,005	1,117	(3,488)	476,634
Total	$ 966,900	$ 15,002	$ (3,618)	$ 978,284
Held-to-maturity securities at amortized cost:				
Mortgage-backed securities (1)	$ 48,212	$ 53	$ (316)	$ 47,949
Total	$ 48,212	$ 53	$ (316)	$ 47,949
Equity securities at fair value:				
Money market mutual funds (2)	$ 18,810	$ —	$ —	$ 18,810
Total	$ 18,810	$ —	$ —	$ 18,810

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(1) All Mortgage-backed securities are guaranteed by the U.S. government, U.S. government agencies, or government-sponsored entities.
(2) Money market mutual funds maintain a constant net asset value of $1.00 and therefore have no unrealized gain or loss.

The Company adopted ASU 2016-13 as of January 1, 2020. Under ASU 2016-13, the Company is required to assess the investment portfolio for credit impairment. The Company considers the Held-to-maturity portfolio to meet the "zero loss" expectation requirements. All Held-to-maturity securities owned by the Company are AAA rated mortgage-backed securities that are backed by the guarantees of the U.S. government, U.S. government agencies or government-sponsored entities. The Company has experienced zero losses for these securities. In addition, as of September 30, 2020, no Held-to-maturity securities were past due. Therefore, no credit allowance was recorded on the Held-to-maturity investment portfolio. The Company evaluated the Available-for-sale investment securities on a security by security basis and identified no security with impairment. Therefore, no credit allowance was booked on the Available-for-sale investment portfolio. See Part I. Item 1. “Notes to Unaudited Consolidated Financial Statements - Note 15: Recent Accounting Pronouncements” for additional information on ASU 2016-13.

The following table presents the maturities of Available-for-sale investment securities, based on contractual maturity, as of September 30, 2020. Certain securities are callable before their final maturity. Additionally, certain securities (such as Mortgage-backed securities) are shown within the table below based on their final (contractual) maturity, but due to prepayments and amortization are expected to have shorter lives.

	Available-for-sale Securities	
	Amortized Cost	Fair Value
	(In thousands)	
Within one year	$ 52,777	$ 53,205
After one, but within five years	305,620	318,668
After five, but within ten years	222,230	235,564
Greater than ten years	387,103	403,890
Total	$ 967,730	$ 1,011,327

The following table presents the maturities of Held-to-maturity investment securities, based on contractual maturity, as of September 30, 2020.

	Held-to-maturity Securities	
	Amortized Cost	Fair Value
	(In thousands)	
After five, but within ten years	$ 31,527	$ 32,123
Greater than ten years	7,073	7,225
Total	$ 38,600	$ 39,348

The following table presents the maturities of Equity securities, based on contractual maturity, as of September 30, 2020.

	Equity Securities	
	Amortized Cost	Fair Value
	(In thousands)	
Within one year	$ 32,818	$ 32,818
Total	$ 32,818	$ 32,818

During the three and nine months ended September 30, 2020 and 2019, there were no sales of Available-for-sale, held-to- maturity, or Equity securities.

The following tables present information regarding securities at September 30, 2020 and December 31, 2019 having temporary impairment, due to the fair values having declined below the amortized cost of the individual securities, and the time period that the investments have been temporarily impaired. As of September 30, 2020, there were no Held-to-maturity securities having temporary impairment.

	Less than 12 months		12 months or longer		Total		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	# of Securities
	(In thousands, except number of securities)						
September 30, 2020							
Available-for-sale securities							
Municipal bonds	$ 10,740	$ (119)	$ —	$ —	$ 10,740	$ (119)	4
Mortgage-backed securities (1)	25,864	(103)	6,376	(113)	32,240	(216)	29
Total	$ 36,604	$ (222)	$ 6,376	$ (113)	$ 42,980	$ (335)	33

	Less than 12 months		12 months or longer		Total		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	# of Securities
	(In thousands, except number of securities)						
December 31, 2019							
Available-for-sale securities							
U.S. government and agencies	$ 9,899	$ (57)	$ —	$ —	$ 9,899	$ (57)	1
Government-sponsored entities	1,725	—	—	—	1,725	—	1
Municipal bonds	9,149	(73)	—	—	9,149	(73)	4
Mortgage-backed securities (1)	140,723	(1,016)	187,043	(2,472)	327,766	(3,488)	85
Total	$ 161,496	$ (1,146)	$ 187,043	$ (2,472)	$ 348,539	$ (3,618)	91
Held-to-maturity securities							
Mortgage-backed securities (1)	$ 10,328	$ (11)	$ 30,451	$ (305)	$ 40,779	$ (316)	14
Total	$ 10,328	$ (11)	$ 30,451	$ (305)	$ 40,779	$ (316)	14

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

As of September 30, 2020, the Mortgage-backed securities in the first table above had current Standard and Poor’s credit rating of at least AAA. One municipal security in the first table above had a current Standard and Poor's credit rating of at least AA+; the remaining had a rating of AAA. As of September 30, 2020, the Company determined that the unrealized losses on investments, since their purchase, is primarily attributed to changes in interest rates and not as a result of the deterioration of credit quality. As of September 30, 2020, the Company had no intent to sell any securities in an unrealized loss position, and it is 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 loss amounts.

Other investments

The Company invests in low-income housing tax credits, which are included in Other assets, to encourage private capital investment in the construction and rehabilitation of low-income housing. The Company makes these investments as an indirect subsidy that allows investors, such as the Company, in a flow-through limited liability entity, such as limited partnerships or limited liability companies that manage or invest in qualified affordable housing projects, to receive the benefits of the tax credits allocated to the entity that owns the qualified affordable housing project. The Company also holds partnership interests in venture capital funds formed to provide financing to small businesses and to promote community development.

Other investments, which are included in Other assets, can be temporarily impaired when the fair values decline below the amortized costs of the individual investments. There were no other investments with unrealized losses as of September 30, 2020 or December 31, 2019. The Company’s other investments primarily include low-income housing partnerships which generate tax credits. The Company also holds partnership interests in small business investment companies formed to provide financing to small businesses and to promote community development. The Company had $79.9 million and $65.5 million in other investments included in Other assets as of September 30, 2020 and December 31, 2019, respectively.

5. Fair Value Measurements

Fair value is defined under GAAP as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. The Company determines the fair values of its financial instruments based on the fair value hierarchy established in ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”), which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value. Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

The following tables present the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2020 and December 31, 2019, aggregated by the level in the fair value hierarchy within which those measurements fall:

		Fair value measurements at reporting date using:		
	As of September 30, 2020	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In thousands)			
Assets:				
Available-for-sale securities:				
U.S. government and agencies	$ **21,090**	$ **—**	$ **21,090**	$ **—**
Government-sponsored entities	**158,537**	**—**	**158,537**	**—**
Municipal bonds	**339,656**	**—**	**339,656**	**—**
Mortgage-backed securities	**492,044**	**—**	**492,044**	**—**
Total available-for-sale securities	**1,011,327**	**—**	**1,011,327**	**—**
Equity securities	**32,818**	**32,818**	**—**	**—**
Derivatives - interest rate customer swaps	**91,399**	**—**	**91,399**	**—**
Derivatives - risk participation agreement	**64**	**—**	**64**	**—**
Trading securities held in the "rabbi trust" (1)	**6,744**	**6,744**	**—**	**—**
Liabilities:				
Derivatives - interest rate customer swaps	$ **92,758**	$ **—**	$ **92,758**	$ **—**
Derivatives - interest rate swaps	**272**	**—**	**272**	**—**
Derivatives - risk participation agreement	**444**	**—**	**444**	**—**
Deferred compensation "rabbi trust" (1)	**6,744**	**6,744**	**—**	**—**

		Fair value measurements at reporting date using:		
	As of December 31, 2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In thousands)			
Assets:				
Available-for-sale securities:				
U.S. government and agencies	$ 19,940	$ —	$ 19,940	$ —
Government-sponsored entities	156,255	—	156,255	—
Municipal bonds	325,455	—	325,455	—
Mortgage-backed securities	476,634	—	476,634	—
Total available-for-sale securities	978,284	—	978,284	—
Equity securities	18,810	18,810	—	—
Derivatives - interest rate customer swaps	36,089	—	36,089	—
Derivatives - risk participation agreements	10	—	10	—
Trading securities held in the "rabbi trust" (1)	6,119	6,119	—	—
Liabilities:				
Derivatives - interest rate customer swaps	$ 36,580	$ —	$ 36,580	$ —
Derivatives - risk participation agreements	242	—	242	—
Deferred compensation "rabbi trust" (1)	6,112	6,112	—	—

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(1) The Company has adopted a special trust for the Deferred Compensation Plan called a "rabbi trust." The rabbi trust is an arrangement that is used to accumulate assets that may be used to fund the Company's obligation to pay benefits under the Deferred Compensation Plan. To prevent immediate taxation to the executives who participate in the Deferred Compensation Plan, the amounts placed in the rabbi trust must remain subject to the claims of the Company's creditors. The investments chosen by the participants in the Deferred Compensation Plan are mirrored by the rabbi trust as a way to minimize the earnings volatility of the Deferred Compensation Plan.

As of September 30, 2020 and December 31, 2019, Available-for-sale securities consisted of U.S. government and agencies securities, government-sponsored entities securities, municipal bonds, and mortgage-backed securities. Available-for-sale Level 2 securities generally have quoted prices but are traded less frequently than exchange-traded securities and can be priced using market data from similar assets and include Government-sponsored entities securities, Municipal bonds, Mortgage-backed securities, “off-the-run” U.S. Treasury securities, and certain investments in the Small Business Administration's (the "SBA") loans (which are categorized as U.S. government and agencies securities). “Off-the-run” U.S. Treasury securities are Treasury bonds and notes issued before the most recently issued bond or note of a particular maturity. When Treasuries move to the secondary over-the-counter market, they become less frequently traded, therefore, they are considered “off-the-run.” No investments held as of September 30, 2020 or December 31, 2019 were categorized as Level 3.

As of September 30, 2020 and December 31, 2019, Equity securities consisted of Level 1 money market mutual funds that are valued with prices quoted in active markets.

In managing its interest rate and credit risk, the Company may utilize derivative instruments including interest rate customer swaps, interest rate swaps, and risk participation agreements. As a service to its customers, the Company may utilize derivative instruments including customer foreign exchange forward contracts to manage its foreign exchange risk, if any. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities, and therefore, they have been categorized as a Level 2 measurement as of September 30, 2020 and December 31, 2019. See Part I. Item 1. “Notes to Unaudited Consolidated Financial Statements - Note 8: Derivatives and Hedging Activities” for further details.

To comply with the provisions of ASC 820, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty’s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. Counterparty exposure is evaluated by netting positions that are subject to master netting agreements, as well as considering the amount of collateral securing the position.

The Company has determined that the majority of inputs used to value its derivatives are within Level 2. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy as of September 30, 2020 and December 31, 2019.

Trading securities held in the rabbi trust consist of publicly traded mutual fund investments that are valued at prices quoted in active markets. Therefore, they have been categorized as Level 1 as of September 30, 2020 and December 31, 2019.

The Company accounts for its investments held in the rabbi trust in accordance with ASC 320, *Investments - Debt and Equity Securities*. The investments held in the rabbi trust are classified as trading securities. The assets of the rabbi trust are carried at their fair value within Other assets on the Consolidated Balance Sheets. Changes in the fair value of the securities are recorded as an increase or decrease in Other income each quarter. The deferred compensation liability reflects the market value of the securities selected by the participants and is included within Other liabilities on the Consolidated Balance Sheets. Changes in the fair value of the liability are recorded as an increase or decrease in Salaries and employee benefits expense each quarter.

There were no transfers for assets or liabilities recorded at fair value on a recurring basis as of September 30, 2020 and December 31, 2019. There were no Level 3 assets valued on a recurring basis at September 30, 2020 or December 31, 2019. There were no changes in the valuation techniques used for measuring the fair value.

The following tables present the Company’s assets measured at fair value on a non-recurring basis during the periods ended September 30, 2020 and September 30, 2019, aggregated by the level in the fair value hierarchy within which those measurements fall.

		Fair value measurements at reporting date using:			Gain (losses) from fair value changes	
	As of September 30, 2020	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Three months ended September 30, 2020	Nine months ended September 30, 2020
	(In thousands)					
Assets:						
Impaired loans (1)	$ 102	$ —	$ —	$ 102	$ 30	$ (1,168)

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(1) Collateral-dependent impaired loans held as of September 30, 2020 that had write-downs or recoveries in fair value or whose specific reserve changed during the nine months ended September 30, 2020.

		Fair value measurements at reporting date using:			Gain (losses) from fair value changes	
	As of September 30, 2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Three months ended September 30, 2019	Nine months ended September 30, 2019
	(In thousands)					
Assets:						
Impaired loans (1)	$ 729	$ —	$ —	$ 729	$ (388)	$ 204

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(1) Collateral-dependent impaired loans held as of September 30, 2019 that had write-downs or recoveries in fair value or whose specific reserve changed during the nine months ended September 30, 2019.

The following tables present additional quantitative information about assets measured at fair value on a non-recurring basis for which the Company has utilized Level 3 inputs to determine fair value:

	As of September 30, 2020				
	Fair Value	Valuation Technique	Unobservable Input	Range of Inputs Utilized	Weighted Average of Inputs Utilized
	(In thousands)				
Impaired Loans	$ 102	Appraisals of Collateral	Discount for costs to sell	10% - 10%	10%
			Appraisal adjustments	—%	—%

	As of September 30, 2019				
	Fair Value	Valuation Technique	Unobservable Input	Range of Inputs Utilized	Weighted Average of Inputs Utilized
	(In thousands)				
Impaired Loans	$ 729	Appraisals of Collateral	Discount for costs to sell	0% - 6%	6%
			Appraisal adjustments	—%	—%

Impaired loans include those loans that were adjusted to the fair value of underlying collateral as required under ASC 310, *Receivables*. The amount does not include impaired loans that are measured based on expected future cash flows discounted at the respective loan's original effective interest rate, as that amount is not considered a fair value measurement. The Company uses appraisals, which management may adjust to reflect estimated fair value declines, or may apply other discounts to appraised values for unobservable factors resulting from its knowledge of the property or consideration of broker quotes. The appraisers use a market, income, and/or a cost approach in determining the value of the collateral. Therefore, they have been categorized as a Level 3 measurement.

The following tables present the carrying values and fair values of the Company's financial instruments that are not measured at fair value on a recurring basis:

	As of September 30, 2020				
	Book Value	**Fair Value**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
	(In thousands)				
FINANCIAL ASSETS:					
Cash and cash equivalents	**$ 546,263**	**$ 546,263**	**$ 546,263**	**$ —**	**$ —**
Investment securities held-to-maturity	**38,600**	**39,348**	**—**	**39,348**	**—**
Loans held for sale	**15,074**	**15,404**	**—**	**15,404**	**—**
Loans, net	**7,138,018**	**6,985,399**	**—**	**—**	**6,985,399**
Other financial assets	**65,812**	**65,812**	**—**	**65,812**	**—**
FINANCIAL LIABILITIES:					
Deposits	**7,827,719**	**7,829,292**	**—**	**7,829,292**	**—**
Securities sold under agreements to repurchase	**42,544**	**42,544**	**—**	**42,544**	**—**
Federal Home Loan Bank borrowings	**296,236**	**297,641**	**—**	**297,641**	**—**
Junior subordinated debentures	**106,363**	**69,863**	**—**	**—**	**69,863**
Other financial liabilities	**2,189**	**2,189**	**—**	**2,189**	**—**

	As of December 31, 2019				
	Book Value	**Fair Value**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
	(In thousands)				
FINANCIAL ASSETS:					
Cash and cash equivalents	$ 292,479	$ 292,479	$ 292,479	$ —	$ —
Investment securities held-to-maturity	48,212	47,949	—	47,949	—
Loans held for sale	7,386	7,475	—	7,475	—
Loans, net	6,904,722	6,883,360	—	—	6,883,360
Other financial assets	67,348	67,348	—	67,348	—
FINANCIAL LIABILITIES:					
Deposits	7,241,476	7,241,739	—	7,241,739	—
Securities sold under agreements to repurchase	53,398	53,398	—	53,398	—
Federal Home Loan Bank borrowings	350,829	351,233	—	351,233	—
Junior subordinated debentures	106,363	96,363	—	—	96,363
Other financial liabilities	1,957	1,957	—	1,957	—

The estimated fair values have been determined by using available quoted market information or other appropriate valuation methodologies. The aggregate fair value amounts presented above do not represent the underlying value of the financial assets and liabilities of the Company taken as a whole as they do not reflect any premium or discount the Company might recognize if the assets were sold or the liabilities sold, settled, or redeemed. An excess of fair value over book value on financial assets represents a premium, or gain, the Company might recognize if the assets were sold, while an excess of book value over fair value on financial liabilities represents a premium, or gain, the Company might recognize if the liabilities were sold, settled, or redeemed prior to maturity. Conversely, losses would be recognized if assets were sold where the book value exceeded the fair value or liabilities were sold where the fair value exceeded the book value.

The fair value estimates provided are made at a specific point in time, based on relevant market information and the characteristics of the financial instrument. The estimates do not provide for any premiums or discounts that could result from concentrations of ownership of a financial instrument. Because no active market exists for some of the Company's financial instruments, certain fair value estimates are based on subjective judgments regarding current economic conditions, risk characteristics of the financial instruments, future expected loss experience, prepayment assumptions, and other factors. The resulting estimates involve uncertainties and are considered best estimates. Changes made to any of the underlying assumptions could significantly affect the estimates.

Cash and cash equivalents

The carrying value reported in the Consolidated Balance Sheets for Cash and cash equivalents approximates fair value due to the short-term nature of their maturities, and these assets are classified as Level 1 measurements.

Investment securities held-to-maturity

Investment securities Held-to-maturity consist of Mortgage-backed securities as of September 30, 2020 and December 31, 2019. The Mortgage-backed securities are fixed income instruments that are not quoted on an exchange but may be traded in active markets. The fair value of these securities is based on quoted market prices obtained from external pricing services. The principal market for our securities portfolio is the secondary institutional market, with an exit price that is predominantly reflective of bid level pricing in that market. Accordingly, Held-to-maturity Mortgage-backed securities are classified as Level 2.

There were no transfers of the Company's financial instruments that are not measured at fair value on a recurring basis as of September 30, 2020 and December 31, 2019.

Loans held for sale

Loans held for sale are recorded at the lower of cost or fair value in the aggregate. Fair value estimates are based on actual commitments to sell the loans to investors at an agreed upon price or current market prices if rates have changed since the time the loan closed. Accordingly, loans held for sale are included in the Level 2 fair value category.

Loans, net

Fair value estimates are based on loans with similar financial characteristics. The Company estimates the fair value of loans using the exit price notion under ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which includes identifying an exit price using current market information for origination rates and making certain adjustments to incorporate credit risk, transaction costs and other adjustments utilizing publicly available rates and indexes. Loans, net are included in the Level 3 fair value category based upon the inputs and valuation techniques used.

Other financial assets

Other financial assets consist of accrued interest and fees receivable, and stock in the Federal Home Loan Bank of Boston ("FHLB") and the Federal Reserve Bank ("FRB"), for which the carrying amount approximates fair value, and these assets are classified as Level 2 measurements.

Deposits

The fair values reported for transaction accounts (demand, NOW, savings, and money market) equal their respective book values reported on the Consolidated Balance Sheets, and these liabilities are classified as Level 2 measurements. The fair values disclosed are, by definition, equal to the amount payable on demand at the reporting date. The fair values for certificates of deposit are based on the discounted value of contractual cash flows. The discount rates used are representative of approximate rates currently offered on certificates of deposit with similar remaining maturities, and these liabilities are classified as Level 2 measurements.

Securities sold under agreements to repurchase

The fair values of securities sold under agreements to repurchase are estimated based on contractual cash flows discounted at the Bank's incremental borrowing rate for FHLB borrowings with similar maturities, and these liabilities have been classified as Level 2 measurements.

Federal funds purchased, if any

The carrying amounts of federal funds purchased, if any, approximate fair value due to their short-term nature, and therefore, these funds have been classified as Level 2 measurements.

Federal Home Loan Bank borrowings

The fair values reported for FHLB borrowings are estimated based on the discounted value of contractual cash flows. The discount rate used is based on the Bank's estimated current incremental borrowing rate for FHLB borrowings of similar maturities and therefore these borrowings have been classified as Level 2 measurements.

Junior subordinated debentures

The fair values of the Junior subordinated debentures issued by Boston Private Capital Trust I and Boston Private Capital Trust II are estimated using Level 3 inputs such as the interest rates on these securities, current rates for similar debt, and regulatory changes that would result in an unfavorable change in the regulatory capital treatment of this type of debt.

Other financial liabilities

Other financial liabilities consist of accrued interest payable for which the carrying amount approximates fair value and is classified as Level 2 measurements.

Financial instruments with off-balance sheet risk, if any

The Bank's commitments to originate loans and for unused lines and outstanding letters of credit are primarily at market interest rates, and therefore, the carrying amount approximates fair value.

6. Loan Portfolio and Credit Quality

The Bank's lending activities are conducted principally in the regions of New England, Northern California, and Southern California. The Bank originates single and multi-family residential loans, commercial real estate loans, commercial and industrial loans, commercial tax-exempt loans, construction and land loans, and home equity and other consumer loans. Most loans are secured by borrowers' personal or business assets. The ability of the Bank's single family residential and consumer borrowers to honor their repayment commitments is generally dependent on the level of overall economic conditions within the Bank's lending areas. Commercial, construction, and land borrowers' ability to repay is generally dependent upon the health of the economy and real estate values, including the performance of the construction sector. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio is susceptible to changing conditions in the New England, Northern California, and Southern California economies and real estate markets.

Beginning in the first quarter of 2020, the Company made a change to the loan portfolio segmentation in which Commercial and industrial and Commercial tax-exempt loans were bifurcated given their different underlying risk characteristics. Beginning in the second quarter of 2020, the Company also added a segment for loans originated under the SBA's Paycheck Protection Program (the "PPP"). For the period ended December 31, 2019, there were no PPP loans as the SBA initiated the program in the second quarter of 2020 in response to the COVID-19 pandemic.

The following table presents a summary of the loan portfolio based on the portfolio segment as of the dates indicated:

	September 30, 2020	December 31, 2019
	(In thousands)	
Commercial and industrial	**$ 583,145**	$ 694,034
Paycheck Protection Program	**371,496**	—
Commercial tax-exempt	**472,342**	447,927
Commercial real estate	**2,659,890**	2,551,274
Construction and land	**211,697**	225,983
Residential	**2,729,164**	2,839,155
Home equity	**81,797**	83,657
Consumer and other	**113,038**	134,674
Total	**$ 7,222,569**	$ 6,976,704

The following table presents nonaccrual loans receivable by class of receivable as of the dates indicated:

	September 30, 2020	December 31, 2019
	(In thousands)	
Commercial and industrial	**$ 15,418**	$ 582
Commercial tax-exempt	**3,929**	—
Commercial real estate	**5,261**	—
Residential	**16,216**	13,993
Home equity	**438**	1,525
Consumer and other	**1**	3
Total	**$ 41,263**	$ 16,103

The Bank's policy is to discontinue the accrual of interest on a loan when the collectability of principal or interest is in doubt. In certain instances, although infrequent, 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 both September 30, 2020 and December 31, 2019. 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 troubled debt restructured loans ("TDRs"), a return to accrual status generally requires timely payments for a period of six months in accordance with the restructured loan terms, along with meeting other criteria.

The following tables show the payment status of loans receivable by class of receivable as of the dates indicated:

	September 30, 2020								
	Accruing Past Due			Nonaccrual Loans					
	30-59 Days Past Due	60-89 Days Past Due	Total Accruing Past Due	Current	30-89 Days Past Due	90 Days or Greater Past Due	Total Non-Accrual Loans	Current Accruing Loans	Total Loans Receivable
	(In thousands)								
Commercial and industrial	**$ 1,881**	**$ 175**	**$ 2,056**	**$ 12,203**	**$ 226**	**$ 2,989**	**$ 15,418**	**$ 565,671**	**$ 583,145**
Paycheck Protection Program	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**371,496**	**371,496**
Commercial tax-exempt	**—**	**—**	**—**	**3,929**	**—**	**—**	**3,929**	**468,413**	**472,342**
Commercial real estate	**688**	**1,535**	**2,223**	**5,212**	**—**	**49**	**5,261**	**2,652,406**	**2,659,890**
Construction and land	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**211,697**	**211,697**
Residential	**—**	**320**	**320**	**5,191**	**3,847**	**7,178**	**16,216**	**2,712,628**	**2,729,164**
Home equity	**1,036**	**—**	**1,036**	**—**	**—**	**438**	**438**	**80,323**	**81,797**
Consumer and other	**—**	**—**	**—**	**1**	**—**	**—**	**1**	**113,037**	**113,038**
Total	**$ 3,605**	**$ 2,030**	**$ 5,635**	**$ 26,536**	**$ 4,073**	**$ 10,654**	**$ 41,263**	**$ 7,175,671**	**$ 7,222,569**

	December 31, 2019								
	Accruing Past Due			Nonaccrual Loans					
	30-59 Days Past Due	60-89 Days Past Due	Total Accruing Past Due	Current	30-89 Days Past Due	90 Days or Greater Past Due	Total Non-Accrual Loans	Current Accruing Loans	Total Loans Receivable
	(In thousands)								
Commercial and industrial	$ 828	$ —	$ 828	$ —	$ 241	$ 341	$ 582	$ 692,624	$ 694,034
Commercial tax-exempt	—	—	—	—	—	—	—	447,927	447,927
Commercial real estate	1,420	—	1,420	—	—	—	—	2,549,854	2,551,274
Construction and land	—	—	—	—	—	—	—	225,983	225,983
Residential	19,133	1,038	20,171	9,593	759	3,641	13,993	2,804,991	2,839,155
Home equity	369	—	369	220	148	1,157	1,525	81,763	83,657
Consumer and other	1,008	2,149	3,157	1	—	2	3	131,514	134,674
Total	$ 22,758	$ 3,187	$ 25,945	$ 9,814	$ 1,148	$ 5,141	$ 16,103	$ 6,934,656	$ 6,976,704

Nonaccrual and delinquent loans are affected by many factors, such as economic and business conditions, interest rates, unemployment levels, and real estate collateral values, among others. In periods of prolonged economic decline, borrowers may become more severely affected over time as liquidity levels decline and the borrower’s ability to continue to make payments deteriorates.

With respect to real estate collateral values, the declines from the peak, as well as the value of the real estate at the time of origination versus the current value, can impact the level of problem loans. For instance, if the loan to value ratio at the time of renewal has increased due to the decline in the real estate value since origination, the loan may no longer meet the Bank’s underwriting standards and may be considered for classification as a problem loan dependent upon a review of risk factors. There could be an increase in these situations as the economic conditions brought on by the COVID-19 pandemic could lead to a decline in collateral values.

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. The COVID-19 pandemic has limited the Bank’s ability to obtain updated appraisals. In lieu of appraisals, the Bank may use other valuation techniques in the short-term. The Bank did not use any alternative valuation techniques in the third quarter of 2020.

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 with modified terms under the CARES Act are not considered past due if they are complying with the modified terms.

Credit quality indicators

The Bank uses a risk rating system to monitor the credit quality of its loan portfolio. Loan classifications are assessments made by the Bank of the status of the loans based on the facts and circumstances known to the Bank, including management's judgment, at the time of assessment. Some or all of these classifications may change in the future if there are unexpected changes in the financial condition of the borrower, including but not limited to, changes resulting from continuing deterioration in employment levels, general business and economic conditions on a national basis or in the local markets in which the Bank operates adversely affecting, among other things, real estate values. Such conditions, as well as other factors which adversely affect borrowers' ability to service or repay loans, typically result in changes in loan default and charge-off rates, and increased provisions for loan losses, which would adversely affect the Company's financial performance and financial condition. These circumstances are not entirely foreseeable and, as a result, it may not be possible to accurately reflect them in the Company's analysis of credit risk. Generally, only commercial loans, including commercial real estate, other commercial and industrial loans, commercial tax-exempt loans, and construction and land loans, are given a numerical grade.

A summary of the rating system used by the Bank is included here from Part II. Item 8. "Financial Statements and Supplementary Data - Note 1: Basis of Presentation and Summary of Significant Accounting Policies," in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, follows:

Pass - All loans graded as pass are considered acceptable credit quality by the Bank and are grouped for purposes of calculating the allowance for loan losses. For residential, home equity and consumer loans, the Bank classifies loans as pass unless there is known information such as delinquency or client requests for modifications which, due to financial difficulty, would then generally result in a risk rating such as special mention or more severe depending on the factors.

Special mention - Loans rated in this category are defined as having potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the credit or the Bank's credit position. These loans are currently protected but have the potential to deteriorate to a substandard rating. For commercial loans, the borrower's financial performance may be inconsistent or below forecast, creating the possibility of liquidity problems and shrinking debt service coverage. In loans having this rating, the primary source of repayment is still good, but there is increasing reliance on collateral or guarantor support. Collectability of the loan is not yet in jeopardy. In particular, loans in this category are considered more variable than other categories, since they will typically migrate through categories more quickly.

Substandard - Loans rated in this category are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. A substandard credit has a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Substandard loans may be either still accruing or nonaccruing depending upon the severity of the risk and other factors such as the value of the collateral, if any, and past due status.

Doubtful - Loans rated in this category indicate that collection or liquidation in full on the basis of currently existing facts, conditions, and values, is highly questionable and improbable. Loans in this category are usually on nonaccrual and classified as impaired.

These above credit quality indicators are assigned upon origination with commercial loans reassessed on an annual basis while noncommercial loans are reassessed when the loan becomes past due greater than 90 days or when ad-hoc information becomes available to the loan officer. Further the commercial loan portfolio is subject for selection of an independent review, also on an annual basis. In addition, those loans not considered to be "Pass" rated, are subject to a Loan Committee review on a quarterly basis. Lastly, on an ad-hoc basis as new information becomes available to the loan officer on the credit quality of the borrower, the credit quality indicators are reassessed.

The following tables present the loan portfolio's credit risk profile by internally assigned grade and class of receivable as of the dates indicated:

	September 30, 2020				
	By Loan Grade or Nonaccrual Status				
	Pass	Special Mention	Accruing Classified (1)	Nonaccrual Loans	Total
	(In thousands)				
Commercial and industrial	**$ 531,922**	**$ 9,054**	**$ 26,751**	**$ 15,418**	**$ 583,145**
Paycheck Protection Program	**371,496**	**—**	**—**	**—**	**371,496**
Commercial tax-exempt	**458,681**	**5,229**	**4,503**	**3,929**	**472,342**
Commercial real estate	**2,426,786**	**182,526**	**45,317**	**5,261**	**2,659,890**
Construction and land	**209,297**	**2,400**	**—**	**—**	**211,697**
Residential	**2,708,733**	**—**	**4,215**	**16,216**	**2,729,164**
Home equity	**80,318**	**—**	**1,041**	**438**	**81,797**
Consumer and other	**112,737**	**300**	**—**	**1**	**113,038**
Total	**$ 6,899,970**	**$ 199,509**	**$ 81,827**	**$ 41,263**	**$ 7,222,569**

	December 31, 2019				
	By Loan Grade or Nonaccrual Status				
	Pass	Special Mention	Accruing Classified (1)	Nonaccrual Loans	Total
	(In thousands)				
Commercial and industrial	$ 656,364	$ 12,101	$ 24,987	$ 582	$ 694,034
Commercial tax-exempt	436,721	7,154	4,052	—	447,927
Commercial real estate	2,495,702	32,014	23,558	—	2,551,274
Construction and land	225,526	457	—	—	225,983
Residential	2,820,909	—	4,253	13,993	2,839,155
Home equity	81,060	—	1,072	1,525	83,657
Consumer and other	134,371	300	—	3	134,674
Total	$ 6,850,653	$ 52,026	$ 57,922	$ 16,103	$ 6,976,704

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(1) Accruing Classified may include both Substandard and Doubtful classifications.

The following table presents the loan portfolio's credit risk profile by loan origination year and class of receivable as of the dates indicated:

	September 30, 2020							
	Loan Origination Year By Loan Grade or Nonaccrual Status							
	2020	2019	2018	2017	2016	Prior	Revolving	Total
	(In thousands)							
Commercial and industrial								
Pass	$ 73,081	$ 89,413	$ 79,047	$ 16,435	$ 24,449	$ 54,673	$ 194,824	$ 531,922
Special Mention	—	1,031	937	698	149	2,792	3,447	9,054
Accruing Classified (1)	1,042	6,313	7,172	2,500	771	269	8,684	26,751
Nonaccrual	—	151	—	12,053	—	12	3,202	15,418
Total	$ 74,123	$ 96,908	$ 87,156	$ 31,686	$ 25,369	$ 57,746	$ 210,157	$ 583,145
Paycheck Protection Program								
Pass	$ 371,496	$ —	$ —	$ —	$ —	$ —	$ —	$ 371,496
Total	$ 371,496	$ —	$ —	$ —	$ —	$ —	$ —	$ 371,496
Commercial tax-exempt								
Pass	$ 53,184	$ 18,508	$ 40,630	$ 24,417	$ 119,832	$ 202,110	$ —	$ 458,681
Special Mention	—	—	—	—	—	5,229	—	5,229
Accruing Classified (1)	—	—	—	—	—	4,503	—	4,503
Nonaccrual	—	—	—	3,929	—	—	—	3,929
Total	$ 53,184	$ 18,508	$ 40,630	$ 28,346	$ 119,832	$ 211,842	$ —	$ 472,342
Commercial real estate								
Pass	$ 207,359	$ 459,709	$ 261,796	$ 320,435	$ 380,271	$ 709,912	$ 87,304	$ 2,426,786
Special Mention	22,824	30,630	26,982	21,149	37,414	43,527	—	182,526
Accruing Classified (1)	1,598	31,694	—	—	—	12,025	—	45,317
Nonaccrual	—	5,212	—	—	—	—	49	5,261
Total	$ 231,781	$ 527,245	$ 288,778	$ 341,584	$ 417,685	$ 765,464	$ 87,353	$ 2,659,890
Construction and land								
Pass	$ 28,297	$ 59,020	$ 48,402	$ 44,916	$ 2,232	$ 26,430	$ —	$ 209,297
Special Mention	—	—	2,400	—	—	—	—	2,400
Total	$ 28,297	$ 59,020	$ 50,802	$ 44,916	$ 2,232	$ 26,430	$ —	$ 211,697
Residential								
Pass	$ 446,397	$ 519,995	$ 412,968	$ 421,348	$ 397,183	$ 510,842	$ —	$ 2,708,733
Accruing Classified (1)	—	—	—	—	—	4,215	—	4,215
Nonaccrual	—	261	272	2,373	—	13,310	—	16,216
Total	$ 446,397	$ 520,256	$ 413,240	$ 423,721	$ 397,183	$ 528,367	$ —	$ 2,729,164
Home equity								
Pass	$ —	$ —	$ 252	$ —	$ 686	$ 10,721	$ 68,659	$ 80,318
Accruing Classified (1)	—	—	—	—	—	1,041	—	1,041
Nonaccrual	—	—	—	—	—	299	139	438
Total	$ —	$ —	$ 252	$ —	$ 686	$ 12,061	$ 68,798	$ 81,797
Consumer and other								
Pass	$ 539	$ 168	$ 31	$ —	$ 84	$ 731	$ 111,184	$ 112,737
Special Mention	—	—	—	—	—	—	300	300
Nonaccrual	—	—	—	—	—	—	1	1
Total	$ 539	$ 168	$ 31	$ —	$ 84	$ 731	$ 111,485	$ 113,038
Total								
Pass	$ 1,180,353	$ 1,146,813	$ 843,126	$ 827,551	$ 924,737	$ 1,515,419	$ 461,971	$ 6,899,970
Special Mention	22,824	31,661	30,319	21,847	37,563	51,548	3,747	199,509
Accruing Classified (1)	2,640	38,007	7,172	2,500	771	22,053	8,684	81,827
Nonaccrual	—	5,624	272	18,355	—	13,621	3,391	41,263
Total	$ 1,205,817	$ 1,222,105	$ 880,889	$ 870,253	$ 963,071	$ 1,602,641	$ 477,793	$ 7,222,569

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(1) Accruing Classified may include both Substandard and Doubtful classifications.

The following tables present, by class of receivable, the balance of impaired loans with and without a related allowance, the associated allowance for those impaired loans with a related allowance, and the total unpaid principal on impaired loans:

	As of and for the three and nine months ended September 30, 2020						
	Recorded Investment (1)	Unpaid Principal Balance	Related Allowance	QTD Average Recorded Investment	YTD Average Recorded Investment	QTD Interest Income Recognized while Impaired	YTD Interest Income Recognized while Impaired
				(In thousands)			
With no related allowance recorded:							
Commercial and industrial	$ 15,234	$ 15,287	n/a	$ 6,420	$ 2,965	$ 1	$ 7
Paycheck Protection Program	—	—	n/a	—	—	—	—
Commercial tax-exempt	3,929	3,929	n/a	982	393	—	—
Commercial real estate	5,928	6,100	n/a	5,958	4,557	8	25
Construction and land	—	—	n/a	—	—	—	—
Residential	16,229	16,489	n/a	16,208	15,984	86	346
Home equity (2)	390	390	n/a	390	1,086	(3)	7
Consumer and other	—	—	n/a	—	—	—	—
Subtotal	$ 41,710	$ 42,195	n/a	29,958	$ 24,985	92	$ 385
With an allowance recorded:							
Commercial and industrial	$ 185	$ 199	$ 83	208	$ 248	$ —	$ 1
Paycheck Protection Program	—	—	—	—	—	—	—
Commercial tax-exempt	—	—	—	—	—	—	—
Commercial real estate	49	50	49	37	15	—	—
Construction and land	—	—	—	—	—	—	—
Residential	427	427	56	502	521	3	9
Home equity	260	260	17	261	266	2	6
Consumer and other	—	—	—	—	—	—	—
Subtotal	$ 921	$ 936	$ 205	$ 1,008	$ 1,050	$ 5	$ 16
Total:							
Commercial and industrial	$ 15,419	$ 15,486	$ 83	$ 6,628	$ 3,213	$ 1	$ 8
Paycheck Protection Program	—	—	—	—	—	—	—
Commercial tax-exempt	3,929	3,929	—	982	393	—	—
Commercial real estate	5,977	6,150	49	5,995	4,572	8	25
Construction and land	—	—	—	—	—	—	—
Residential	16,656	16,916	56	16,710	16,505	89	355
Home equity (2)	650	650	17	651	1,352	(1)	13
Consumer and other	—	—	—	—	—	—	—
Total	$ 42,631	$ 43,131	$ 205	$ 30,966	$ 26,035	$ 97	$ 401

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(1) Recorded investment represents the client loan balance net of historical charge-offs and historical nonaccrual interest paid, if applicable, which was applied to principal.

(2) Negative quarterly income is due to reversal of income recognized in prior quarter.

	As of and for the three and nine months ended September 30, 2019						
	Recorded Investment (1)	Unpaid Principal Balance	Related Allowance	QTD Average Recorded Investment	YTD Average Recorded Investment	QTD Interest Income Recognized while Impaired	YTD Interest Income Recognized while Impaired
	(In thousands)						
With no related allowance recorded:							
Commercial and industrial	$ 479	$ 788	n/a	$ 1,233	$ 1,256	$ 192	$ 217
Commercial tax-exempt	—	—	n/a	—	—	—	—
Commercial real estate	—	—	n/a	—	55	—	256
Construction and land	—	—	n/a	—	—	—	—
Residential	14,879	15,140	n/a	15,026	13,321	236	476
Home equity	2,313	2,995	n/a	2,359	2,106	12	13
Consumer and other	—	—	n/a	—	—	—	—
Subtotal	$ 17,671	$ 18,923	n/a	$ 18,618	$ 16,738	$ 440	$ 962
With an allowance recorded:							
Commercial and industrial	$ 538	$ 539	$ 341	$ 491	$ 877	$ 3	$ 23
Commercial tax-exempt	—	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—	—
Construction and land	—	—	—	—	—	—	—
Residential	2,059	2,059	712	1,419	1,017	5	18
Home equity	279	279	23	276	626	1	2
Consumer and other	—	—	—	—	—	—	—
Subtotal	$ 2,876	$ 2,877	$ 1,076	$ 2,186	$ 2,520	$ 9	$ 43
Total:							
Commercial and industrial	$ 1,017	$ 1,327	$ 341	$ 1,724	$ 2,133	$ 195	$ 240
Commercial tax-exempt	—	—	—	—	—	—	—
Commercial real estate	—	—	—	—	55	—	256
Construction and land	—	—	—	—	—	—	—
Residential	16,938	17,199	712	16,445	14,338	241	494
Home equity	2,592	3,274	23	2,635	2,732	13	15
Consumer and other	—	—	—	—	—	—	—
Total	$ 20,547	$ 21,800	$ 1,076	$ 20,804	$ 19,258	$ 449	$ 1,005

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(1) Recorded investment represents the client loan balance net of historical charge-offs and historical nonaccrual interest paid, if applicable, which was applied to principal.

	As of and for the year ended December 31, 2019				
	Recorded Investment (1)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized while Impaired
			(In thousands)		
With no related allowance recorded:					
Commercial and industrial	$ 470	$ 553	n/a	$ 1,062	$ 268
Commercial tax-exempt	—	—	n/a	—	—
Commercial real estate	733	733	n/a	155	262
Construction and land	—	—	n/a	—	—
Residential	15,362	15,622	n/a	13,700	636
Home equity	1,557	2,119	n/a	2,095	35
Consumer and other	—	—	n/a	—	—
Subtotal	$ 18,122	$ 19,027	n/a	$ 17,012	$ 1,201
With an allowance recorded:					
Commercial and industrial	$ 254	$ 254	$ 146	$ 736	$ 33
Commercial tax-exempt	—	—	—	—	—
Commercial real estate	—	—	—	—	—
Construction and land	—	—	—	—	—
Residential	538	538	67	1,130	23
Home equity	273	273	22	545	4
Consumer and other	—	—	—	—	—
Subtotal	$ 1,065	$ 1,065	$ 235	$ 2,411	$ 60
Total:					
Commercial and industrial	$ 724	$ 807	$ 146	$ 1,798	$ 301
Commercial tax-exempt	—	—	—	—	—
Commercial real estate	733	733	—	155	262
Construction and land	—	—	—	—	—
Residential	15,900	16,160	67	14,830	659
Home equity	1,830	2,392	22	2,640	39
Consumer and other	—	—	—	—	—
Total	$ 19,187	$ 20,092	$ 235	$ 19,423	$ 1,261

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(1) Recorded investment represents the client loan balance net of historical charge-offs and historical nonaccrual interest paid, if applicable, which was applied to principal.

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 designated as impaired.

On March 22, 2020, regulators issued an interagency statement encouraging financial institutions to work with borrowers affected by the COVID-19 pandemic. The interagency statement also provided additional information regarding loan modifications. The regulators indicated they will not criticize institutions for working with borrowers in a safe and sound manner and have indicated that related modifications will not automatically result in a TDR. The regulators also provided supervisory views that loans modified under this program would not be considered past due or nonaccrual.

The regulators view prudent loan modification programs offered to financial institution customers affected by the COVID-19 pandemic as positive and proactive actions that can manage adverse impacts on borrowers, and lead to improved loan performance and reduced credit risk. The statement indicated that short-term modifications made on a good faith basis in response to the COVID-19 pandemic to borrowers who were current prior to any relief are not TDRs.

Loans that are designated as impaired require an analysis to determine the amount of impairment, if any. Impairment would be indicated as a result of the carrying value of the loan exceeding either the estimated collateral value, less costs to sell, for collateral dependent loans or the net present value of the projected cash flow, discounted at the loan's contractual effective interest rate, for loans not considered to be collateral dependent. Generally, shortfalls in the analysis on 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.

Loans in the held for sale category are carried at the lower of amortized cost or estimated fair value in the aggregate and are excluded from the Allowance for loan losses analysis.

As of September 30, 2020, the Bank has pledged $2.3 billion of loans in a blanket lien agreement with the FHLB. The Bank also has $360.5 million of loans pledged as collateral at the FRB for access to their discount window. As of December 31, 2019, the Bank had pledged $2.5 billion of loans to the FHLB and $395.3 million of loans at the FRB.

The Bank may, under certain circumstances, restructure loans as a concession to borrowers who are experiencing financial difficulty. These loans are outside of the guidelines to not be considered a TDR by recent regulatory guidance. 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 September 30, 2020 and December 31, 2019, TDRs totaled $14.5 million and $12.6 million, respectively. As of September 30, 2020, $7.8 million of the $14.5 million in TDRs were on accrual status. As of December 31, 2019, $7.1 million of the $12.6 million in TDRs were on accrual status.

Since all TDR loans are considered impaired loans, they are individually evaluated for impairment. The resulting impairment, if any, would have an impact on the Allowance for loan losses as a specific reserve or charge-off. If, prior to the classification as a TDR, the loan was not impaired, there would have been a general reserve on the particular loan. Prior to the adoption of ASU 2016-13 on January 1, 2020, a general or allocated reserve would have been applied. Many loans initially categorized as TDRs are already on nonaccrual status and are already considered impaired. Therefore, there is generally not a material change to the Allowance for loan losses when a nonaccruing loan is categorized as a TDR.

The following tables present the balance of TDRs that were restructured or defaulted during the periods indicated:

	As of and for the three months ended September 30, 2020				
	Restructured Current Quarter			TDRs that defaulted in the Current Quarter that were restructured in prior twelve months	
	# of Loans	Pre- modification recorded investment	Post- modification recorded investment	# of Loans	Post- modification recorded investment
	(In thousands, except number of loans)				
Commercial and industrial	—	$ —	$ —	1	$ 49
Home equity	—	—	—	1	251
Total	—	$ —	$ —	2	$ 300

	As of and for the nine months ended September 30, 2020				
	Restructured Year to Date			TDRs that defaulted in the Year to Date that were restructured in prior twelve months	
	# of Loans	Pre- modification recorded investment	Post- modification recorded investment	# of Loans	Post- modification recorded investment
	(In thousands, except number of loans)				
Commercial and industrial (1)	1	$ 50	$ 50	1	$ 49
Residential (2)	1	2,373	2,373	1	1,562
Home equity	—	—	—	1	251
Total	2	$ 2,423	$ 2,423	3	$ 1,862

(1) Represents the following type of concession: extension of maturity and reduction in interest rate.
(2) Represents the following type of concession: payment deferral.

	As of and for the nine months ended September 30, 2019				
	Restructured Year to Date			TDRs that defaulted in the Year to Date that were restructured in prior twelve months	
	# of Loans	Pre-modification recorded investment	Post-modification recorded investment	# of Loans	Post-modification recorded investment
	(In thousands, except number of loans)				
Commercial and industrial	1	$ 179	$ 179	—	$ —
Residential	2	3,222	3,227	—	—
Home equity	1	274	283	—	—
Total	4	$ 3,675	$ 3,689	—	$ —

	As of and for the nine months ended September 30, 2019									
	Extension of term		Temporary rate reduction		Payment deferral		Combination of concessions		Total concessions	
	# of Loans	Post-modification recorded investment	# of Loans	Post-modification recorded investment	# of Loans	Post-modification recorded investment	# of Loans	Post-modification recorded investment	# of Loans	Post-modification recorded investment
	(In thousands, except number of loans)									
Commercial and industrial	1	$ 179	—	$ —	—	$ —	—	$ —	1	$ 179
Residential	—	—	2	3,227	—	—	—	—	2	3,227
Home equity	—	—	1	283	—	—	—	—	1	283
	1	$ 179	3	$ 3,510	—	$ —	—	$ —	4	$ 3,689

There were no loans that were restructured or defaulted during the three months ended September 30, 2019.

In response to the COVID-19 pandemic, the Bank initiated a mortgage deferment program under which principal and interest payments on qualifying loans are generally deferred for initially three months and the loan term is extended three months; if requested, the loan may be deferred for a subsequent three months. Loans that are deferred under the program are not considered TDRs or past due based on current regulatory guidance. In total, approximately 350 Residential and Home equity loans totaling approximately $220.0 million have been processed under the program. As of September 30, 2020, approximately 140 loans totaling approximately $100.0 million remain in deferral under the program.

Additionally, in response to the COVID-19 pandemic, the Bank initiated a program where it offered qualified Commercial and industrial borrowers principal payment deferrals for six months, with the deferred principal added to the last payment. In total, approximately 90 Commercial and industrial loans totaling approximately $125.0 million have been processed under the program. As of September 30, 2020, approximately 30 loans totaling approximately $50.0 million remain in deferral under the program.

Loan participations serviced for others and loans serviced for others are not included in the Company’s total loans.

The following table presents a summary of the loan participations serviced for others and loans serviced for others based on class of receivable as of the dates indicated:

	September 30, 2020	December 31, 2019
	(In thousands)	
Commercial and industrial	**$ 42,759**	$ 14,533
Commercial tax-exempt	**17,724**	18,101
Commercial real estate	**130,164**	121,929
Construction and land	**83,059**	75,451
Total loan participations serviced for others	**$ 273,706**	$ 230,014
Residential	**$ 185,638**	$ 204,696
Total loans serviced for others	**$ 185,638**	$ 204,696

Total loans include deferred loan origination (fees)/costs, net, of $(1.1) million and $8.1 million as of September 30, 2020 and December 31, 2019, respectively. The change in the balance of loan origination (fees)/costs, net, from December 31, 2019 to September 30, 2020 was primarily driven by the addition of $10.9 million of PPP loan origination fees in the second quarter of 2020.

7. Allowance for Loan Losses

The Allowance for loan losses is established based upon the Company's current estimate of expected lifetime credit losses on loans measured at amortized cost. Loan losses are charged against the allowance when management's assessments confirm that the Company will not collect the full amortized cost basis of a loan. Subsequent recoveries, if any, are credited to the allowance when collected.

Under the CECL methodology, which the Company adopted on January 1, 2020, the Company estimates credit losses on a collective basis per segment for loans sharing similar risk characteristics using a quantitative model combined with an assessment of certain qualitative factors designed to address risks not incorporated in the quantitative model output. The quantitative model utilizes a factor-based approach to estimate expected credit losses using probability of default and loss given default, which are derived from a selected peer group's historical default and loss experience. The model estimates expected credit losses using loan level data over the contractual life of the exposure, considering the effect of estimated prepayments and curtailments on the remaining portfolio segment balance over the life of the portfolio. Reasonable and supportable economic forecasts are incorporated into the estimate over a reasonable and supportable forecast period, beyond which is a reversion to the historical long-run average of the macroeconomic variables. Management has determined a reasonable and supportable period of two years and a straight line reversion period of twelve months to be appropriate for purposes of estimating expected credit losses. Management also applies a weight to the various forecasts chosen to determine the reasonable and supportable economic forecasts. The Company's qualitative assessment is based on factors outlined in regulatory guidance and include the following:

- Volume and trend of past-due, nonaccrual, and adversely-graded loans
- Trends in volume and terms of loans
- Concentration risk
- Experience and depth of management
- Risk surrounding lending policy and underwriting standards
- Risk surrounding loan review
- Banking industry conditions, other external factors, and inherent model risk

Loans that no longer share similar risk characteristics with any pools of assets are subject to individual assessment and are removed from the collectively assessed pools to avoid double counting. For the loans that will be individually assessed, the Company will use either a discounted cash flow approach or a fair value of collateral approach. The latter approach will be used for loans deemed to be collateral dependent or when foreclosure is probable.

Accrued interest receivable amounts are excluded from balances of loans held at amortized cost and are included within Accrued interest receivable on the Consolidated Balance Sheets. Management has elected not to measure an allowance for credit losses on these amounts as the Company employs a timely write-off policy as generally any loan over 89 days past-due is put on non-accrual status and any associated accrued interest is reversed.

For periods disclosed prior to the adoption of ASU 2016-13 as of January 1, 2020, the Allowance for loan losses was determined under the incurred loss model. Refer to "Note 1: Basis of Presentation and Summary of Significant Account Policies" in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 for a description of the methodology.

The Allowance for loan losses, which is reported as a reduction of outstanding loan balances, totaled $84.6 million and $72.0 million as of September 30, 2020 and December 31, 2019, respectively.

Beginning in the first quarter of 2020, the Company made a change to the loan portfolio segmentation as it relates to the Allowance for loan losses in which Commercial and industrial and Commercial tax-exempt loans were bifurcated given their different underlying risk characteristics. For the periods ended September 30, 2019, the Provision/(credit) for loan losses and related allowance balance in the Allowance for loan losses for tax-exempt Commercial and industrial loans is included with Commercial and industrial loans. Beginning in the second quarter of 2020, the Company made a change to the loan portfolio segmentation as it relates to the Allowance for loan losses, adding the segment Paycheck Protection Program. For the periods ended September 30, 2019, there were no loans in this segment as the SBA initiated the program in the second quarter of 2020 in response to the COVID-19 pandemic.

The following table presents a summary of the changes in the Allowance for loan losses for the periods indicated:

	As of and for the three months ended September 30,		As of and for the nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
	(In thousands)			
Allowance for loan losses, beginning of period:				
Commercial and industrial	**$ 9,559**	$ 16,082	**$ 10,048**	$ 15,912
Paycheck Protection Program	**190**	n/a	**—**	n/a
Commercial tax-exempt	**2,486**	n/a	**6,016**	n/a
Commercial real estate	**47,675**	43,741	**40,765**	41,934
Construction and land	**9,524**	4,780	**5,119**	6,022
Residential	**17,765**	9,555	**8,857**	10,026
Home equity	**439**	805	**778**	1,284
Consumer and other	**1,686**	104	**399**	134
Total allowance for loan losses, beginning of period	**$ 89,324**	$ 75,067	**$ 71,982**	$ 75,312
Impact of adopting ASU 2016-13:				
Commercial and industrial	**n/a**	n/a	**$ (565)**	n/a
Paycheck Protection Program	**n/a**	n/a	**—**	n/a
Commercial tax-exempt	**n/a**	n/a	**(4,409)**	n/a
Commercial real estate	**n/a**	n/a	**(14,455)**	n/a
Construction and land	**n/a**	n/a	**(2,158)**	n/a
Residential	**n/a**	n/a	**685**	n/a
Home equity	**n/a**	n/a	**(535)**	n/a
Consumer and other	**n/a**	n/a	**1,052**	n/a
Total impact of adopting ASU 2016-13	**n/a**	n/a	**$ (20,385)**	n/a
Allowance for loan losses, beginning of period, net	**$ 89,324**	$ 75,067	**$ 51,597**	$ 75,312
Provision/(credit) for loan losses:				
Commercial and industrial	**$ (10)**	$ 361	**$ 876**	$ 498
Paycheck Protection Program	**—**	n/a	**190**	n/a
Commercial tax-exempt	**398**	n/a	**1,277**	n/a
Commercial real estate	**(374)**	(762)	**20,991**	826
Construction and land	**(1,166)**	6	**5,397**	(1,236)
Residential	**(3,026)**	617	**5,197**	46
Home equity	**11**	(57)	**1,232**	26
Consumer and other	**(402)**	2	**(163)**	(56)
Total provision/(credit) for loan losses	**$ (4,569)**	$ 167	**$ 34,997**	$ 104

	As of and for the three months ended September 30,		As of and for the nine months ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Loans charged -off:				
Commercial and industrial	**$ (172)**	$ (180)	**$ (1,079)**	$ (375)
Paycheck Protection Program	**—**	n/a	**—**	n/a
Commercial tax-exempt	**—**	n/a	**—**	n/a
Commercial real estate	**—**	—	**—**	—
Construction and land	**—**	—	**—**	—
Residential	**—**	—	**—**	—
Home equity	**—**	—	**(1,157)**	(562)
Consumer and other	**(73)**	(5)	**(83)**	(7)
Total charge-offs	**$ (245)**	$ (185)	**$ (2,319)**	$ (944)
Recoveries on loans previously charged-off:				
Commercial and industrial	**$ 36**	$ 275	**$ 133**	$ 503
Paycheck Protection Program	**—**	n/a	**—**	n/a
Commercial tax-exempt	**—**	n/a	**—**	n/a
Commercial real estate	**—**	27	**—**	246
Construction and land	**—**	—	**—**	—
Residential	**—**	—	**—**	100
Home equity	**—**	6	**132**	6
Consumer and other	**5**	2	**11**	32
Total recoveries	**$ 41**	$ 310	**$ 276**	$ 887
Allowance for loan losses, end of period:				
Commercial and industrial	**$ 9,413**	$ 16,538	**$ 9,413**	$ 16,538
Paycheck Protection Program	**190**	n/a	**190**	n/a
Commercial tax-exempt	**2,884**	n/a	**2,884**	n/a
Commercial real estate	**47,301**	43,006	**47,301**	43,006
Construction and land	**8,358**	4,786	**8,358**	4,786
Residential	**14,739**	10,172	**14,739**	10,172
Home equity	**450**	754	**450**	754
Consumer and other	**1,216**	103	**1,216**	103
Total allowance for loan losses, end of period	**$ 84,551**	$ 75,359	**$ 84,551**	$ 75,359

The balance of the Allowance for loan losses of $84.6 million as of September 30, 2020 represents an increase of $12.6 million from December 31, 2019. During the three and nine months ended September 30, 2020, the Company recognized a Provision credit of $4.6 million and a Provision expense of $35.0 million, respectively. The decrease in the Allowance for loan losses for the three months ended September 30, 2020 was primarily driven by the latest current reasonable and supportable economic forecasts, which indicated a modest improvement from the prior quarter, as well as the net impact of the change in the composition and volume of the loan portfolio. These improvements were partially offset by the net impact in the changes of the qualitative factors, and a change in the weighting of the forecast scenarios used to account for risks and assumptions not incorporated in the forecasts, including consideration for the significant uncertainty related to the duration and severity of economic impacts from the COVID-19 pandemic. The increase in Allowance for loan losses for the nine months ended September 30, 2020 was primarily driven by the change in allowance methodology from the incurred loss model to the current expected credit loss model, as well as the current reasonable and supportable economic forecast deterioration as a result of the COVID-19 pandemic, and the net change in qualitative factors to account for risks and assumptions related to our loan portfolio not incorporated in the forecasts.

The balance of reserve for unfunded loan commitments of $8.9 million as of September 30, 2020 represents an increase of $7.8 million from December 31, 2019. The change was driven by an increase in the reserve ratios as a result of the current reasonable and supportable economic forecasts due to the COVID-19 pandemic as well as an increase in the balance of loan commitments. Changes in the balance of reserve for unfunded loan commitments are recognized as Other expense within Total operating expense.

Upon the adoption of ASU 2016-13 on January 1, 2020, the Company recognized a decrease in the Allowance for loan losses of $20.4 million. The adoption amount was driven primarily by the portfolio composition, the short-term nature of many commercial loans, estimated prepayments and curtailments, a change to the loan portfolio segmentation in which Commercial and industrial and Commercial tax-exempt loans were bifurcated given the different underlying risk characteristics, and reasonable and supportable economic forecasts at the time of adoption.

Upon the adoption of ASU 2016-13 on January 1, 2020, the Company recognized an increase in the reserve of $1.4 million in the unfunded loan commitments. The net, after-tax impact of the $20.4 million decrease in the Allowance for loan losses and the $1.4 million increase in the reserve for unfunded loan commitments was an increase to Retained earnings of $13.5 million.

The Allowance for loan losses 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 following tables present the Company's Allowance for loan losses and loan portfolio as of September 30, 2020 and December 31, 2019 by portfolio segment, disaggregated by method of impairment analysis. The Company had no loans acquired with deteriorated credit quality as of September 30, 2020 or December 31, 2019.

	September 30, 2020					
	Individually Evaluated for Impairment		Collectively Evaluated for Impairment		Total	
	Recorded investment (loan balance)	Allowance for loan losses	Recorded investment (loan balance)	Allowance for loan losses	Recorded investment (loan balance)	Allowance for loan losses
	(In thousands)					
Commercial and industrial	**$ 15,419**	**$ 83**	**$ 567,726**	**$ 9,330**	**$ 583,145**	**$ 9,413**
Paycheck Protection Program	**—**	**—**	**371,496**	**190**	**371,496**	**190**
Commercial tax-exempt	**3,929**	**—**	**468,413**	**2,884**	**472,342**	**2,884**
Commercial real estate	**5,977**	**49**	**2,653,913**	**47,252**	**2,659,890**	**47,301**
Construction and land	**—**	**—**	**211,697**	**8,358**	**211,697**	**8,358**
Residential	**16,656**	**56**	**2,712,508**	**14,683**	**2,729,164**	**14,739**
Home equity	**650**	**17**	**81,147**	**433**	**81,797**	**450**
Consumer and other	**—**	**—**	**113,038**	**1,216**	**113,038**	**1,216**
Total	**$ 42,631**	**$ 205**	**$ 7,179,938**	**$ 84,346**	**$ 7,222,569**	**$ 84,551**

	December 31, 2019					
	Individually Evaluated for Impairment		Collectively Evaluated for Impairment		Total	
	Recorded investment (loan balance)	Allowance for loan losses	Recorded investment (loan balance)	Allowance for loan losses	Recorded investment (loan balance)	Allowance for loan losses
	(In thousands)					
Commercial and industrial	$ 724	$ 146	$ 1,141,237	$ 15,918	$ 1,141,961	$ 16,064
Commercial real estate	733	—	2,550,541	40,765	2,551,274	40,765
Construction and land	—	—	225,983	5,119	225,983	5,119
Residential	15,900	67	2,823,255	8,790	2,839,155	8,857
Home equity	1,830	22	81,827	756	83,657	778
Consumer and other	—	—	134,674	399	134,674	399
Total	$ 19,187	$ 235	$ 6,957,517	$ 71,747	$ 6,976,704	$ 71,982

8. Derivatives and Hedging Activities

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities and, to a lesser extent, the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are generally determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to certain loans, deposits, and borrowings. As a service to its customers, the Company may utilize derivative instruments including customer foreign exchange forward contracts to manage its foreign exchange risk, if any.

The following table presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of September 30, 2020 and December 31, 2019:

	September 30, 2020				December 31, 2019			
	Asset derivatives		Liability derivatives		Asset derivatives		Liability derivatives	
	Balance sheet location	Fair value (1)	Balance sheet location	Fair value (1)	Balance sheet location	Fair value (1)	Balance sheet location	Fair value (1)
	(In thousands)							
Derivatives designated as hedging instruments:								
Interest rate swaps	Other assets	**$ —**	Other liabilities	**$ 272**	Other assets	$ —	Other liabilities	$ —
Derivatives not designated as hedging instruments:								
Interest rate customer swaps	Other assets	**91,399**	Other liabilities	**92,758**	Other assets	36,089	Other liabilities	36,580
Risk participation agreements	Other assets	**64**	Other liabilities	**444**	Other assets	10	Other liabilities	242
Total		**$ 91,463**		**$ 93,474**		$ 36,099		$ 36,822

(1) For additional details, see Part I. Item 1. "Notes to Unaudited Consolidated Financial Statements - Note 5: Fair Value Measurements."

The following table presents the effect of the Company's derivative financial instruments on Accumulated other comprehensive income for the three and nine months ended September 30, 2020 and 2019:

Derivatives in cash flow hedging relationships	Amount of gain or (loss) recognized in OCI on derivatives Three months ended September 30, 2020	2019	Location of gain or (loss) reclassified from accumulated OCI into income	Amount of gain or (loss) reclassified from accumulated OCI into income Three months ended September 30, 2020	2019
	(In thousands)			(In thousands)	
Interest rate swaps	**$ 285**	$ 1	Interest income/(expense)	**$ 284**	$ 6
Total	**$ 285**	$ 1		**$ 284**	$ 6

Derivatives in cash flow hedging relationships	Amount of gain or (loss) recognized in OCI on derivatives Nine months ended September 30, 2020	2019	Location of gain or (loss) reclassified from accumulated OCI into income	Amount of gain or (loss) reclassified from accumulated OCI into income Nine months ended September 30, 2020	2019
	(In thousands)			(In thousands)	
Interest rate swaps	**$ (141)**	$ (46)	Interest income/(expense)	**$ 132**	$ 508
Total	**$ (141)**	$ (46)		**$ 132**	$ 508

The following table presents the effect of the Company’s derivative financial instruments in the Consolidated Statements of Operations for the three and nine months ended September 30, 2020 and 2019:

	Location of gain or (loss) reclassified from accumulated OCI into income	Amount of gain or (loss) recognized in income on cash flow hedging relationships Three months ended September 30, 2020	2019	Amount of gain or (loss) recognized in income on cash flow hedging relationships Nine months ended September 30, 2020	2019
		(In thousands)			
Total amounts of income and (expense) line items presented in the Consolidated Statements of Operations in which the effects of fair value or cash flow hedges are recorded	Interest income/ (expense)	**$ 284**	$ 6	**$ 132**	$ 508
The effects of cash flow hedging:					
Gain or (loss) on cash flow hedging relationships in ASC 815					
Interest contracts - amount of gain or (loss) reclassified from Accumulated other comprehensive income into income	Interest income/ (expense)	**$ 284**	$ 6	**$ 132**	$ 508

The Bank has agreements with its derivative counterparties that contain provisions where, if the Bank defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Bank could also be declared in default on its derivative obligations. The Bank was in compliance with these provisions as of September 30, 2020 and December 31, 2019.

The Bank also has agreements with certain of its derivative counterparties that contain provisions where, if the Bank fails to maintain its status as a well- or adequately-capitalized institution, then the counterparty could terminate the derivative positions and the Bank would be required to settle its obligations under the agreements. The Bank was in compliance with these provisions as of September 30, 2020 and December 31, 2019.

Certain of the Bank’s agreements with its derivative counterparties contain provisions where, if specified, events or conditions occur that materially change the Bank’s creditworthiness in an adverse manner, the Bank may be required to fully collateralize its obligations under the derivative instruments. The Bank was in compliance with these provisions as of September 30, 2020 and December 31, 2019.

As of September 30, 2020 and December 31, 2019, the termination amounts related to collateral determinations of derivatives in a liability position were $94.1 million and $35.7 million, respectively. The Bank has minimum collateral posting thresholds with its derivative counterparties. As of September 30, 2020 and December 31, 2019, the Bank had pledged securities with a market value of $90.5 million and $40.0 million, respectively, against its obligations under these agreements. The collateral posted is typically greater than the current liability position; however, due to timing of liability position changes at period end, the funding of a collateral shortfall may take place shortly following period end.

Cash flow hedges of interest rate risk

The Company’s objectives in using interest rate derivatives are to add stability to interest income and expense and to manage its exposure to interest rate movements.

To accomplish this objective and strategy, the Bank has entered into one interest rate swap during 2020 with an effective date of April 14, 2020. The interest rate swap is designated as a cash flow hedge and involves the receipt of variable rate amounts from a counterparty in exchange for the Bank making fixed payments.

The one interest rate swap entered into during 2020 has a notional amount of $100 million and a term of eighteen months from its respective effective date. The interest rate swap will effectively fix the Bank's interest payments on $100 million of rolling three month FHLB advances at a rate of 0.48%.

Per ASU 2017-12, for derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in Accumulated other comprehensive income and subsequently reclassified into interest expense in the same period during which the hedged transaction affects earnings. For active cash flow hedges, a portion of the balance reported in Accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made or received on the Bank’s interest rate swaps.

Non-designated hedges

Derivatives not designated as hedges are not speculative and result from different services the Bank provides to qualified commercial clients. The Bank offers certain derivative products directly to such clients. The Bank economically hedges derivative transactions executed with commercial clients by entering into mirror-image, offsetting derivatives with third parties. Derivative transactions executed as part of these programs are not designated in ASC 815-qualifying hedging relationships and are, therefore, marked-to-market through earnings each period. Because the derivatives have mirror-image contractual terms, the changes in fair value substantially offset through earnings. The net effect on earnings is primarily driven by changes in the credit valuation adjustment (“CVA”). The CVA represents the dollar amount of fair value adjustment related to nonperformance risk of both the Bank and its counterparties. Fees earned in connection with the execution of derivatives related to this program are recognized in the Consolidated Statements of Operations in Other income. The Bank has interest rate swaps and caps related to this program with an aggregate notional amount of $1.7 billion as of September 30, 2020 and $1.6 billion as of December 31, 2019. As of September 30, 2020 and December 31, 2019, there were no foreign currency exchange contracts related to this program.

In addition, as a participant lender, the Bank has guaranteed performance on the pro-rated portion of swaps executed by other financial institutions. As the participant lender, the Bank is providing a partial guarantee, but is not a direct party to the related swap transactions. The Bank has no obligations under the risk participation agreements unless the borrower defaults on their swap transaction with the lead bank and the swap is in a liability position to the borrower. In that instance, the Bank has agreed to pay the lead bank a portion of the swap’s termination value at the time of the default. The derivative transactions entered into as part of these agreements are not designated, as per ASC 815, as qualifying hedging relationships and are, therefore, marked-to-market through earnings each period. As of September 30, 2020 and December 31, 2019, there were seven of these risk participation transactions with an aggregate notional amount of $57.7 million and $58.8 million, respectively.

The Bank has also participated out to other financial institutions a pro-rated portion of swaps executed by the Bank. The other financial institution has no obligations under the risk participation agreements unless the borrowers default on their swap transactions with the Bank and the swaps are in liability positions to the borrower. In those instances, the other financial institution has agreed to pay the Bank a portion of the swap’s termination value at the time of the default. The derivative transactions entered into as part of these agreements are not designated, as per ASC 815, as qualifying hedging relationships and are, therefore, marked-to-market through earnings each period. As of September 30, 2020, there were five of these risk participation transactions with an aggregate notional amount of $30.3 million. As of December 31, 2019, there were four of these risk participation transactions with an aggregate notional amount of $20.5 million.

The following table presents the effect of the Bank’s derivative financial instruments not designated as hedging instruments in the Consolidated Statements of Operations for the three and nine months ended September 30, 2020 and 2019.

		Amount of gain or (loss), net, recognized in income on derivatives			
		Three months ended September 30,		Nine months ended September 30,	
Derivatives not designated as hedging instruments	**Location of gain or (loss) recognized in income on derivatives**	**2020**	**2019**	**2020**	**2019**
		(In thousands)			
Interest rate swaps	Other income/(expense)	**$ (568)**	$ (289)	**$ (869)**	$ (544)
Risk participation agreements	Other income/(expense)	**78**	(11)	**(148)**	(120)
Total		**$ (490)**	$ (300)	**$ (1,017)**	$ (664)

9. Income Taxes

The following table presents the components of Income tax expense and effective tax rates for the periods indicated:

	Nine months ended September 30,	
	2020	**2019**
	(In thousands)	
Income before income taxes	**$ 22,952**	$ 74,852
Income tax expense	**2,764**	15,803
Net income before attribution to noncontrolling interests	**$ 20,188**	$ 59,049
Effective tax rate	**12.0 %**	21.1 %

The effective tax rate for the nine months ended September 30, 2020 of 12.0%, with related tax expense of $2.8 million, was calculated based on a forecasted 2020 annual effective tax rate. The effective tax rate was less than the statutory rate of 21% due primarily to earnings from tax-exempt investments and income tax credits. These savings were partially offset by state and local income taxes, the accounting for investments in affordable housing projects, and tax expense from employee shared-based payments.

The effective tax rate for the nine months ended September 30, 2019 of 21.1%, with related tax expense of $15.8 million, was calculated based on a forecasted 2019 annual effective tax rate. The effective tax rate was more than the statutory rate of 21% due primarily to state and local income taxes and the accounting for investments in affordable housing projects. These expenses were partially offset by earnings from tax-exempt investments and income tax credits.

The effective tax rate for the nine months ended September 30, 2020 is less than the effective tax rate for the same period in 2019 due primarily to the lower level of income in 2020 as compared to 2019. Earnings from tax-exempt investments have a larger proportionate impact on the lower level of income in 2020 as compared to 2019.

10. Noncontrolling Interests

Noncontrolling interests consist of equity owned by management of the Company's majority-owned affiliate, DGHM. Net income attributable to noncontrolling interests in the Consolidated Statements of Operations, if any, represents the net income allocated to the noncontrolling interest owners of DGHM. Net income allocated to the noncontrolling interest owners was zero and $96 thousand for the three-month periods ended September 30, 2020 and 2019, respectively, and $6 thousand and $265 thousand for the nine-month periods ended September 30, 2020 and 2019, respectively.

On the Consolidated Balance Sheets, noncontrolling interests are included as the sum of the capital and undistributed profits allocated to the noncontrolling interest owners. Typically, this balance is included in a company's permanent shareholders' equity in the Consolidated Balance Sheets. When the noncontrolling interest owners' rights include certain redemption features, as described in ASC 480, *Distinguishing Liabilities from Equity*, such redeemable noncontrolling interests are classified as mezzanine equity and are not included in permanent shareholders' equity. Due to the redemption features of the noncontrolling interests of DGHM, the Company had Redeemable noncontrolling interests held in mezzanine equity in the accompanying Consolidated Balance Sheets of zero and $1.4 million as of September 30, 2020 and December 31, 2019, respectively. The aggregate amount of such Redeemable noncontrolling equity interests are recorded at the estimated maximum redemption values. The Company had no noncontrolling interests included in permanent shareholder's equity at September 30, 2020 and December 31, 2019.

The DGHM operating agreement provides the Company and/or the noncontrolling interest holders with contingent call and put options and mandatory repurchase obligations used for the orderly transfer of noncontrolling equity interests between the noncontrolling interest holders and the Company at contractually predetermined values. This agreement is discussed in Part II. Item 8. "Financial Statements and Supplementary Data - Note 14: Noncontrolling Interests" in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

The interests in DGHM take the form of limited liability company units. There are various events that could trigger a put, call or mandatory repurchase, such as a change in control, death, disability, retirement, resignation or termination. The terms of these rights and obligations are governed by the operating agreement of DGHM.

The following table presents a rollforward of the Company's redeemable noncontrolling interests for the periods indicated:

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(In thousands)			
Redeemable noncontrolling interests at beginning of period	**$ —**	$ 1,786	**$ 1,383**	$ 2,526
Net income attributable to noncontrolling interests	**—**	96	**6**	265
Distributions	**—**	(96)	**(6)**	(265)
Purchases/(sales) of ownership interests	**—**	—	**(64)**	12
Amortization of equity compensation	**8**	10	**24**	36
Adjustments to fair value	**(8)**	(315)	**(1,343)**	(1,093)
Redeemable noncontrolling interests at end of period	**$ —**	$ 1,481	**$ —**	$ 1,481

11. Accumulated Other Comprehensive Income

The following table presents a summary of the amounts reclassified from the Company's Accumulated other comprehensive income/(loss) for the three and nine months ended September 30, 2020 and 2019:

Description of component of Accumulated other comprehensive income/(loss)	Three months ended September 30,		Nine months ended September 30,		Affected line item in Statement of Operations
	2020	2019	2020	2019	
	(In thousands)				
Net realized gain/(loss) on cash flow hedges:					
Hedges related to deposits:					
Pre-tax gain/(loss)	**$ 284**	$ 6	**$ 132**	$ 508	Interest income/(expense)
Tax (expense)/ benefit	**(84)**	(2)	**(39)**	(148)	Income tax (expense)/benefit
Total reclassifications for the period, net of tax	**$ 200**	$ 4	**$ 93**	$ 360	Net income/(loss) attributable to the Company

The following tables present the after-tax changes in the components of the Company’s Accumulated other comprehensive income/(loss) for the three and nine months ended September 30, 2020 and 2019:

	Components of Accumulated other comprehensive income/(loss)			
	Unrealized gain/(loss) on securities available-for-sale	Unrealized gain/(loss) on cash flow hedges	Unrealized gain/(loss) on other	Accumulated other comprehensive income/(loss)
	(In thousands)			
Balance at December 31, 2018	$ (17,556)	$ 391	$ (554)	$ (17,719)
Other comprehensive income/(loss) before reclassifications	27,469	(31)	—	27,438
Reclassified from other comprehensive income/(loss)	—	(360)	—	(360)
Other comprehensive income/(loss), net	27,469	(391)	—	27,078
Balance at September 30, 2019	$ 9,913	$ —	$ (554)	$ 9,359
Balance at December 31, 2019	**$ 8,435**	**$ —**	**$ (860)**	**$ 7,575**
Other comprehensive income/(loss) before reclassifications	**23,055**	**(100)**	**(30)**	**22,925**
Reclassified from other comprehensive income/(loss)	**—**	**(93)**	**—**	**(93)**
Other comprehensive income/(loss), net	**23,055**	**(193)**	**(30)**	**22,832**
Balance at September 30, 2020	**$ 31,490**	**$ (193)**	**$ (890)**	**$ 30,407**

	Components of Accumulated other comprehensive income/(loss)			
	Unrealized gain/(loss) on securities available-for-sale	Unrealized gain/(loss) on cash flow hedges	Unrealized gain/(loss) on other	Accumulated other comprehensive income/(loss)
	(In thousands)			
Balance at June 30, 2019	$ 4,677	$ 2	$ (554)	$ 4,125
Other comprehensive income/(loss) before reclassifications	5,236	2	—	5,238
Reclassified from other comprehensive income/(loss)	—	(4)	—	(4)
Other comprehensive income/(loss), net	5,236	(2)	—	5,234
Balance at September 30, 2019	$ 9,913	$ —	$ (554)	$ 9,359
Balance at June 30, 2020	**$ 31,122**	**$ (195)**	**$ (890)**	**$ 30,037**
Other comprehensive income/(loss) before reclassifications	**368**	**202**	**—**	**570**
Reclassified from other comprehensive income/(loss)	**—**	**(200)**	**—**	**(200)**
Other comprehensive income/(loss), net	**368**	**2**	**—**	**370**
Balance at September 30, 2020	**$ 31,490**	**$ (193)**	**$ (890)**	**$ 30,407**

12. Restructuring

There were no restructuring charges for the three and nine months ended September 30, 2020. In the first quarter of 2019, the Company incurred restructuring charges of $1.6 million. The charges were in connection with a previously announced reduction to the Company’s workforce, which included executive transition changes as well as other employee benefit and technology related initiatives. The restructuring was intended to improve the Company’s operating efficiency and enhance earnings.

The following table presents a summary of the restructuring activity for the three and nine months ended September 30, 2020 and 2019:

	Severance Charges	Other Associated Costs	Total
		(In thousands)	
Accrued charges at December 31, 2019	$ 526	$ 789	$ 1,315
Costs paid	(434)	—	(434)
Accrued charges at March 31, 2020	92	789	881
Costs paid	(92)	—	(92)
Accrued charges at June 30, 2020	$ —	$ 789	$ 789
Costs paid	—	—	—
Accrued charges at September 30, 2020	$ —	$ 789	$ 789
Accrued charges at December 31, 2018	$ 3,896	$ 789	$ 4,685
Cost incurred	1,646	—	1,646
Costs paid	(1,986)	—	(1,986)
Accrued charges at March 31, 2019	3,556	789	4,345
Costs paid	(1,364)	—	(1,364)
Accrued charges at June 30, 2019	$ 2,192	$ 789	$ 2,981
Costs paid	(1,156)	—	(1,156)
Accrued charges at September 30, 2019	$ 1,036	$ 789	$ 1,825

13. Revenue Recognition

In accordance with ASC 606, *Revenue from Contracts with Customers* ("ASC 606"), the Company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. ASC 606 does not apply to revenue associated with financial instruments such as loans and securities. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest income considered in-scope of ASC 606 is discussed below.

Wealth management and trust fees

Wealth management and trust fees are earned for providing wealth management, retirement plan advisory, family office, financial planning, trust services, and other financial advisory services to clients. The Company's performance obligation under these contracts is satisfied over time as the services are provided. Fees are recognized monthly based on the average monthly, beginning-of-quarter, or, for a small number of clients, end-of-quarter market value of the AUM and the applicable fee rate, depending on the terms of the contracts. Fees are also recognized monthly based either on a fixed fee amount or are based on the quarter-end (in arrears) market value of the AUM and the applicable fee rate, depending on the terms of the contracts. No performance based incentives are earned under wealth management contracts. Receivables are recorded on the Consolidated Balance Sheets in the Fees receivable line item. Deferred revenues of $6.0 million and $6.5 million as of September 30, 2020 and December 31, 2019, respectively, are recorded on the Consolidated Balance Sheets within Other liabilities.

Trust fees are earned when the Company is appointed as trustee for clients. As trustee, the Company administers the client's trust and manages the assets of the trust, including investments and property. The Company's performance obligation under these agreements is satisfied over time as the administration and management services are provided. Fees are recognized monthly or, in certain circumstances, quarterly based on a percentage of the market value of the account as outlined in the agreement. Payment frequency is defined in the individual contracts which primarily stipulate monthly in arrears. No performance based incentives are earned on trust fee contracts. Receivables are recorded on the Consolidated Balance Sheets within Fees receivable.

Investment management fees

Investment management fees are earned for the management of a series of accounts and funds in which clients invest directly, acting as a sub-advisor to larger investment management companies, or private client account management. The Company's performance obligation is satisfied over time and the resulting fees are recognized monthly, based upon either the beginning-of-quarter (in advance) or quarter-end (in arrears) market value of the AUM and the applicable fee rate, depending on the terms of the contracts. Payment is generally received a few days after month end through a direct charge to customers' accounts. The Company may earn performance-based incentives on certain contracts. Receivables are recorded on the Consolidated Balance Sheets within Fees receivable.

Other banking fee income

The Bank charges a variety of fees to its clients for services provided on the deposit and deposit management related accounts. Each fee is either transaction based or assessed monthly. The types of fees include service charges on accounts, overdraft fees, maintenance fees, ATM fee charges, and other miscellaneous charges related to the accounts. These fees are not governed by individual contracts with clients. They are charges to clients based on disclosures presented to clients upon opening these accounts along with updated disclosures when changes are made to the fee structures. The transaction-based fees are recognized in revenue when charged to the client based on specific activity on the client's account. Monthly service/maintenance charges are recognized in the month they are earned and are charged directly to the client's account.

The Bank also charges fees for treasury activities such as swap fees and foreign exchange fees for clients with a banking relationship. These fees are recorded when earned via completion of the transaction for the client. The completion of the transaction is deemed to be the performance obligation of the transaction. The related revenue is recorded through a direct charge to the client's account. There are no individual agreements or contracts with clients relating to foreign exchange fees as they are governed by client disclosure statements and the Bank's internal policies and procedures.

The following table presents the fee income considered in-scope of ASC 606 by contracts with customers:

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
	(In thousands)			
Fees and other income:				
Wealth management and trust fees	**$ 18,240**	$ 19,067	**$ 53,872**	$ 57,037
Investment management fees	**1,393**	2,496	**5,088**	7,601
Other income	**812**	700	**2,166**	2,029
Revenue from contracts with customers	**20,445**	22,263	**61,126**	66,667
Other non-interest income not within the scope of ASC 606	**2,600**	2,863	**6,102**	8,087
Total non-interest income	**$ 23,045**	$ 25,126	**$ 67,228**	$ 74,754

14. Lease Accounting

On adoption of ASU 2016-02 on January 1, 2019, the Company recognized $124.1 million of lease liabilities and $108.5 million of right-of-use ("ROU") assets on the Consolidated Balance Sheets. ROU assets obtained in exchange for lease liabilities are net of tenant improvement allowances and deferred rent. There was no impact to the Company's Consolidated Statements of Cash Flows upon adoption, since the net impact of all adjustments recorded upon transition represents non-cash activity. See Part I. Item 1. "Notes to Unaudited Consolidated Financial Statements - Note 15: Recent Accounting Pronouncements" for additional information on the Company's adoption of this standard.

The Company, as lessee, has 36 real estate leases for office and ATM locations classified as operating leases. The Company determines if an arrangement is a lease or contains a lease at inception. The terms of the real estate leases generally have annual increases in payments based off of a fixed or variable rate, such as the Consumer Price Index rate, that is outlined within the respective contracts. 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 for periods of five to ten years at contractually agreed upon rates or at market rates at the time of the extension. On a quarterly basis, the Company evaluates whether the renewal of each lease is reasonably certain. If the lease doesn't provide the implicit interest rate, the Bank uses its incremental borrowing rate at the commencement date of the lease in determining the present value of lease payments. No other significant judgments or assumptions were made in applying the requirements of ASU 2016-02.

The Company recognized $2.0 million of lease liabilities and ROU assets on the Consolidated Balance Sheets related to equipment leases on September 30, 2020. The Company, as lessee, has 21 equipment leases classified as operating leases. The terms of the equipment leases are fixed payments outlined within the respective contracts and generally range from three to five years. The Bank uses its incremental borrowing rate at the commencement date of the lease in determining the present value of lease payments. No other significant judgments or assumptions were made in applying the requirements of ASU 2016-02.

The following table presents information about the Company's leases as of the dates indicated.

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
	(In thousands)			
Lease cost				
Operating lease cost	**$ 4,562**	$ 4,866	**$ 13,656**	$ 14,392
Short-term lease cost	**58**	12	**164**	41
Variable lease cost	**5**	143	**(4)**	147
Less: Sublease income	**—**	(27)	**(28)**	(73)
Total operating lease cost	**$ 4,625**	$ 4,994	**$ 13,788**	$ 14,507

	Nine months ended September 30, 2020
	(In thousands, except years and percentages)
Other information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	**$ 15,107**
ROU assets obtained in exchange for new operating lease liabilities (1)	**$ 4,056**
Weighted-average remaining lease term for operating leases	**7.6 years**
Weighted-average discount rate for operating leases	**3.2 %**

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(1) Operating lease liabilities were impacted by the addition of real estate and equipment leases, partially offset by real estate lease modifications for the nine months ended September 30, 2020.

The Company is obligated for minimum payments under non-cancelable operating leases. In accordance with the terms of these leases, the Company is currently committed to minimum annual payments as follows as of September 30, 2020:

	September 30, 2020
	(In thousands)
Remainder of 2020	**$ 5,136**
2021	**20,662**
2022	**20,575**
2023	**19,275**
2024	**13,113**
Thereafter	**46,003**
Total future minimum lease payments	**124,764**
Less: Amounts representing interest	**(15,832)**
Present value of net future minimum lease payments	**$ 108,932**

15. Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). This update and the related amendments to Topic 842 require lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-10, *Codification Improvements to Topic 842, Leases* (“ASU 2018-10”); ASU No. 2018-11, *Leases (Topic 842), Targeted Improvements* (“ASU 2018-11”); and ASU No. 2019-01, *Leases (Topic 842), Codification Improvements* (“ASU 2019-01”). The standard establishes an ROU model that requires a lessee to recognize an ROU asset and lease liability on the Consolidated Balance Sheets for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and method of expense recognition in the Consolidated Statements of Operations. The Company adopted these provisions on January 1, 2019. The most significant effects relate to the recognition of new ROU assets and lease liabilities on the balance sheet for real estate operating leases and providing significant disclosures about leasing activities. Additionally, the Company elected the package of practical expedients, as prescribed by ASU 2016-02. On adoption, the Company recognized $124.1 million of lease liabilities and $108.5 million of ROU assets. See Part I. Item 1. “Notes to Unaudited Consolidated Financial Statements - Note 14: Lease Accounting” for further details.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments (Topic 326)* (“ASU 2016-13”). In 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments* (“ASU 2019-04”); ASU 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief* (“ASU 2019-05”); ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 942)—Effective Dates* (“ASU 2019-10”); and ASU

2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses* ("ASU 2019-11"). This update and related amendments to Topic 326 are intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology with a CECL model methodology that reflects expected credit losses and requires consideration of a reasonable and supportable economic forecast to inform credit loss estimates. This ASU is effective for fiscal years beginning after December 15, 2019. The Company adopted this update on January 1, 2020 utilizing a modified retrospective approach. On adoption of ASU 2016-13, the Company recognized a decrease in the allowance for loan losses of $20.4 million and an increase in the reserve for unfunded loan commitments of $1.4 million. The net, after-tax impact of the decrease in the allowance for loan losses and the increase in the reserve for unfunded loan commitments was an increase to Retained earnings of $13.5 million as shown in the Consolidated Statements of Changes in Shareholders' Equity. See Part I. Item 1. "Notes to Unaudited Consolidated Financial Statements - Note 4: Investments", "Note 6 - Loan Portfolio and Credit Quality", and "Note 7 - Allowance for Loan Losses" for further details.

In August 2018, the FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans* ("ASU 2018-14"). The amendments in ASU 2018-14 remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. This update is effective on a retrospective basis for interim and annual reporting periods beginning January 1, 2021. The Company is assessing the potential impact for this update and how it applies to the Company's disclosures surrounding its two non-qualified supplemental executive retirement plans and a long-term incentive plan.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As of and for the three and nine months ended September 30, 2020

Certain statements contained in this Quarterly Report on Form 10-Q 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 (the "Exchange Act"), 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, among others, statements regarding our strategy; evaluations of interest rate trends and future liquidity; expectations as to changes in assets, deposits and results of operations; the impact of the COVID-19 pandemic; 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"; the negative impacts and disruptions of the COVID-19 pandemic and measures taken to contain its spread on our employees, customers, business operations, credit quality, financial position, liquidity and results of operations; the length and extent of the economic contraction as a result of the COVID-19 pandemic; continued deterioration in employment levels, general business and economic conditions on a national basis and in the local markets in which the Company operates; changes in customer behavior; the possibility that future credit losses are higher than currently expected due to changes in economic assumptions, customer behavior or adverse economic developments; turbulence in the capital and debt markets; changes in interest rates; increases in loan defaults and charge-off rates; decreases in the value of securities and other assets; changes in loan loss reserves; decreases in deposit levels necessitating increased borrowing to fund loans and investments; competitive pressures from other financial institutions; operational risks including, but not limited to, cybersecurity incidents, fraud, natural disasters and future pandemics; changes in regulation; reputational risk relating to the Company's participation in the Paycheck Protection Program and other pandemic-related legislative and regulatory initiatives and programs; risks that goodwill and intangibles recorded in the Company's financial statements will become impaired; the risk that the Company's deferred tax asset may not be realized; risks related to the identification and implementation of acquisitions, dispositions and restructurings; changes in assumptions used in making such forward-looking statements; and the other risks and uncertainties detailed in the Company's Annual Report on Form 10-K and updated in the Company's Quarterly Reports on Form 10-Q 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.

Executive Summary

The Company offers a wide range of private banking, wealth management, and trust services to high net worth individuals, families, businesses and select institutions through its two reportable segments: (i) Private Banking and (ii) Wealth Management and Trust. This Executive Summary provides an overview of the most significant aspects of the Company's operating segments and operations in the third quarter of 2020. Details of the matters addressed in this summary are provided elsewhere in this document and, in particular, in the sections immediately following.

	As of and for the three months ended September 30,			
	2020	**2019**	**$ Change**	**% Change**
	(In thousands, except per share data and percentages)			
Total revenue	**$ 80,869**	$ 81,279	$ (410)	(1)%
Provision/(credit) for loan losses	**(4,569)**	167	(4,736)	nm
Total operating expense	**60,937**	55,537	5,400	10 %
Net income before attribution to noncontrolling interests	**22,680**	20,058	2,622	13 %
Net income attributable to noncontrolling interests	**—**	96	(96)	(100)%
Net income attributable to the Company	**22,680**	19,962	2,718	14 %
Diluted earnings per share attributable to common shareholders	**$ 0.28**	$ 0.24	$ 0.04	17 %
ASSETS UNDER MANAGEMENT AND ADVISORY ("AUM"):				
Wealth Management and Trust	**$ 15,581,000**	$ 14,695,000	$ 886,000	6 %
Other (1)	**672,000**	1,533,000	(861,000)	(56)%
Total AUM	**$ 16,253,000**	$ 16,228,000	$ 25,000	— %

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nm = not meaningful

(1) Includes results from Dalton, Greiner, Hartman, Maher & Co., LLC ("DGHM")

Net income attributable to the Company was $22.7 million and $20.0 million for the three months ended September 30, 2020 and September 30, 2019, respectively. The Company recognized Diluted earnings per share attributable to common shareholders of $0.28 and $0.24 for the three months ended September 30, 2020 and September 30, 2019, respectively. Key items that affected the Company's results in the third quarter of 2020 compared to the same period of 2019 include:

- Provision for loan losses decreased $4.7 million to a credit of $4.6 million for the three months ended September 30, 2020, compared to the same period of 2019. During the third quarter of 2020, the Company recognized a total provision credit of $2.8 million, which included a provision credit of $4.6 million, and separately, a reserve of $1.8 million for unfunded loan commitments, recognized as Other expense within Noninterest expense.
  - The decrease in the Allowance for loan losses for the three months ended September 30, 2020 was primarily driven by the latest current reasonable and supportable economic forecasts, which indicated a modest improvement from the prior quarter, as well as the net impact of the change in the composition and volume of the loan portfolio. These improvements were partially offset by the net impact in the changes of the qualitative factors, and a change in the weighting of the forecast scenarios used to account for risks and assumptions not incorporated in the forecasts, including consideration for the significant uncertainty related to the duration and severity of economic impacts from the COVID-19 pandemic.
- Total revenue decreased $0.4 million to $80.9 million for the three months ended September 30, 2020, compared to the same period of 2019 as described below.
  - Total fees and other income decreased $2.1 million, or 8%, to $23.0 million for the three months ended September 30, 2020, compared to the same period of 2019. The decrease was primarily driven by lower Other banking fee income as a result of lower bank-owned life insurance revenue and lower swap fee income, as well as lower Investment management fees due to the impact of recent outflows of AUM at DGHM. Total fees and other income represents 28% of Total revenue for the three months ended September 30, 2020, compared to 31% of Total revenue for the same period of 2019.
  - Net interest income increased $1.7 million, or 3%, to $57.8 million for the three months ended September 30, 2020, compared to the same period of 2019. The increase in Net interest income was primarily driven by the addition of PPP-related income and lower funding costs, partially offset by lower interest on interest-earning assets. Net interest margin ("NIM") was 2.61% for the three months ended September 30, 2020, a decrease of 11 basis points compared to the same period in 2019. Although Net interest income increased, the decrease in NIM was driven by excess cash balances held at lower yields in the third quarter of 2020 and lower-yielding PPP loans.

- Total operating expense increased $5.4 million, or 10%, to $60.9 million for the three months ended September 30, 2020, compared to the same period of 2019. The increase was primarily driven by increases in Salaries and employee benefits expense, Information systems expense as a result of new IT initiatives being placed in service, and the reserve for unfunded loan commitments within Other expense, partially offset by a decrease in Marketing and business development expense.
- For the three months ended September 30, 2020, total loans decreased $110.4 million, or 2%, while total deposits increased $400.3 million, or 5%, from the second quarter of 2020. The decrease in loans was primarily driven by the sale of $72.0 million of residential mortgage loans in the third quarter of 2020, while the increase in deposits was primarily driven by clients maintaining additional cash liquidity. The Company’s loan-to-deposit ratio decreased from 99% as of June 30, 2020 to 92% as of September 30, 2020, driven by strong deposit inflows. Deposits are the Company’s primary source of funds to originate loans. When the Company’s loan-to-deposit ratio exceeds 100%, the Company relies on other funding sources, such as FHLB borrowings or federal funds, to fund loan growth. If the Company is unable to grow deposits in line with loan growth, it may evaluate other options such as slowing loan growth, selling a portion of portfolio loans, or originating mortgage loans as held-for-sale. Additionally if the Company has excess deposits, the Company may seek to to earn a better yield by investing excess cash in loan growth, purchasing investment securities or other cash management strategies.

The Company’s Private Banking segment reported Net income attributable to the Company of $19.3 million in the third quarter of 2020, compared to $17.9 million for the same period of 2019. Net income attributable to the Company increased $1.4 million from the same period in 2019, primarily driven by a decrease of $4.7 million to the Provision for loan losses and a decrease in Income tax expense of $1.3 million. These items were partially offset by an increase of $5.0 million in Total operating expense primarily due to increases in Information systems expense as a result of new IT initiatives being placed in service, Salaries and employee benefits expense, and Other expense related to the reserve for unfunded loan commitments.

The Company’s Wealth Management and Trust segment reported Net income attributable to the Company of $1.9 million in the third quarter of 2020, compared to $3.6 million for the same period of 2019. The decrease of $1.6 million, or 46%, was primarily driven by an increase of $1.7 million in Total operating expense and a decrease of $0.9 million in Total revenue due to the impact of lower AUM on fee revenues as of fee billing dates and lower effective fee rates. The increase in Total operating expense was primarily driven by an increase in Salaries and employee benefits expense related to the hiring of additional advisors as part of the Company's strategic initiative to grow the Wealth Management and Trust business, as well as an increase in Information systems expense, partially offset by a decrease in Other expense. Wealth Management and Trust AUM increased $0.9 billion, or 6%, to $15.6 billion at September 30, 2020 from $14.7 billion at September 30, 2019. The increase in AUM was primarily driven by favorable market returns of $0.8 billion and total net flows of $0.1 billion for the twelve months ended September 30, 2020.

Impact of the COVID-19 Pandemic

The COVID-19 pandemic has caused, and continues to cause, substantial disruptions to the global economy and to the customers and communities that we serve. In response to the pandemic, the Company implemented business continuity contingency plans, including company-wide remote working arrangements. We are also focused on supporting our clients who may be experiencing a financial hardship due to the COVID-19 pandemic, including by participating in the Small Business Administration’s (the “SBA”) Paycheck Protection Program (the “PPP”) and offering loan deferrals and forbearance as needed, including our mortgage deferment program and Commercial and industrial loan deferment program, and creating the Commercial real estate second loan program. We will continue to evaluate this fluid situation and take additional actions as necessary.

Participation in the PPP

The CARES Act initially appropriated $349 billion for “paycheck protection loans” through the PPP. The amount appropriated was subsequently increased to $659 billion. The CARES Act provided funding to the SBA for use for the PPP. Under the terms of the PPP, certain businesses can apply for loans through qualified financial institutions, such as the Bank, based on eligibility criteria. The PPP provides loans to eligible businesses with an initial term of up to five years at an interest rate of 1.0%. Loans issued under the PPP will be forgiven if the borrower uses at least 60% of the proceeds on payroll costs and other eligible costs such as utilities or rent for a period of up to 24 weeks, following the loan funding date. This was changed from 75% and 8 weeks by the Paycheck Protection Program Flexibility Act signed into law on June 5, 2020. The SBA has issued an interim final rule in which it has provided that a lender may rely on certifications made by a borrower to determine the borrower’s eligibility for a PPP loan and use of loan proceeds, subject to a good faith review, and to determine the qualifying loan amount and eligibility for loan forgiveness.

Loans issued by participating financial institutions are 100% guaranteed by the SBA. Banks will receive a processing fee from the SBA from 1.0% to 5.0% based on the size of the loan. Loans up to $350 thousand will have a 5.0% fee, loans between $350 thousand and $2.0 million will have a 3.0% fee, and loans greater than $2.0 million will have a 1.0% fee.

In conjunction with the PPP, the Board of Governors of the Federal Reserve System (the "Federal Reserve") has created a lending facility for qualified financial institutions. The Paycheck Protection Program Liquidity Facility (the "PPPLF") will extend credit to depository institutions with a term of up to five years at an interest rate of 0.35%. Only loans issued under the PPP can be pledged as collateral to access the facility. As of September 30, 2020, the Bank has not participated in the PPPLF.

As of September 30, 2020, the Bank processed 1,045 loans totaling $380.3 million under the PPP program, primarily in the second quarter of 2020. The Bank has received $10.9 million in processing fees from the SBA, which is netted against the principal balance on the Consolidated Balance Sheets and will be accreted through net interest income on a straight-line basis over the life of the loan. If a loan is forgiven or otherwise paid off, the remainder of the processing fee will be accreted through net interest income. As of September 30, 2020, the balance of PPP loans was $371.5 million, and $2.2 million was accreted through net interest income.

Mortgage deferment program

In response to the COVID-19 pandemic, the Bank initiated a mortgage deferment program under which principal and interest payments on qualifying loans are generally deferred for initially three months and the loan term is extended three months; if requested, the loan may be deferred for a subsequent three months. Loans that are deferred under the program are not considered TDRs or past due based on current regulatory guidance. In total, approximately 350 residential and home equity loans totaling approximately $220.0 million have been processed under the program. As of September 30, 2020, deferrals for approximately 200 loans totaling approximately $120.0 million have expired with the loans returning to payment, while approximately 140 loans totaling approximately $100.0 million remain in deferral under the program. Approximately 10 loans totaling less than $1.0 million are delinquent on payment terms as of September 30, 2020 after the deferral expired, primarily First Time Home Buyer loans.

Commercial and industrial loan deferment program

In response to the COVID-19 pandemic, the Bank initiated a program offering qualified Commercial and industrial borrowers principal payment deferral for six months, with the deferred principal added to the last payment. In total, approximately 90 Commercial and industrial loans totaling approximately $125.0 million have been processed under the program. As of September 30, 2020, deferrals for approximately 60 loans totaling approximately $75.0 million have expired with the loans returning to payment, while approximately 30 loans totaling approximately $50.0 million remain in deferral under the program. Of the loans that came off deferral, no loans are delinquent on payment terms as of September 30, 2020.

Commercial real estate second loan program

In response to the COVID-19 pandemic, the Bank also initiated a program to offer qualifying Commercial real estate borrowers a second mortgage to cover up to one year of principal and interest payments. In order to qualify for the loan, the total exposure after receiving the second mortgage for each borrower could not exceed a 75% loan-to-value ratio, and the loans were required to be current at the time of application, amongst other conditions. In total, borrowers with approximately 240 existing loans totaling $1.3 billion requested and were approved for these second mortgages, representing approximately 50% of the Commercial real estate loan balance. As of September 30, 2020, the borrowers associated with the $1.3 billion of existing loans received approximately $80.0 million in additional funding under this program. The Company does not anticipate a material increase in the $80.0 million balance of new loans in the future, and the principal balance will amortize down over the life of the loan, generally five years. In addition to, and outside of the Commercial real estate second loan program, the Bank offered qualified Commercial real estate borrowers principal payment deferral for up to twelve months, with the deferred principal added to the balance due at maturity. In total, approximately 10 Commercial real estate borrowers with loans totaling approximately $55.0 million accepted this accommodation. As of September 30, 2020, deferrals for approximately 5 borrowers with loans totaling approximately $15.0 million have expired with the loans returning to payment, while approximately 5 borrowers with loans totaling approximately $40.0 million remain in deferral. Of the loans that came off deferral, no loans are delinquent on payment terms as of September 30, 2020. The entire Commercial real estate portfolio will continue to be monitored for credit deterioration regardless of their participation in the plan.

Credit quality and Allowance for loan loss

The Company continues to monitor and evaluate the impact of the COVID-19 pandemic on the credit quality of our assets. Total criticized and classified loans as of September 30, 2020 was $322.6 million, an increase of $16.5 million, or 5%, linked quarter, primarily driven by the downgrade of $71.0 million of loans, partially offset by $54.0 million of payoffs, paydowns and upgrades. Of the $71.0 million in downgrades in the third quarter of 2020, $62.0 million were Commercial real estate loans across 16 relationships, primarily with hospitality and retail clients. During the third quarter of 2020, the Company recognized a total net provision credit of $2.8 million primarily driven by the latest reasonable and supportable economic forecasts, which indicated a modest improvement from the prior quarter. Within the Commercial real estate portfolio, the impact of the improving current reasonable and supportable economic forecasts was partially offset by additional reserves needed to account for the increase in criticized and classified loans in the Commercial real estate portfolio.

Other accounting matters

There have been no significant changes to judgments in determining the fair value of assets or liabilities, and there have been no material impairments of financial assets. The Company will continue to monitor the fair value of assets to determine if trigger events exist to warrant further impairment testing.

Critical Accounting Policies

Critical accounting policies reflect significant judgments and uncertainties, which 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, which involve the most complex or subjective decisions or assessments, are the allowance for loan losses, the valuation of goodwill and intangible assets and the analysis for impairment, and income tax estimates. These policies are discussed in Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Subsequent to the filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2019, there was one change to the critical accounting policies. Upon the adoption of ASU 2016-13, *Financial Instrument*s (Topic 326) ("ASU 2016-13") on January 1, 2020, management's policy and processes for the allowance for loan losses have changed. The updates in this standard replace the incurred loss impairment methodology with a CECL model methodology. The CECL model methodology incorporates current conditions, reasonable and supportable economic forecasts, and prepayments to estimate loan losses over the life of the loan. See Part I. Item 1. "Notes to Unaudited Consolidated Financial Statements - Note 7: Allowance for Loan Losses" for further discussion on the new policy and processes. There have been no other changes to the Company's policies through the filing of this Quarterly Report on Form 10-Q.

Results of operations for the three and nine months ended September 30, 2020 versus September 30, 2019

Net income. The Company recorded Net income attributable to the Company for the three and nine months ended September 30, 2020 of $22.7 million and $20.2 million, respectively, compared to Net income attributable to the Company of $20.0 million and $58.8 million for the same respective periods in 2019.

The Company recognized Diluted earnings per share attributable to common shareholders for the three and nine months ended September 30, 2020 of $0.28 per share and $0.25 per share, respectively, compared to Diluted earnings per share attributable to common shareholders of $0.24 per share and $0.71 per share for the same respective periods in 2019. See Part I. Item 1. "Notes to Unaudited Consolidated Financial Statements - Note 2: Earnings Per Share" for further detail on adjustments made to arrive at income available to common shareholders.

The following table presents selected financial highlights:

	Three months ended September 30,		$	%	Nine months ended September 30,		$	%
	2020	**2019**	**Change**	**Change**	**2020**	**2019**	**Change**	**Change**
	(In thousands, except percentages)							
Net interest income	**$ 57,824**	$ 56,153	1,671	3 %	**$ 174,019**	$ 171,951	$ 2,068	1 %
Fees and other income	**23,045**	25,126	(2,081)	(8)%	**67,228**	74,754	(7,526)	(10)%
Total revenue	**80,869**	81,279	(410)	(1)%	**241,247**	246,705	(5,458)	(2)%
Provision/(credit) for loan losses	**(4,569)**	167	(4,736)	nm	**34,997**	104	34,893	nm
Operating expense	**60,937**	55,537	5,400	10 %	**183,298**	171,749	11,549	7 %
Income tax expense	**1,821**	5,517	(3,696)	(67)%	**2,764**	15,803	(13,039)	(83)%
Net income before attribution to noncontrolling interests	**22,680**	20,058	2,622	13 %	**20,188**	59,049	(38,861)	(66)%
Less: Net income attributable to noncontrolling interests	**—**	96	(96)	(100)%	**6**	265	(259)	(98)%
Net income attributable to the Company	**$ 22,680**	$ 19,962	$ 2,718	14 %	**$ 20,182**	$ 58,784	$ (38,602)	(66)%

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nm = not meaningful

Net interest income. 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. NIM is the amount of net interest income expressed as a percentage of average interest-earning assets. The average rate earned on interest-earning assets is the amount of annualized interest income expressed as a percentage of average interest-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 placed on nonaccrual status, NIM can decrease because the same assets are earning less income. Loans graded as substandard but still accruing interest income totaled $81.8 million at September 30, 2020 and could be placed on nonaccrual status if their credit quality declines further.

Net interest income for the three months ended September 30, 2020 was $57.8 million, an increase of $1.7 million, or 3%, compared to the same period in 2019. The increase was primarily driven by lower funding costs and the addition of PPP-related income in 2020, partially offset by lower interest on interest-earning assets. NIM was 2.61% for the three months ended September 30, 2020, a decrease of 11 basis points compared to the same period in 2019. Although Net interest income increased, the decrease in NIM was primarily driven by the addition of lower-yielding PPP loans in 2020 and the impact of excess cash balances earning a lower yield.

Net interest income for the nine months ended September 30, 2020 was $174.0 million, an increase of $2.1 million, or 1%, compared to the same period in 2019. The increase was primarily driven by lower funding costs and the addition of PPP-related income in 2020, partially offset by lower interest on interest-earning assets. NIM was 2.71% for the nine months ended September 30, 2020, a decrease of 9 basis points compared to the same period in 2019. Although Net interest income increased, the decrease in NIM was driven by the addition of lower-yielding PPP loans in 2020.

The following tables present the composition of the Company's NIM for the three and nine months ended September 30, 2020 and 2019.

	Average Balance		Interest Income/Expense		Average Yield/Rate (1)	
	As of and for the three months ended September 30,					
AVERAGE BALANCE SHEET:	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
AVERAGE ASSETS	(In thousands)					
Interest-earning assets:						
Cash and investments: (2)						
Taxable investment securities	**$ 201,515**	$ 198,655	**$ 853**	$ 938	**1.69 %**	1.95 %
Non-taxable investment securities	**313,130**	305,108	**1,974**	1,924	**2.52 %**	2.52 %
Mortgage-backed securities	**515,813**	492,514	**2,354**	2,622	**1.83 %**	2.13 %
Short-term investments and other	**432,117**	101,958	**654**	1,084	**0.59 %**	4.06 %
Total cash and investments	**1,462,575**	1,098,235	**5,835**	6,568	**1.59 %**	2.39 %
Loans: (3)						
Commercial and industrial	**1,032,816**	1,101,672	**8,314**	11,523	**3.15 %**	4.09 %
Paycheck Protection Program	**373,047**	—	**2,390**	—	**2.51 %**	— %
Commercial real estate	**2,652,770**	2,518,048	**23,546**	29,118	**3.47 %**	4.52 %
Construction and land	**218,211**	195,843	**2,109**	2,410	**3.78 %**	4.82 %
Residential	**2,809,871**	3,016,265	**22,089**	25,567	**3.14 %**	3.39 %
Home equity	**84,226**	89,068	**623**	1,121	**2.94 %**	4.99 %
Other consumer	**111,657**	127,987	**547**	1,297	**1.95 %**	4.02 %
Total loans	**7,282,598**	7,048,883	**59,618**	71,036	**3.23 %**	3.98 %
Total earning assets	**8,745,173**	8,147,118	**65,453**	77,604	**2.96 %**	3.76 %
LESS: Allowance for loan losses	**89,370**	75,199				
Cash and due from banks (non-interest bearing)	**34,761**	49,065				
Other assets	**655,999**	544,368				
TOTAL AVERAGE ASSETS	**$ 9,346,563**	$ 8,665,352				
AVERAGE LIABILITIES, RNCI, AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Savings and NOW	**$ 722,742**	$ 615,730	**$ 197**	$ 275	**0.11 %**	0.18 %
Money market	**4,070,026**	3,378,006	**4,790**	11,523	**0.47 %**	1.35 %
Certificates of deposit	**585,729**	711,299	**1,447**	3,689	**0.98 %**	2.06 %
Total interest-bearing deposits	**5,378,497**	4,705,035	**6,434**	15,487	**0.48 %**	1.31 %
Junior subordinated debentures	**106,363**	106,363	**508**	1,022	**1.87 %**	3.76 %
FHLB borrowings and other	**388,412**	833,535	**687**	4,942	**0.69 %**	2.32 %
Total interest-bearing liabilities	**5,873,272**	5,644,933	**7,629**	21,451	**0.52 %**	1.50 %
Non-interest bearing demand deposits	**2,321,223**	1,953,214				
Payables and other liabilities	**309,462**	258,371				
Total average liabilities	**8,503,957**	7,856,518				
Redeemable noncontrolling interests	**—**	944				
Average shareholders' equity	**842,606**	807,890				
TOTAL AVERAGE LIABILITIES, RNCI, AND SHAREHOLDERS' EQUITY	**$ 9,346,563**	$ 8,665,352				
Net interest income			**$ 57,824**	$ 56,153		
Interest rate spread					**2.44 %**	2.26 %
NIM					**2.61 %**	2.72 %

AVERAGE BALANCE SHEET:	Average Balance 2020	Average Balance 2019	Interest Income/Expense 2020	Interest Income/Expense 2019	Average Yield/Rate (1) 2020	Average Yield/Rate (1) 2019
	As of and for the nine months ended September 30,					
AVERAGE ASSETS	(In thousands)					
Interest-earning assets:						
Cash and investments: (2)						
Taxable investment securities	**$ 200,346**	$ 223,072	**$ 2,580**	$ 3,244	**1.72 %**	1.94
Non-taxable investment securities	**315,101**	305,422	**5,977**	5,726	**2.53 %**	2.50
Mortgage-backed securities	**514,043**	507,338	**7,707**	8,225	**2.00 %**	2.16
Short-term investments and other	**256,143**	104,225	**2,307**	3,049	**1.19 %**	3.78
Total cash and investments	**1,285,633**	1,140,057	**18,571**	20,244	**1.92 %**	2.36
Loans: (3)						
Commercial and industrial	**1,074,159**	1,088,027	**28,746**	33,673	**3.51 %**	4.08
Paycheck Protection Program	**218,175**	—	**3,963**	—	**2.41 %**	—
Commercial real estate	**2,631,461**	2,474,804	**75,630**	87,222	**3.78 %**	4.65
Construction and land	**228,243**	203,211	**6,932**	7,610	**3.99 %**	4.94
Residential	**2,841,023**	2,999,480	**68,636**	76,847	**3.22 %**	3.42
Home equity	**86,186**	90,361	**2,225**	3,388	**3.44 %**	5.01
Other consumer	**122,706**	128,879	**2,651**	4,172	**2.88 %**	4.33
Total loans	**7,201,953**	6,984,762	**188,783**	212,912	**3.46 %**	4.04
Total earning assets	**8,487,586**	8,124,819	**207,354**	233,156	**3.23 %**	3.80
LESS: Allowance for loan losses	**69,929**	74,863				
Cash and due from banks (non-interest bearing)	**41,461**	46,906				
Other assets	**620,313**	516,642				
TOTAL AVERAGE ASSETS	**$ 9,079,431**	$ 8,613,504				
AVERAGE LIABILITIES, RNCI, AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Savings and NOW	**$ 680,962**	$ 658,154	**$ 616**	$ 847	**0.12 %**	0.17
Money market	**3,835,219**	3,317,117	**19,295**	32,072	**0.67 %**	1.29
Certificates of deposit	**641,800**	746,453	**6,654**	11,141	**1.38 %**	2.00
Total interest-bearing deposits	**5,157,981**	4,721,724	**26,565**	44,060	**0.69 %**	1.25
Junior subordinated debentures	**106,363**	106,363	**2,189**	3,223	**2.74 %**	4.05
FHLB borrowings and other	**484,674**	801,519	**4,581**	13,922	**1.24 %**	2.29
Total interest-bearing liabilities	**5,749,018**	5,629,606	**33,335**	61,205	**0.77 %**	1.45
Non-interest bearing demand deposits	**2,194,237**	1,949,948				
Payables and other liabilities	**295,327**	243,370				
Total average liabilities	**8,238,582**	7,822,924				
Redeemable noncontrolling interests	**400**	1,642				
Average shareholders' equity	**840,449**	788,938				
TOTAL AVERAGE LIABILITIES, RNCI, AND SHAREHOLDERS' EQUITY	**$ 9,079,431**	$ 8,613,504				
Net interest income			**$ 174,019**	$ 171,951		
Interest rate spread					**2.46 %**	2.35
NIM					**2.71 %**	2.80

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(1) Annualized.

(2) Investments classified as Available-for-sale and Held-to-maturity are shown in the average balance sheet at amortized cost.

(3) Includes loans held for sale and nonaccrual loans.

Interest and dividend income. Total interest and dividend income for the three months ended September 30, 2020 was $65.5 million, a decrease of $12.2 million, or 16%, compared to the same period in 2019. Total interest and dividend income for the nine months ended September 30, 2020 was $207.4 million, a decrease of $25.8 million, or 11%, compared to the same period in 2019. The decreases were primarily driven by lower yields on loans and investments, partially offset by higher volumes of loans and investments.

The Bank generally has interest related to nonaccrual loans that is either collected or reversed each quarter. When a loan is placed on nonaccrual, the interest income previously accrued but uncollected, is reversed which will have a negative effect on the related yield. Interest collected on loans while on nonaccrual status is generally applied to the principal balance. If a nonaccruing loan pays off, previously collected interest income that was applied to principal may be recorded as interest income if the principal balance was paid in full. Based on the net amount collected 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 Commercial loans and Commercial tax-exempt loans) for the three months ended September 30, 2020 was $8.3 million, a decrease of $3.2 million, or 28%, compared to the same period in 2019, as a result of a 94 basis point decrease in the average yield and a 6% decrease in the average balance. For the nine months ended September 30, 2020, Commercial and industrial interest income was $28.7 million, a decrease of $4.9 million, or 15%, compared to the same period in 2019, as a result of a 57 basis point decrease in the average yield and a 1% decrease in the average balance. The decreases in the average yield for the three and nine month periods were primarily the result of decreases to the interest rate benchmarks to which the variable rate loans are tied and lower yields on recent loan originations. The decreases in the average balance for the three and nine month periods were related primarily to lower revolving line of credit usage.

Interest income on PPP loans for the three and nine months ended September 30, 2020 was $2.4 million and $4.0 million, respectively. The Company began earning interest income on PPP loans in the second quarter of 2020. Nearly all of the PPP loans originated remain outstanding as of September 30, 2020. Interest income on PPP loans includes interest earned on the loans and the accretion of origination fees over the life of the loans. If a loan is forgiven or otherwise paid off, the remainder of the processing fee will be accreted through net interest income.

Interest income on Commercial real estate loans for the three months ended September 30, 2020 was $23.5 million, a decrease of $5.6 million, or 19%, compared to the same period in 2019, as a result of a 105 basis point decrease in the average yield, partially offset by a 5% increase in the average balance. For the nine months ended September 30, 2020, Commercial real estate interest income was $75.6 million, a decrease of $11.6 million, or 13%, compared to the same period in 2019, as a result of a 87 basis point decrease in the average yield, partially offset by a 6% increase in the average balance. The decreases in the average yield for the three and nine month periods were primarily the result of decreases to the interest rate benchmarks to which the variable rate loans are tied and lower yields on recent loan originations. The increases in the average balance for the three and nine month periods were related primarily to the addition of approximately $80.0 million of loans under the commercial real estate second loan program as part of relief measures provided to clients as a result of the COVID-19 pandemic.

Interest income on Construction and land loans for the three months ended September 30, 2020 was $2.1 million, a decrease of $0.3 million, or 12%, compared to the same period in 2019, as a result of a 104 basis point decrease in the average yield, partially offset by an 11% increase in the average balance. For the nine months ended September 30, 2020, Construction and land interest income was $6.9 million, a decrease of $0.7 million, or 9%, compared to the same period in 2019, as a result of a 95 basis point decrease in the average yield, partially offset by a 12% increase in the average balance. The overall yields on Construction and land loans fluctuate due to the short-term nature of the loans and the related impact of draws and payoffs. Due to the relatively low balances in Construction and land loans, a large drawdown or paydown can result in a significant change in the overall yield depending on the interest rate of the particular loans that caused the balance changes. The decreases in the average yield for the three and nine month periods were primarily the result of decreases to the interest rate benchmarks to which the variable rate loans are tied. The increases in the average balance for the three and nine month periods were related primarily to line drawdowns, primarily in Southern California.

Interest income on Residential mortgage loans for the three months ended September 30, 2020 was $22.1 million, a decrease of $3.5 million, or 14%, from the same period in 2019, as a result of a 25 basis point decrease in the average yield and a 7% decrease in the average balance. For the nine months ended September 30, 2020, Residential mortgage interest income was $68.6 million, a decrease of $8.2 million, or 11%, compared to the same period in 2019, as a result of a 20 basis point decrease in the average yield and a 5% decrease in the average balance. The decreases in the average yield for the three and nine month periods were primarily the result of decreases to the interest rate benchmarks to which the variable rate loans are tied and lower yields on recent loan originations. The decrease in the average balance for the three month period was primarily driven by the sale of approximately $72.0 million of residential loans in the third quarter of 2020. The decrease in the average balance for the nine month period was primarily driven by the sale of approximately $190.7 million of Residential loans in the third and fourth quarters of 2019, and the sale of approximately $72.0 million of Residential loans in the third quarter of 2020.

Interest income on Home equity loans for the three months ended September 30, 2020 was $0.6 million, a decrease of $0.5 million, or 44%, compared to the same period in 2019, as a result of a 205 basis point decrease in the average yield and a 5% decrease in the average balance. For the nine months ended September 30, 2020, Home equity interest income was $2.2 million, a decrease of $1.2 million, or 34%, compared to the same period in 2019, as a result of a 157 basis point decrease in the average yield and a 5% decrease in the average balance. The decreases in the average yield for the three and nine month periods were primarily the result of decreases to the interest rate benchmarks to which the variable rate loans are tied. The decreases in the average balance for the three and nine month periods were primarily driven by reduced demand as a result of economic uncertainty related to the COVID-19 pandemic.

Interest income on Other consumer loans for the three months ended September 30, 2020 was $0.5 million, a decrease of $0.8 million, or 58%, compared to the same period in 2019, as a result of a 207 basis point decrease in the average yield and a 13% decrease in the average balance. For the nine months ended September 30, 2020, Other consumer interest income was $2.7 million, a decrease of $1.5 million, or 36%, compared to the same period in 2019, as a result of a 145 basis point decrease in the average yield and a 5% decrease in the average balance. The decreases in the average yield for the three and nine month periods were primarily the result of decreases to the interest rate benchmarks to which the variable rate loans are tied. The decreases in the average balances for the three and nine month periods were primarily driven by strategic decisions to slow new consumer loan growth.

Investment income for the three months ended September 30, 2020 was $5.8 million, a decrease of $0.7 million, or 11%, compared to the same period in 2019, as a result of an 80 basis point decrease in the average yield, partially offset by a 33% increase in the average balance. For the nine months ended September 30, 2020, investment income was $18.6 million, a decrease of $1.7 million, or 8%, compared to the same period in 2019, as a result of a 44 basis point decrease in the average yield, partially offset by a 13% increase in the average balance. The decreases in the average yield for the three and nine month periods were primarily due to the lower interest rate environment. The increases in the average balance for the three and nine month periods were primarily due to investing the additional cash from higher deposit balances.

Interest expense. Total interest expense for the three months ended September 30, 2020 was $7.6 million, a decrease of $13.8 million, or 64%, compared to the same period in 2019. For the nine months ended September 30, 2020, total interest expense was $33.3 million, a decrease of $27.9 million, or 46%, compared to the same period in 2019. The decreases in interest expense for the three and nine months periods were primarily driven by the impact of lower rates on interest-bearing deposits and borrowings and decreases in the average volume of borrowings due to higher deposits, partially offset by increases in the volume of interest-bearing deposits.

Interest expense on interest-bearing deposits for the three months ended September 30, 2020 was $6.4 million, a decrease of $9.1 million, or 58%, compared to the same period in 2019, as a result of an 83 basis point decrease in the average rate, partially offset by a 14% increase in the average balance. For the nine months ended September 30, 2020, interest expense on interest-bearing deposits was $26.6 million, a decrease of $17.5 million, or 40%, compared to the same period in 2019, as a result of a 56 basis point decrease in the average rate, partially offset by a 9% increase in the average balance. The decreases in the average rate paid on deposits for the three and nine month periods were driven primarily by wholesale reductions in rates paid for deposit accounts given decreases in interest rates. The increases in the average balance for interest-bearing deposits was primarily driven by increases in deposit products in all regions in which the Bank operates as clients hold additional cash deposit balances given the economic uncertainty surrounding the COVID-19 pandemic.

Interest expense paid on non-deposit interest-bearing liabilities for the three months ended September 30, 2020 was $1.2 million, a decrease of $4.8 million, or 80%, compared to the same period in 2019, as a result of a 163 basis point decrease in the average rate paid on FHLB borrowings and other borrowings, a 53% decrease in the average balance of FHLB borrowings and other borrowings, and a 189 basis point decrease in the average rate on junior subordinated debentures. For the nine months ended September 30, 2020, interest paid on non-deposit interest-bearing liabilities was $6.8 million, a decrease of $10.4 million, or 61%, compared to the same period in 2019, as a result of a 105 basis point decrease in the average rate paid on FHLB borrowings and other borrowings, a 40% decrease in the average balance of FHLB borrowings and other borrowings, and a 131 basis point decrease in the average rate on junior subordinated debentures. The decreases in the average rates paid were primarily driven by the decreases in benchmark interest rates to which the instruments are tied. The decreases in the average balance for non-deposit interest-bearing liabilities were primarily driven by increases in deposits reducing the need for higher-cost borrowings.

Provision/(credit) for loan losses. The Company recorded a provision credit of $4.6 million for the three months ended September 30, 2020, compared to a provision for loan losses of $0.2 million for the same period in 2019. The decrease in the Allowance for loan losses for the three months ended September 30, 2020 was primarily driven by the latest current reasonable and supportable economic forecasts, which indicated a modest improvement from the prior quarter, as well as the net impact of the change in the composition and volume of the loan portfolio. These improvements were partially offset by the net impact in the changes of the qualitative factors, and a change in the weighting of the forecast scenarios used to account for risks and assumptions not incorporated in the forecasts, including consideration for the significant uncertainty related to the duration and severity of economic impacts from the COVID-19 pandemic.

For the nine months ended September 30, 2020, the Company recorded a provision for loan losses of $35.0 million, compared to a provision for loan losses of $0.1 million for the same period in 2019. The increase in Allowance for loan losses for the nine months ended September 30, 2020 was primarily driven by the change in allowance methodology from the incurred loss model to the current expected credit loss model, as well as the current reasonable and supportable economic forecast deterioration as a result of the COVID-19 pandemic, and the net change in qualitative factors to account for risks and assumptions related to our loan portfolio not incorporated in the forecasts. Under the CECL methodology, the provision for loan losses required may be significantly affected by reasonable and supportable economic forecasts.

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 Company estimates credit losses on a collective basis for loans sharing similar risk characteristics using a quantitative model combined with an assessment of certain qualitative factors designed to address forecast risk and model risk inherent in the quantitative model output. The quantitative model utilizes a factor-based approach to estimate expected credit losses using probability of default and loss given default, which are derived from a selected peer group's historical default and loss experience. The model estimates expected credit losses using loan level data over the contractual life of the exposure, considering the effect of prepayments and curtailments. Economic forecasts are incorporated into the estimate over a reasonable and supportable forecast period, beyond which is a reversion to the Company's historical long-run average. Qualitative factors are estimated by management and include trends in problem loans, strength of management, concentration risk and underwriting standards. For further details, see “Loan Portfolio and Credit Quality” below. For periods disclosed prior to the adoption of ASU 2016-13 as of January 1, 2020, the Allowance for loan losses was determined under the incurred loss model. Refer to "Note 1: Basis of Presentation and Summary of Significant Account Policies" in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 for a description of the methodology.

Fees and other income

	Three months ended September 30, 2020	Three months ended September 30, 2019	$ Change	% Change	Nine months ended September 30, 2020	Nine months ended September 30, 2019	$ Change	% Change
	(In thousands, except percentages)							
Wealth management and trust fees	**$ 18,240**	$ 19,067	$ (827)	(4)%	**$ 53,872**	$ 57,037	$ (3,165)	(6)%
Investment management fees	**1,393**	2,496	(1,103)	(44)%	**5,088**	7,601	(2,513)	(33)%
Other banking fee income	**1,320**	2,658	(1,338)	(50)%	**6,205**	8,024	(1,819)	(23)%
Gain on sale of loans, net	**1,006**	934	72	8	**1,310**	1,065	245	23 %
Total core fees and income	**21,959**	25,155	(3,196)	(13)%	**66,475**	73,727	(7,252)	(10)%
Total other income	**1,086**	(29)	1,115	nm	**753**	1,027	(274)	(27)%
Total fees and other income	**$ 23,045**	$ 25,126	$ (2,081)	(8)%	**$ 67,228**	$ 74,754	$ (7,526)	(10)%

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nm = not meaningful

Total fees and other income for the three months ended September 30, 2020 decreased $2.1 million, or 8%, compared to the same period in 2019, driven by lower Other banking fee income, Investment management fees, and Wealth Management and trust fees, partially offset by higher Total other income. The decrease in Other banking fee income was driven primarily by lower bank-owned life insurance revenue and lower swap fee income due to slowing originations. The decrease in Wealth management and trust fees was driven by the impact of lower equity market values on AUM as of fee billing dates. The decrease in Investment management fees was driven primarily by negative net flows at DGHM during the third quarter of 2020, driven by poor historical performance and a change in senior leadership at DGHM. The increase in Total other income in the third quarter of 2020 was driven primarily by a gain related to the revaluation of a revenue sharing agreement from the divestiture of Bingham, Osborn & Scarborough, LLC (“BOS”).

Total fees and other income for the nine months ended September 30, 2020 decreased $7.5 million, or 10%, compared to the same period in 2019, driven by lower Wealth management and trust fees, Investment management fees, and Other baking fee income. The decreases in Wealth management and trust fees and Investment management fees were driven by the impact of lower equity market values on AUM as of fee billing dates and negative net flows at DGHM. Total AUM managed or advised by the Company remained flat at $16.3 billion at September 30, 2020, compared to September 30, 2019. The decrease in Other banking fee income for the nine months ended September 30, 2020 was driven primarily by lower swap fee income as a result of slowing originations in 2020.

Operating expense

	Three months ended September 30, 2020	Three months ended September 30, 2019	$ Change	% Change	Nine months ended September 30, 2020	Nine months ended September 30, 2019	$ Change	% Change
	(In thousands, except percentages)							
Salaries and employee benefits	**$ 34,671**	$ 31,684	$ 2,987	9 %	**$ 103,704**	$ 100,116	$ 3,588	4 %
Occupancy and equipment	**8,150**	8,260	(110)	(1)%	**23,356**	24,460	(1,104)	(5)%
Information systems	**7,096**	5,169	1,927	37 %	**20,934**	16,166	4,768	29 %
Professional services	**4,025**	4,435	(410)	(9)%	**11,072**	11,308	(236)	(2)%
Marketing and business development	**935**	1,403	(468)	(33)%	**5,138**	4,422	716	16 %
Amortization of intangibles	**714**	671	43	6 %	**2,131**	2,015	116	6 %
FDIC insurance	**960**	59	901	nm	**1,727**	1,304	423	32 %
Restructuring	**—**	—	—	nm	**—**	1,646	(1,646)	(100)%
Other	**4,386**	3,856	530	14 %	**15,236**	10,312	4,924	48 %
Total operating expense	**$ 60,937**	**$ 55,537**	$ 5,400	10 %	**$ 183,298**	$ 171,749	$ 11,549	7 %

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nm = not meaningful

Total operating expense for the three months ended September 30, 2020 increased $5.4 million, or 10%, to $60.9 million, compared to the same period in 2019, primarily due to increases in Salaries and employee benefits expense, Information systems expense, and FDIC insurance expense. Total operating expense for the nine months ended September 30, 2020 increased $11.5 million, or 7%, compared to the same period in 2019, primarily due to increases in Other expense, Information systems expense, and Salaries and employee benefits expense, partially offset by decreases in Restructuring expense and Occupancy and equipment expense.

- Salaries and employee benefits expense increased $3.0 million, or 9%, and $3.6 million, or 4%, for the three and nine months ended September 30, 2020, respectively, compared to the same periods in 2019. The increases were primarily driven by increases in salaries and variable/incentive compensation due to new hires as part of strategic objectives.
- Occupancy and equipment expense decreased $0.1 million, or 1%, and $1.1 million, or 5%, for the three and nine months ended September 30, 2020, respectively, compared to the same periods in 2019. The decreases were primarily driven by decreases in amortization expense on right of use assets and depreciation expense on leasehold improvements due to lease expirations that were not renewed in 2020.
- Information systems expense increased $1.9 million, or 37%, and $4.8 million, or 29%, for the three and nine months ended September 30, 2020, respectively, compared to the same periods in 2019. The increases were primarily driven by information technology initiatives placed into service during late 2019 and 2020, and an increase in costs related to building out remote working capabilities in 2020 due to the COVID-19 pandemic.
- FDIC insurance increased $0.9 million and $0.4 million, or 32%, for the three and nine months ended September 30, 2020, compared to the same period in 2019. The increase was driven by an FDIC insurance assessment credit received in the third quarter of 2019, as the FDIC's Deposit Insurance Fund reserve ratio exceeded the target level. The credit was utilized in full by the first quarter of 2020 and the Bank has resumed paying FDIC insurance.
- Restructuring expense decreased for the nine months ended September 30, 2020, compared to the same period of 2019. In the first quarter of 2019, there was a restructuring expense of $1.6 million related to executive departures.
- Other expense increased $0.5 million, or 14%, and $4.9 million, or 48%, for the three and nine months ended September 30, 2020, respectively, compared to the same periods in 2019. The increases were primarily driven by increases to the reserve for unfunded loan commitments of $1.8 million and $6.5 million for the three and nine months ended September 30, 2020, respectively, compared to the same periods in 2019. The change in the reserve was driven by differences in the CECL model as compared to the incurred loss model and an increase in the reserve ratios as a result of the current reasonable and supportable economic forecasts due to the COVID-19 pandemic as well as an increase in the balance of loan commitments. The change in the reserve was partially offset by decreases in non-service pension expense and other miscellaneous expense.

Income tax expense. Income tax expense for the nine months ended September 30, 2020 was $2.8 million, compared to $15.8 million for the same period in 2019. The effective tax rate for the nine months ended September 30, 2020 was 12.0%, compared to an effective tax rate of 21.1% for the same period of 2019. The effective tax rate for the nine months ended September 30, 2020 is less than the effective tax rate for the same period in 2019 due primarily to the lower level of income in 2020 as compared to 2019. Earnings from tax-exempt investments have a larger proportionate impact on the lower level of income in 2020 as compared to 2019. See Part I. Item 1. “Notes to Unaudited Consolidated Financial Statements - Note 9: Income Taxes” for further detail.

Financial Condition

Condensed Consolidated Balance Sheets and discussion

	September 30, 2020	December 31, 2019	Increase/ (decrease)	% Change
	(In thousands, except percentages)			
Assets:				
Total cash and investments	**$ 1,665,626**	$ 1,376,863	$ 288,763	21 %
Loans held for sale	**15,074**	7,386	7,688	nm
Total loans	**7,222,569**	6,976,704	245,865	4 %
Less: Allowance for loan losses	**84,551**	71,982	12,569	17 %
Net loans	**7,138,018**	6,904,722	233,296	3 %
Goodwill and intangible assets, net	**66,505**	67,959	(1,454)	(2)%
Right-of-use assets	**94,879**	102,075	(7,196)	(7)%
Total other assets	**451,203**	371,496	79,707	21 %
Total assets	**$ 9,431,305**	$ 8,830,501	$ 600,804	7 %
Liabilities and Equity:				
Deposits	**$ 7,827,719**	$ 7,241,476	$ 586,243	8 %
Total borrowings	**445,143**	510,590	(65,447)	(13)%
Lease liabilities	**108,932**	117,214	(8,282)	(7)%
Total other liabilities	**203,342**	140,820	62,522	44 %
Total liabilities	**8,585,136**	8,010,100	575,036	7 %
Redeemable noncontrolling interests (“RNCI”)	**—**	1,383	(1,383)	(100)%
Total shareholders’ equity	**846,169**	819,018	27,151	3 %
Total liabilities, RNCI and shareholders’ equity	**$ 9,431,305**	$ 8,830,501	$ 600,804	7 %

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nm = not meaningful

Total assets. Total assets increased $600.8 million, or 7%, to $9.4 billion at September 30, 2020 from $8.8 billion at December 31, 2019, primarily driven by increases in Total cash and investments and Net loans.

Total 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 Federal Home Loan Bank and Federal Reserve Bank) increased $288.8 million, or 21%, from December 31, 2019. The increase was primarily driven by increases of $253.8 million in Cash and cash equivalents and $47.1 million in Investment securities available-for-sale and Equity securities at fair value. The increase in Cash and cash equivalents was primarily driven by an increase in deposits as clients maintained additional cash liquidity. Total cash and investments represent 18% of Total assets at September 30, 2020 and 16% of Total assets at December 31, 2019.

The majority of the investments held by the Company are held by the Bank. The Bank’s asset-liability management 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, redemptions, principal payments, and sales of securities, if any, net of purchases (includes Investment securities available-for-sale, Investment securities Held-to-maturity and Equity securities at fair value), used $11.9 million of cash during the nine months ended September 30, 2020, compared to cash proceeds of $102.2 million in the same period in 2019. 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 $43.9 million of unrealized gains and $0.3 million of unrealized losses at September 30, 2020, compared to $15.0 million of unrealized gains and $3.6 million of unrealized losses at December 31, 2019. The increase in the total net unrealized gains was primarily driven by the decline in interest rate.

No impairment losses were recognized through earnings related to investment securities during the nine months ended September 30, 2020 and 2019. The Company does not consider these investments to be credit impaired as the decline in fair value on investments is primarily attributed to changes in interest rates and not due to credit quality or other risk factors.

Additionally, at September 30, 2020 and December 31, 2019, the Company held $38.6 million and $48.2 million, respectively, of Investment securities Held-to-maturity at amortized cost. All of the Held-to-maturity securities held at September 30, 2020 were mortgage-backed securities guaranteed by the U.S. government, U.S. government agencies, or government-sponsored entities. Given the recent strong deposits and excess cash balances, the Company may consider building additional on-balance sheet liquidity and earning a better yield by investing in additional investment securities.

See Part I. Item 1. “Notes to Unaudited Consolidated Financial Statements - Note 4: Investments” for further details of the Company’s investment securities.

Loans held for sale. Loans held for sale at September 30, 2020 increased $7.7 million, or 104%, to $15.1 million from the balance at December 31, 2019. The balance of Loans held for sale usually relates to the timing and volume of residential loans originated for sale and the ultimate sale transaction, which is typically executed within a short time following the loan origination. From time to time, the Company may also sell loans that have been held in the loan portfolio. The sale of such loans may improve the Bank’s liquidity and capital position or may provide the Bank additional flexibility for more profitable and strategic future lending opportunities.

Goodwill and intangible assets, net. Goodwill and intangible assets, net at September 30, 2020 decreased $1.5 million, or 2%, to $66.5 million from the balance at December 31, 2019, due to Amortization of intangibles, partially offset by the addition of servicing rights of $0.7 million. There was no change to Goodwill during the nine months ended September 30, 2020.

Goodwill and indefinite-lived intangible assets 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*. Indefinite-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 quarter of 2019. The estimated fair value of Boston Private Wealth exceeded its carrying value. Management will perform the annual goodwill and indefinite-lived intangible asset impairment testing for this year in the fourth quarter of 2020. Management determined that there was not a trigger event from the economic conditions related to the COVID-19 pandemic or any other factors, and will continually monitor for triggering events that would warrant testing.

Right-of-use assets. Right-of-use ("ROU") assets at September 30, 2020 decreased $7.2 million, or 7%, to $94.9 million compared to the balance at December 31, 2019 due to amortization of ROU assets, lease expirations that were not renewed, and lease modifications, partially offset by the addition of real estate leases and equipment leases during the nine months ended September 30, 2020. Upon adoption of the lease accounting standard, ASU 2016-02, the Company recognized $108.5 million of ROU assets on the face of the Consolidated Balance Sheets as of January 1, 2019. See Part I. Item 1. “Notes to Unaudited Consolidated Financial Statements - Note 14: Lease Accounting” for further details.

Total other assets. Total other assets, as presented in the table above, consist of the following line items from the Consolidated Balance Sheets: Premises and equipment, net; Fees receivable; Accrued interest receivable; Deferred income taxes, net; and Other assets. Total other assets at September 30, 2020 increased $79.7 million, or 21%, to $451.2 million from the balance at December 31, 2019. These changes resulted from the following factors:

- Other assets, which consist primarily of bank-owned life insurance, investment in partnerships, prepaid expenses, interest rate derivatives, and other receivables increased $83.5 million, or 29%, to $370.9 million at September 30, 2020 from $287.3 million at December 31, 2019. The increase was primarily driven by an increase in the market value of derivative assets.
- Deferred income taxes, net, decreased $3.1 million, or 28%, to $8.3 million at September 30, 2020 from $11.4 million at December 31, 2019. The decrease was due to the current year tax effect of other comprehensive income of $9.1 million and the tax effect of the adoption of ASU 2016-13 of $5.5 million, partially offset by the deferred tax benefit of $11.5 million primarily related to the additional allowance for loan losses.

Deposits. Deposits at September 30, 2020 increased $586.2 million, or 8%, compared to the balance at December 31, 2019. The increase in deposits was primarily due to an increase in demand deposits driven by clients maintaining additional cash liquidity, as well as deposits related to the funding of PPP loans in the second quarter of 2020 that have not yet been utilized. Average total deposits for the three months ended September 30, 2020 increased 16% from the same period in 2019 as shown in the average balance sheet driven by the same factors. For further details, see “Results of Operations” above.

Deposits are the principal source of the Bank’s funds for use in lending, investments, and liquidity. Deposit levels can fluctuate from quarter to quarter as a result of large short-term transactions by commercial clients. Seasonality can also affect the deposit balances.

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, 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.

The following table presents the composition of the Company's deposits at September 30, 2020 and December 31, 2019:

	September 30, 2020		December 31, 2019	
	Balance	as a % of total	Balance	as a % of total
	(In thousands, except percentages)			
Demand deposits (non-interest bearing)	**$ 2,346,126**	**30 %**	$ 1,971,013	27 %
NOW (1)	**680,052**	**9 %**	578,527	8 %
Savings	**76,745**	**1 %**	67,673	1 %
Money market (1)	**4,187,657**	**53 %**	3,969,330	55 %
Certificates of deposit less than $100,000 (1)	**76,427**	**1 %**	145,226	2 %
Certificates of deposit $100,000 to $250,000	**106,305**	**1 %**	94,095	1 %
Certificates of deposit more than $250,000	**354,407**	**5 %**	415,612	6 %
Total deposits	**$ 7,827,719**	**100 %**	$ 7,241,476	100 %

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(1) Includes brokered deposits of $295.0 million and $258.7 million at September 30, 2020 and December 31, 2019, respectively. Funds in the sweep deposit program between the Bank and Boston Private Wealth are not considered brokered deposits.

Total borrowings. Total borrowings (consisting of Securities sold under agreements to repurchase, FHLB borrowings, and Junior subordinated debentures) at September 30, 2020 decreased $65.4 million, or 13%, compared to the balance at December 31, 2019, driven by decreases in FHLB borrowings and repurchase agreements.

- FHLB borrowings decreased $54.6 million, or 16%, to $296.2 million at September 30, 2020 from $350.8 million at December 31, 2019. The decrease was primarily due to the increase in client deposits, which resulted in a reduced need for high cost borrowings. FHLB borrowings are generally used to provide additional funding for loan growth when it is in excess of deposit growth and to manage interest rate risk, but can also be used as an additional source of liquidity for the Bank.
- Repurchase agreements decreased $10.9 million, or 20%, to $42.5 million at September 30, 2020 from $53.4 million at December 31, 2019. Repurchase agreements are generally linked to commercial demand deposit accounts with an overnight sweep feature.

Lease liabilities. Lease liabilities decreased $8.3 million, or 7%, to $108.9 million at September 30, 2020 compared to the balance at December 31, 2019 due to lease payments, lease expirations that were not renewed, and lease modifications, partially offset by the addition of new or renewed real estate leases and new equipment leases during the nine months ended September 30, 2020. Upon adoption of the lease accounting standard discussed above, the Company recognized $124.1 million of lease liabilities on the face of the Consolidated Balance Sheet as of January 1, 2019. See Part I. Item 1. "Notes to Unaudited Consolidated Financial Statements - Note 14: Lease Accounting" for further details of the Company's leases.

Total other liabilities. Total other liabilities, which consist primarily of accrued interest, accrued employee benefits, interest rate derivatives, the unfunded portion of partnership investment commitments, and other accrued expenses, increased $62.5 million, or 44%, to $203.3 million at September 30, 2020, compared to the balance at December 31, 2019. The increase was primarily driven by increases in the market value adjustment on derivative liabilities and the reserve for unfunded loan commitments in 2020.

Loan Portfolio and Credit Quality

Total loans. Total loans increased $245.9 million, or 4%, to $7.2 billion, or 77% of total assets, as of September 30, 2020, from $7.0 billion, or 79% of total assets, as of December 31, 2019. The following table presents a summary of the loan portfolio based on the portfolio segment and changes in balances as of the dates indicated:

	September 30, 2020	December 31, 2019	$ Change	% Change
	(In thousands)			
Commercial and industrial	**$ 583,145**	$ 694,034	$ (110,889)	(16)%
Paycheck Protection Program	**371,496**	—	371,496	n/a
Commercial tax-exempt	**472,342**	447,927	24,415	5 %
Commercial real estate	**2,659,890**	2,551,274	108,616	4 %
Construction and land	**211,697**	225,983	(14,286)	(6)%
Residential	**2,729,164**	2,839,155	(109,991)	(4)%
Home equity	**81,797**	83,657	(1,860)	(2)%
Consumer and other	**113,038**	134,674	(21,636)	(16)%
Total loans	**$ 7,222,569**	$ 6,976,704	$ 245,865	4 %

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.

Beginning in the first quarter of 2020, the Company made a change to the loan portfolio segmentation in which Commercial and industrial and Commercial tax-exempt loans were bifurcated given their different underlying risk characteristics. Beginning in the second quarter of 2020, the Company also added a segment for PPP loans originated. For the period ended December 31, 2019, there were no such loans as the SBA initiated the program in the first quarter of 2020 in response to the COVID-19 pandemic.

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 traditionally 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:

	September 30, 2020	December 31, 2019
	(In thousands)	
Multifamily and residential investment	**$ 920,688**	$ 899,583
Retail	**594,649**	631,796
Office and medical	**549,922**	487,133
Manufacturing, industrial, and warehouse	**253,479**	223,913
Hospitality	**171,624**	145,195
Other	**169,528**	163,654
Total commercial real estate loans	**$ 2,659,890**	$ 2,551,274

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

	As of September 30, 2020							
	New England		Northern California		Southern California		Total	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(In thousands, except percentages)							
Commercial and industrial	**$ 437,268**	**6 %**	**$ 56,929**	**1 %**	**$ 88,948**	**1 %**	**$ 583,145**	**8 %**
Paycheck Protection Program	**194,652**	**3 %**	**119,590**	**1 %**	**57,254**	**1 %**	**371,496**	**5 %**
Commercial tax-exempt	**312,948**	**4 %**	**148,723**	**2 %**	**10,671**	**— %**	**472,342**	**6 %**
Commercial real estate	**1,085,875**	**15 %**	**844,123**	**12 %**	**729,892**	**10 %**	**2,659,890**	**37 %**
Construction and land	**124,539**	**2 %**	**26,533**	**— %**	**60,625**	**1 %**	**211,697**	**3 %**
Residential	**1,390,309**	**19 %**	**543,875**	**8 %**	**794,980**	**11 %**	**2,729,164**	**38 %**
Home equity	**53,926**	**1 %**	**18,748**	**— %**	**9,123**	**— %**	**81,797**	**1 %**
Consumer and other	**70,229**	**1 %**	**5,035**	**— %**	**37,774**	**1 %**	**113,038**	**2 %**
Total loans (1)	**$ 3,669,746**	**51 %**	**$ 1,763,556**	**24 %**	**$ 1,789,267**	**25 %**	**$ 7,222,569**	**100 %**

	As of December 31, 2019							
	New England		Northern California		Southern California		Total	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(In thousands, except percentages)							
Commercial and industrial	$ 558,701	8 %	$ 46,330	1 %	$ 89,003	1 %	$ 694,034	10 %
Commercial tax-exempt	338,737	5 %	98,266	1 %	10,924	— %	447,927	6 %
Commercial real estate	1,027,133	15 %	769,777	11 %	754,364	11 %	2,551,274	37 %
Construction and land	152,100	2 %	31,484	— %	42,399	1 %	225,983	3 %
Residential	1,540,592	22 %	558,307	8 %	740,256	11 %	2,839,155	41 %
Home equity	55,226	1 %	17,357	— %	11,074	— %	83,657	1 %
Consumer and other	104,258	2 %	11,265	— %	19,151	— %	134,674	2 %
Total loans (1)	$ 3,776,747	55 %	$ 1,532,786	21 %	$ 1,667,171	24 %	$ 6,976,704	100 %

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

Allowance for loan losses. The Allowance for loan losses is reported as a reduction of outstanding loan balances and totaled $84.6 million and $72.0 million as of September 30, 2020 and December 31, 2019, respectively.

The Allowance for loan losses increased $12.6 million to $84.6 million, or 1.17% of total loans, as of September 30, 2020 from $72.0 million, or 1.03% of total loans, as of December 31, 2019. The increase in Allowance for loan losses for the nine months ended September 30, 2020 was primarily driven by the change in allowance methodology from the incurred loss model to the current expected credit loss model, as well as the current reasonable and supportable economic forecast deterioration as a result of the COVID-19 pandemic, and the net change in qualitative factors to account for risks and assumptions related to our loan portfolio not incorporated in the forecasts.

The Company recognized a Provision credit of $4.6 million during the three months ended September 30, 2020. The decrease in the Allowance for loan losses for the three months ended September 30, 2020 was primarily driven by the latest current reasonable and supportable economic forecasts, which indicated a modest improvement from the prior quarter, as well as the net impact of the change in the composition and volume of the loan portfolio. These improvements were partially offset by the net impact in the changes of the qualitative factors, and a change in the weighting of the forecast scenarios used to account for risks and assumptions not incorporated in the forecasts, including consideration for the significant uncertainty related to the duration and severity of economic impacts from the COVID-19 pandemic.

The decrease in the Allowance for loan losses of $20.4 million on adoption of ASU 2016-13 was driven primarily by the portfolio composition including the short-term nature of Commercial real estate loans, estimated prepayments, a change to the loan portfolio segmentation in which Commercial and industrial and Commercial tax-exempt loans were bifurcated given the different underlying risk characteristics, and the economic projections at the time of adoption. See Part I. Item 1. "Notes to Unaudited Consolidated Financial Statements - Note 7: Allowance for Loan Losses" for an analysis of the Company's allowance for loan losses.

Prior to the adoption of ASU 2016-13, the Company’s allowance for loan losses was comprised of three primary components (general reserves, allocated reserves on non-impaired special mention and substandard loans, and allocated reserves on impaired loans). Refer to "Note 1: Basis of Presentation and Summary of Significant Account Policies" in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 for details on that methodology.

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.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
	(In thousands)			
Net loans (charged-off)/recovered:				
New England	**$ (111)**	$ 275	**$ (89)**	$ 528
Northern California	**—**	6	**125**	44
Southern California	**(93)**	(156)	**(2,079)**	(629)
Total net loans (charged-off)/recovered	**$ (204)**	$ 125	**$ (2,043)**	$ (57)

There were $0.2 million in net charge-offs recorded in the third quarter of 2020 compared to $0.1 million of net recoveries for the same period of 2019.

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 September 30, 2020, nonperforming assets totaled $41.3 million, or 0.44% of total assets, an increase of $25.2 million, or 156%, compared to $16.1 million, or 0.18% of total assets, as of December 31, 2019. The increase was primarily driven by one Commercial and industrial relationship in Northern California that is well-collateralized. This loan was paid off in October 2020 with no related loss.

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 $41.3 million of loans on nonaccrual status as of September 30, 2020, $26.5 million, or 64%, had a current payment status, $4.1 million, or 10%, were 30-89 days past due, and $10.7 million, or 26%, were 90 days or more past due. Of the $16.1 million of loans on nonaccrual status as of December 31, 2019, $9.8 million, or 61%, had a current payment status, $1.2 million, or 7%, were 30-89 days past due, and $5.1 million, or 32%, 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 I. Item 1. “Financial Statements and Supplementary Data - Note 6: Loans Portfolio and Credit Quality” for further information on nonperforming loans.

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 $20.3 million, or 78%, to $5.6 million as of September 30, 2020 from $25.9 million as of December 31, 2019. The decrease in loans 30-89 days past due is primarily due to September having 30 calendar days and December having 31 calendar days. The number of days in the calendar quarter can impact this metric and is not necessarily indicative of an underlying credit quality issue. 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. The economic conditions created by the COVID-19 pandemic represent an example of an event that could cause an increase in delinquencies in future quarters. The Bank has instituted programs such as deferment programs, forbearance programs, and the commercial real estate second mortgage program to help borrowers who have been impacted by the COVID-19 pandemic. 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 charge-offs or provisions 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 both September 30, 2020 and December 31, 2019.

Impaired loans. Impaired loans individually evaluated for impairment in the Allowance for loan losses totaled $42.6 million as of September 30, 2020, an increase of $23.4 million, or 122%, compared to $19.2 million as of December 31, 2019, primarily driven by the downgrade of one Commercial and industrial relationship in Northern California that is well-collateralized. This loan was paid off in October 2020 with no related loss. As of September 30, 2020, $0.9 million of the individually evaluated impaired loans had $0.2 million in specific reserve allocations. The remaining $41.7 million of individually evaluated impaired loans did not have specific reserve allocations due to the adequacy of collateral, prior charge-offs taken, interest collected and applied to principal, or a combination of these items. As of December 31, 2019, $1.1 million of individually evaluated impaired loans had $0.2 million in specific reserve allocations, and the remaining $18.1 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 September 30, 2020 and December 31, 2019, TDRs totaled $14.5 million and $12.6 million, respectively. As of September 30, 2020, $7.8 million of the $14.5 million in TDRs were on accrual status. As of December 31, 2019, $7.1 million of the $12.6 million in TDRs were on accrual status.

In response to the COVID-19 pandemic, the Bank initiated a mortgage deferment program under which principal and interest payments on qualifying loans are generally deferred for initially three months and the loan term is extended three months; if requested, the loan may be deferred for a subsequent three months. Loans that are deferred under the program are not considered TDRs or past due based on current regulatory guidance. In total, approximately 350 residential and home equity loans totaling approximately $220.0 million were processed under the program. As of September 30, 2020, deferrals for approximately 200 loans totaling approximately $120.0 million have expired with the loans returning to payment, while approximately 140 loans totaling approximately $100.0 million remain in deferral under the program. Of the loans that came off deferral, less than 10 loans totaling less than $1.0 million are delinquent on payment terms.

Additionally, in response to the COVID-19 pandemic, the Bank initiated a program where it offered qualified commercial and industrial borrowers principal payment deferrals for six months, with the deferred principal added to the last payment. In total, approximately 90 commercial and industrial loans totaling approximately $125.0 million were processed under the program. As of September 30, 2020, deferrals for approximately 60 loans totaling approximately $75.0 million have expired with the loans returning to payment, while approximately 30 loans totaling approximately $50.0 million remain in deferral under the program. Of the loans that came off deferral, no loans are delinquent on payment terms.

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, notification by the tenant of non-renewal of lease or inability of tenants to pay rent, 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.

As of September 30, 2020, the Bank has identified $81.8 million in potential problem loans, an increase of $23.9 million, or 41%, compared to $57.9 million as of December 31, 2019. The increase in potential problem loans during the first nine months of 2020 was driven by one Commercial real estate borrowing relationship in the New England region of $22.9 million. 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. For instance, 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.

The following table presents a roll-forward of nonaccrual loans for the three and nine months ended September 30, 2020 and 2019:

	As of and for the three months ended September 30,		As of and for the nine months ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Nonaccrual loans, beginning of period	**$ 25,604**	$ 17,155	**$ 16,103**	$ 14,057
Transfers in to nonaccrual status	**17,096**	2,830	**34,469**	9,088
Transfers out to accrual status	**(980)**	(642)	**(6,215)**	(846)
Charge-offs (1)	**(245)**	(185)	**(2,319)**	(944)
Paid off/paid down	**(212)**	(1,593)	**(775)**	(3,790)
Nonaccrual loans, end of period	**$ 41,263**	$ 17,565	**$ 41,263**	$ 17,565

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(1) During the second quarter of 2020, one nonaccrual loan was charged-off and transferred to OREO with a value of zero. As of September 30, 2020 it represents the only asset in OREO.

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

	September 30, 2020	December 31, 2019
	(In thousands)	
Nonaccrual loans:		
New England	**$ 11,807**	$ 9,764
Northern California	**25,133**	319
Southern California	**4,323**	6,020
Total nonaccrual loans	**$ 41,263**	$ 16,103
Loans 30-89 days past due and accruing:		
New England	**$ 1,926**	$ 20,507
Northern California	**1,535**	2,593
Southern California	**2,174**	2,845
Total loans 30-89 days past due	**$ 5,635**	$ 25,945
Accruing classified loans: (1)		
New England	**$ 74,682**	$ 20,428
Northern California	**4,589**	24,946
Southern California	**2,556**	12,548
Total accruing classified loans	**$ 81,827**	$ 57,922

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(1) Accruing Classified may include both Substandard and Doubtful classifications.

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

	September 30, 2020	December 31, 2019
	(In thousands)	
Nonaccrual loans:		
Commercial and industrial	**$ 15,418**	$ 582
Paycheck Protection Program	**—**	—
Commercial tax-exempt	**3,929**	—
Commercial real estate	**5,261**	—
Construction and land	**—**	—
Residential	**16,216**	13,993
Home equity	**438**	1,525
Consumer and other	**1**	3
Total nonaccrual loans	**$ 41,263**	$ 16,103
Loans 30-89 days past due and accruing:		
Commercial and industrial	**$ 2,056**	$ 828
Paycheck Protection Program	**—**	—
Commercial tax-exempt	**—**	—

Commercial real estate	**2,223**	1,420
Construction and land	**—**	—
Residential	**320**	20,171
Home equity	**1,036**	369
Consumer and other	**—**	3,157
Total loans 30-89 days past due	**$ 5,635**	$ 25,945
Accruing classified loans: (1)		
Commercial and industrial	**$ 26,751**	$ 24,987
Paycheck Protection Program	**—**	—
Commercial tax-exempt	**4,503**	4,052
Commercial real estate	**45,317**	23,558
Construction and land	**—**	—
Residential	**4,215**	4,253
Home equity	**1,041**	1,072
Consumer and other	**—**	—
Total accruing classified loans	**$ 81,827**	$ 57,922

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(1) Accruing Classified may include both Substandard and Doubtful classifications.

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 earnings enhancement opportunities in a changing marketplace.

The following table presents certain liquidity measurements as of the dates indicated:

	September 30, 2020	**December 31, 2019**	**$ Change**	**% Change**
	(In thousands, except percentages)			
Cash and cash equivalents	**$ 546,263**	$ 292,479	$ 253,784	87 %
Investment securities available-for-sale	**1,011,327**	978,284	33,043	3 %
Equity securities at fair value	**32,818**	18,810	14,008	74 %
Less: Securities pledged against current borrowings and derivatives	**(102,297)**	(88,444)	(13,853)	(16)%
Cash and investments	**$ 1,488,111**	$ 1,201,129	$ 286,982	24 %
As a percent of assets	**16 %**	14 %		
Access to additional FHLB borrowings	**1,337,727**	1,432,603	(94,876)	(7)%
Total liquidity	**$ 2,825,838**	$ 2,633,732	$ 192,106	7 %
As a percent of assets	**30 %**	30 %		
As a percent of deposits	**36 %**	36 %		

At September 30, 2020, the Company's Cash and cash equivalents amounted to $546.3 million. The Holding Company's Cash and cash equivalents amounted to $54.9 million at September 30, 2020. Management believes that the Company has adequate liquidity to meet its commitments for the foreseeable future.

Management is responsible for establishing and monitoring liquidity targets as well as strategies to meet these targets. At September 30, 2020, consolidated Cash and cash equivalents, Investment securities available-for-sale and Equity securities at fair value less Securities pledged against current borrowings and derivatives amounted to $1.5 billion, or 16% of total assets, compared to $1.2 billion, or 14% of total assets, at December 31, 2019. The Bank also has the ability to access additional borrowing under the PPPLF by pledging funded PPP loans if needed. In addition, the Company has access to available borrowings through the FHLB totaling $1.3 billion at September 30, 2020 and $1.4 billion at December 31, 2019. Combined, this liquidity totals $2.8 billion, or 30% of assets and 36% of deposits, as of September 30, 2020, compared to $2.6 billion, or 30% of assets and 36% of deposits, at December 31, 2019.

The Bank has various internal policies and guidelines regarding liquidity, both on- and off-balance sheet, loans to deposits 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 balance of deposits at the Bank approaches or exceeds internal policies and/or guidelines, the Bank may be limited in its ability to grow its loan portfolio, may rely more heavily on higher cost borrowings as a source of funds, or consider loan sales in the future.

Holding Company liquidity. The Company and noncontrolling interest holders of the Company's majority-owned affiliate, DGHM, have contingent put options, call options, and mandatory repurchase obligations that would require the Company to purchase (and the noncontrolling interest owners of DGHM to sell) the remaining noncontrolling interest in DGHM at contractually predetermined values as determined by the operating agreement of DGHM. At September 30, 2020, the estimated maximum redemption value for DGHM related to outstanding put options was zero based on the contractually predetermined calculation in the DGHM operating agreement. These put and call options are discussed in detail in Part II. Item 8. "Financial Statements and Supplementary Data - Note 14: Noncontrolling Interests" of the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

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 sale of Anchor Capital Advisors LLC ("Anchor") which occurred in April 2018 and the sale of BOS which occurred in December 2018. As part of the sale agreements for both Anchor and BOS, the Company expects to receive future contingent payments for the remaining three months of 2020 of approximately $0.6 million and $0.6 million at September 30, 2020, respectively.

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" in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 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. Dividends from the Bank to the Holding Company are limited to the sum of the Bank's Net income during the current calendar year and the retained net income of the prior two calendar years unless approved by regulators. 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.

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 the remaining three months of 2020 for the interest payments is approximately $0.5 million based on the debt outstanding at September 30, 2020. LIBOR is expected to be phased out as an index by the end of 2021, and $103.1 million of the Company's junior subordinated debentures are tied to LIBOR. The Company will need to negotiate an alternative benchmark rate to be used at the time.

The Company presently pays 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.

Given the current economic conditions and future forecasts, the Company's Board of Directors will evaluate the amount of future dividends, if any, to be declared on a quarter by quarter basis. The Board of Directors could reduce or eliminate quarterly cash dividends based on the current or forecasted conditions if deemed prudent.

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. In addition, due to the elevated level of deposits in the third quarter of 2020, the Bank did not utilize any borrowings from the PPPLF, as originally anticipated. However, the Bank will continue to monitor its level of deposits and may utilize borrowings from the PPPLF in future quarters, if needed. 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". 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 September 30, 2020, the Bank had unused federal fund lines of credit totaling $325.0 million, compared to $500.0 million at December 31, 2019, with correspondent institutions to provide it with immediate access to overnight borrowings. Certain liquidity sources, such as federal funds lines, may be withdrawn by the correspondent bank at any time. The decrease in the federal funds availability in the third quarter of 2020 resulted from the withdrawal of certain lines of credit due to the Bank's financial results as of June 30, 2020. At September 30, 2020 and December 31, 2019, the Bank did not have any outstanding borrowings under the federal funds lines with these correspondent institutions nor outstanding borrowings under federal funds lines with the FHLB.

The Bank has negotiated brokered deposit agreements with several institutions that have nationwide distribution capabilities. The Bank participates in deposit placement services that can be used to provide customers expanded deposit insurance coverage. At September 30, 2020, the Bank had $295.0 million of brokered deposits outstanding under these agreements, compared to $258.7 million at December 31, 2019. Funds in the sweep deposit program between the Bank and Boston Private Wealth are not considered brokered deposits.

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. These other borrowing arrangements may have higher rates than the FHLB would typically charge.

Capital Resources

Total shareholders' equity at September 30, 2020 was $846.2 million compared to $819.0 million at December 31, 2019, an increase of $27.2 million. The increase in shareholders' equity was primarily the result of net income and the change in Accumulated other comprehensive income and the adoption of ASU 2016-13, partially offset by dividends paid to common shareholders and the repurchase of common shares.

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 8.0%, and a minimum Tier 1 leverage ratio of 4.0%. Additionally, Federal Reserve rules require the Company and the Bank to each establish a capital conservation buffer of common equity Tier 1 capital in an amount above the minimum risk-based capital requirements for "adequately capitalized" institutions equal to 2.5% of total risk-weighted assets, or face restrictions on the ability to pay dividends, pay discretionary bonuses, and to engage in share repurchases.

A Federal Reserve-supervised institution, such as the Bank, is considered "well capitalized" if it (i) has a total capital to risk-weighted assets ratio of 10.0% or greater; (ii) a Tier 1 capital to risk-weighted assets ratio of 8.0% or greater; (iii) a common equity Tier 1 capital ratio to risk-weighted assets of 6.5% or greater; (iv) a Tier 1 leverage 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.

The following table presents the Company's and the Bank's regulatory capital and related ratios as of September 30, 2020 and December 31, 2019. Also presented are the minimum requirements established by the Federal Reserve as of those dates for the Company and the Bank, respectively, to meet applicable capital requirements for the Bank to be considered "well capitalized" under the prompt corrective action provisions of the Federal Deposit Insurance Act. The Federal Reserve and the Massachusetts Division of Banks may impose higher capital ratios than those listed below based upon the results of regulatory exams.

	Actual		For capital adequacy purposes (at least)		To be well capitalized under prompt corrective action provisions (at least)		Minimum capital ratio with capital conservation buffer (1)
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Ratio
	(In thousands, except percentages)						
As of September 30, 2020							
Common equity tier 1 risk-based capital							
Company	**$ 752,492**	**11.30 %**	**$ 299,689**	**4.5 %**	**n/a**	**n/a**	**7.0%**
Boston Private Bank	**782,660**	**11.79 %**	**298,847**	**4.5 %**	**$ 431,668**	**6.5%**	**7.0%**
Tier 1 risk-based capital							
Company	**852,514**	**12.80 %**	**399,585**	**6.0 %**	**n/a**	**n/a**	**8.5%**
Boston Private Bank	**782,660**	**11.79 %**	**398,463**	**6.0 %**	**531,284**	**8.0%**	**8.5%**
Total risk-based capital							
Company	**935,887**	**14.05 %**	**532,780**	**8.0 %**	**n/a**	**n/a**	**10.5%**
Boston Private Bank	**865,802**	**13.04 %**	**531,284**	**8.0 %**	**664,105**	**10.0%**	**10.5%**
Tier 1 leverage capital							
Company	**852,514**	**9.23 %**	**369,518**	**4.0 %**	**n/a**	**n/a**	**4.0%**
Boston Private Bank	**782,660**	**8.50 %**	**368,236**	**4.0 %**	**460,295**	**5.0%**	**4.0%**
As of December 31, 2019							
Common equity tier 1 risk-based capital							
Company	$ 745,926	11.42 %	$ 293,886	4.5 %	n/a	n/a	7.0%
Boston Private Bank	778,635	11.97 %	292,717	4.5 %	$ 422,813	6.5%	7.0%
Tier 1 risk-based capital							
Company	846,337	12.96 %	391,848	6.0 %	n/a	n/a	8.5%
Boston Private Bank	778,635	11.97 %	390,289	6.0 %	520,386	8.0%	8.5%
Total risk-based capital							
Company	919,573	14.08 %	522,464	8.0 %	n/a	n/a	10.5%
Boston Private Bank	851,733	13.09 %	520,386	8.0 %	650,482	10.0%	10.5%
Tier 1 leverage capital							
Company	846,337	9.77 %	346,398	4.0 %	n/a	n/a	4.0%
Boston Private Bank	778,635	9.03 %	344,958	4.0 %	431,198	5.0%	4.0%

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(1) Required capital ratios with the capital conservation buffer added to the minimum risk-based capital ratios.

The Company has sponsored the creation of two statutory trusts for the sole purpose of issuing trust preferred securities and investing the proceeds in junior subordinated debentures of the Company. In accordance with ASC 810-10-55, *Consolidation - Overall - Implementation Guidance and Illustrations - Variable Interest Entities*, these statutory trusts are not consolidated into the Company’s financial statements; however, the Company reflects the amounts of junior subordinated debentures payable to the preferred stockholders of statutory trusts as debt in its financial statements. As of both September 30, 2020 and December 31, 2019, all $100.0 million of the net balance of these trust preferred securities qualified as Tier 1 capital.

Recent Accounting Pronouncements

See Part I. Item 1. “Notes to Unaudited Consolidated Financial Statements - Note 15: Recent Accounting Pronouncements” for a description of upcoming changes to accounting principles generally accepted in the United States that may materially impact the Company.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in the Interest Rate Sensitivity and Market Risk as described in Part II. Item 7A. “Quantitative and Qualitative Disclosures about Market Risk – Interest Rate Sensitivity and Market Risk” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

As required by Rule 13a-15 under the Exchange Act, the Company has evaluated, with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the Company’s disclosure controls and procedures, the Company and its management recognize that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives.

Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures were effective as of September 30, 2020 in ensuring that material information required to be disclosed by the Company, including its consolidated subsidiaries, was made known to the certifying officers by others within the Company and its consolidated subsidiaries in the reports that it files or submits under the Exchange Act and is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. On a quarterly basis, the Company evaluates its disclosure controls and procedures; the Company may, from time to time, make changes to enhance the effectiveness of its disclosure controls and procedures and to ensure that its systems evolve with its business.

(b) Change in internal controls over financial reporting.

There have been no changes in the Company’s internal controls over financial reporting that occurred during the quarter ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

The Company is involved in various legal proceedings from time to time. In the opinion of management, the final disposition of these proceedings will not have a material adverse effect on the financial condition or results of operations of the Company.

Item 1A. Risk Factors

This section supplements and updates certain of the information found under Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 28, 2020 ("Annual Report") and Part II. Item 1A. "Risk Factors" of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, as filed with the SEC on May 8, 2020 (the "First Quarter 10-Q") and Part II. Item 1A. "Risk Factors" of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, as filed with the SEC on August 6, 2020 (the "Second Quarter 10-Q"), based on information currently known to us and recent developments since the date of the Second Quarter 10-Q filing. The matters discussed below should be read in conjunction with the risks described in Part I. Item 1A. "Risk Factors" of our Annual Report and Part II. Items 1A. "Risk Factors" of our First Quarter 10-Q and Second Quarter 10-Q. However, the risks and uncertainties that we face are not limited to those described below and those set forth in the Annual Report and First Quarter 10-Q and Second Quarter 10-Q. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business and the trading price of our securities, particularly in light of the fast-changing nature of the COVID-19 pandemic, responsive containment measures taken and the related impacts to economic and operating conditions.

The COVID-19 pandemic, and the measures taken to control its spread, will continue to adversely impact our employees, customers, business operations and financial results, and the ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted.

The COVID-19 pandemic has, and will likely continue to, severely impact the national economy and the regional and local markets in which we operate, lower equity market valuations, create significant volatility and disruption in capital and debt markets, and increase unemployment levels. Our business operations may be disrupted if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. We are subject to heightened cybersecurity, information security and operational risks as a result of work-from-home arrangements that we have put in place for our employees. Federal Reserve actions to combat the economic contraction caused by the COVID-19 pandemic, including the reduction of the target federal funds rate and quantitative easing programs, could, if prolonged, adversely affect our net interest income and margins, and our profitability. The continued closures of many businesses and the institution of pandemic-related orders and directives in the states and communities we serve have reduced business activity and financial transactions, and may impact the execution of our strategic plan, such as by delaying strategic hiring. Government policies and directives relating to the pandemic response are subject to change as the effects and spread of the COVID-19 pandemic continue to evolve. It is unclear whether any COVID-19 pandemic-related businesses losses that we or our customers may suffer will be covered by existing insurance policies. Additionally, certain government directives and social distancing protocols may hinder our ability to conduct timely property appraisals, which could delay or impact the accuracy of the recognition of credit losses in our loan portfolios. Changes in customer behavior due to worsening business and economic conditions or legislative or regulatory initiatives may impact the demand for our products and services, which could adversely affect our revenue. Increases in deposit balances due, among other things, to government stimulus and relief programs could adversely affect our financial performance if we are unable to successfully lend or invest those funds. The measures we have taken to aid our customers, including the introduction of a mortgage deferment program, may be insufficient to help our customers who have been negatively impacted by the economic fallout from the COVID-19 pandemic. Loans that are currently in deferral status may become nonperforming loans. More generally, because of adverse economic and market conditions, our clients may be unable to repay their loans. 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 workout of the loan. If there is an increase in borrower defaults, we may be required to increase the Bank's provision for loan loss expense. Adverse economic or market conditions may cause us to recognize impairments on the securities we hold, goodwill, intangible assets, and right-of-use assets. The increase in market volatility and a corresponding increase in trading frequency means that our Wealth Management and Trust business is subject to an increased risk of trading errors, and the risk that any trading errors are of an increased magnitude. While the COVID-19 pandemic negatively impacted our results of operations for the first three calendar quarters of 2020, the extent to which the COVID-19 pandemic will continue to impact our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic, as well as further actions we may take as may be required by government authorities or that we determine is in the best interests of our employees and customers. There is no certainty that such measures will be sufficient to mitigate the risks posed by the pandemic.

Our participation in the SBA's PPP may expose us to reputational harm, increased litigation risk, as well as the risk that the SBA may not fund some or all of the guarantees associated with PPP loans, which could result in these loans being charged-off.

We have approved approximately 1,045 loans aggregating approximately $380.3 million through the PPP. Lenders participating in the PPP have faced increased public scrutiny about their loan application process and procedures, and the nature and type of the borrowers receiving PPP loans. We depend on our reputation as a trusted and responsible financial services company to compete effectively in the communities that we serve, and any negative public or customer response to, or any litigation or claims that might arise out of, our participation in the PPP and any other legislative or regulatory initiatives and programs that may be enacted in response to the COVID-19 pandemic, could adversely impact our business. Other larger banks have been subject to litigation regarding the process and procedures that such banks used in processing applications for the PPP, and we may be subject to the same or similar litigation, in addition to litigation in connection with our processing of PPP loan forgiveness applications. In addition, if the SBA determines that there is a deficiency in the manner in which a PPP loan was originated, funded, or serviced by us, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from us.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no unregistered sales of equity securities of the Company in the third quarter of 2020.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

		Incorporated by Reference			Filed or Furnished with this 10-Q
Exhibit No.	**Description**	**Form**	**SEC Filing Date**	**Exhibit Number**	
10.1	Form of Cash-Based Award Agreement for Employees Under the Boston Private Financial Holdings, Inc. 2020 Omnibus Incentive Plan				Filed
31.1	Certification of Chief Executive Officer pursuant to Rule 13a - 14(a)/15d - 14(a) under the Securities Exchange Act of 1934				Filed
31.2	Certification of Chief Financial Officer pursuant to Rule 13a - 14(a)/15d - 14(a) under the Securities Exchange Act of 1934				Filed
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				Furnished
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				Furnished
101.INS	The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document				Filed
101.SCH	Inline XBRL Taxonomy Extension Schema Document				Filed
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				Filed
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				Filed
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				Filed
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				Filed
104	Cover Page Interactive Data File (formatted in Inline XBRL and included in Exhibit 101)				Filed

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BOSTON PRIVATE FINANCIAL HOLDINGS, INC.

November 5, 2020	/s/ ANTHONY DECHELLIS **Anthony DeChellis** ***Chief Executive Officer, President and Director*** ***(Principal Executive Officer)***
November 5, 2020	/s/ STEVEN M. GAVEN **Steven M. Gaven** ***Executive Vice President, Chief Financial Officer***

(Back To Top)

Section 2: EX-10.1 (EXHIBIT 10.1)

Exhibit 10.1

CASH-BASED AWARD AGREEMENT FOR COMPANY EMPLOYEES UNDER THE BOSTON PRIVATE FINANCIAL HOLDINGS, INC. 2020 OMNIBUS INCENTIVE PLAN

Name of Grantee:

Value of Cash-Based Award:

Grant Date:

Pursuant to the Boston Private Financial Holdings, Inc.2020 Omnibus Incentive Plan, as may be amended from time to time (the “Plan”), Boston Private Financial Holdings, Inc. (the “Company”) hereby grants a Cash-Based Award (as defined in the Plan, an “Award”) of the dollar value shown above to the Grantee named above.

By accepting this Award, the Grantee agrees to the terms and conditions of the Non-Solicitation and Confidentiality Agreement attached hereto as Exhibit I (the “Non-Solicitation Agreement”). The Non-Solicitation Agreement addresses confidentiality of Company information, post-employment restrictions on solicitation of employees and customers or clients and other similar matters and should be reviewed carefully by the Grantee. If this Award is not so accepted within 60 days of the Grant Date, the Grantee shall forfeit this Award in its entirety (regardless of whether vested or unvested). To the extent that the Grantee is a party to any other agreements that include non-solicitation, confidentiality or other similar obligations, the obligations in the Non-Solicitation Agreement supplement such obligations, such that such pre-existing non-solicitation, confidentiality or other similar obligations shall continue in effect and shall not be superseded by the obligations in the Non-Solicitation Agreement, nor shall any obligations under the Non-Solicitation Agreement be limited by the terms of any pre-existing non-solicitation, confidentiality or other similar obligations.

1. Nonassignment and Antialienation. This Award may not be transferred, pledged, assigned or otherwise encumbered or disposed of by the Grantee, and any amount payable with respect to the Award may not be transferred, pledged, assigned or otherwise encumbered or disposed of until (i) the Award has vested as provided in Paragraph 2 of this Agreement and (ii) payment has been made to the Grantee in accordance with the terms of the Plan and this Agreement.

2. Vesting of Cash-Based Award. The Grantee shall have no rights to this Award unless he or she shall have executed the Award and returned the executed agreement electronically to Human Resources. The Award shall vest on (the “Vesting Date”) subject to

satisfaction of the milestones defined in the attached Schedule A. The Award shall vest if, and only to the extent that, the milestones described on Schedule A are met during the specified Measurement Period (as defined on Schedule A). The dollar value set forth above represents the maximum value that will become payable if the milestones described on Schedule

A are met, and the actual value payable could be lower than the Award and could be zero. The Grantee shall forfeit any portion of the Award that does not vest on the Vesting Date. The Administrator may at any time accelerate the vesting criteria specified in this Paragraph 2.

3. Termination of Employment. Except as otherwise provided in this Paragraph 3 above or Section 3(c) of the Plan, if the Grantee's employment with the Company and its Subsidiaries terminates for any reason (including death or disability) prior to the satisfaction of the vesting conditions set forth in Paragraph 2 above, any Award that has not vested as of such date shall automatically and without notice terminate and be forfeited, and neither the Grantee nor any of his or her successors, heirs, assigns, or personal representatives will thereafter have any further rights or interests in such unvested Award. Notwithstanding the foregoing, if the Grantee's employment with the Company and its Subsidiaries is terminated (a) (i) due to the Grantee's disability (as determined by the Administrator), or (ii) by the Company without Cause (as defined below), the Grantee shall be eligible to vest, on the Vesting Date, with respect to a pro-rated portion of the final Award that the Grantee would have received had the Grantee's employment not terminated prior to the Vesting Date, calculated based on (A) the number of days from the Grant Date through the date of the Grantee's termination of employment, divided by (B) the number of days from the Grant Date through the Vesting Date, if, and only to the extent that, the milestones described on Schedule A are met during the Measurement Period, (b) due to the Grantee's Retirement (as defined in Company's Retirement Policy, as in effect from time to time), this Award shall be subject to the Company's Retirement Policy, as in effect from time to time, or (c) due to the Grantee's death, the Award shall vest with respect to a pro-rated portion of the Target Award, calculated based on (i) the number of days from the Grant Date through the date of the Grantee's termination of employment divided by (ii) the number of days from the Grant Date through the Vesting Date. The Administrator's determination of the reason for termination of the Grantee's employment shall be conclusive and binding on the Grantee and his or her representatives or legatees.

"Cause" means (i) actions by the Grantee that satisfy the elements of (A) any felony; or (B) a misdemeanor involving moral turpitude, deceit, dishonesty or fraud, or (ii) dishonest acts against the Company or any of its Subsidiaries, or (iii) misconduct which the Company reasonably believes may cause financial loss to the Company or any of its Subsidiaries or may cause damage to the business reputation of the Company or any of its Subsidiaries, or (iv) willful or repeated misconduct or gross neglect in performing the Grantee's duties for the Company or any of its Subsidiaries, or (v) breach of fiduciary duty by the Grantee, or (vi) material breach of any confidential information or other agreement between the Grantee and the Company or any of its Subsidiaries, or (vii) material violation of any code of ethics or any policy against sexual harassment or other discriminatory harassment of the Company or any of its Subsidiaries, or (viii) failure to cooperate with a bona fide internal investigation or an investigation by regulatory or law enforcement authorities, after being instructed by the Company or any of its Subsidiaries to cooperate, or the willful destruction or failure to preserve documents or other materials known to be relevant to such investigation or the inducement of others to fail to cooperate or to produce documents or other materials in connection with such investigation. For purposes of clause (iv) or clause (viii), no act, or failure to act, on the Grantee's part shall be deemed "willful" unless done, or omitted to be done, by the Grantee without reasonable belief that the Grantee's act, or failure to act, was in the best interest of the Company and any of its Subsidiaries. In the event the Grantee is a party to an employment agreement with the Company or any Subsidiary that contains a different definition of “cause,” the definition set forth in such other agreement shall be applicable to the Grantee for purposes of this Agreement and not this definition.

4. Sale Event. Notwithstanding the provisions of Paragraph 2 above or Section 3(c) of the Plan, or the provisions of any employment or other agreement between the Grantee and the Company or any Subsidiary that is in effect as of the date hereof, in the event of a Sale Event prior to the end of the Measurement Period, the Award shall automatically become vested with respect to a pro-rated portion of the Target Award calculated based on (a) the number of days from the Grant Date through the effective date of such Sale Event divided by (b) the number of days from the Grant Date through the Vesting Date, subject to the terms of the Plan and to any applicable adjustments to the performance metrics set forth on Schedule A in connection with such Sale Event that may be made in the sole discretion of the Administrator and the parties to such Sale Event.

5. Payment of Award. As soon as practicable following the Vesting Date (but in no event later than thirty days after the Vesting Date), the Company shall issue to the Grantee the dollar value of the portion of the Award that has vested pursuant to Paragraph 2 of this Agreement on such date.

6. Incorporation of Plan. Notwithstanding anything herein to the contrary, this Agreement shall be subject to and governed by all the terms and conditions of the Plan, including the powers of the Administrator set forth in Section 2(b) of the Plan. Capitalized terms in this Agreement shall have the meaning specified in the Plan, unless a different meaning is specified herein.

7. Tax Withholding. Amounts payable pursuant to the Award shall be subject to all applicable Federal, state, and local taxes required by law to be withheld on account of such taxable event.

8. Section 409A of the Code. This Agreement shall be interpreted in such a manner that all provisions relating to the settlement of the Award are exempt from the requirements of Section 409A of the Code as “short-term deferrals” as described in Section 409A of the Code.

9. No Obligation to Continue Employment. Neither the Company nor any Subsidiary is obligated by or as a result of the Plan or this Agreement to continue the Grantee in employment and neither the Plan nor this Agreement shall interfere in any way with the right of the Company or any Subsidiary to terminate the employment of the Grantee at any time.

10. Integration. This Agreement constitutes the entire agreement between the parties with respect to this Award and supersedes all prior agreements and discussions between the parties concerning such subject matter.

11. Clawback. This Award shall be subject to the Company’s clawback policy, as in effect from time to time. If there is no such clawback policy in effect, (a) this Award and any amounts payable pursuant to this Award shall be subject to recovery or “clawback” by the Company if and to the extent that the vesting of this Award was determined or calculated based on materially inaccurate financial statements or any other material inaccurate performance metric criteria; and/or (b) if the Company or its Subsidiaries terminate a grantee’s Service Relationship

due to the grantee's gross negligence or willful misconduct (whether or not such actions also constitute Cause hereunder), which conduct, directly or indirectly, results in the Company preparing an accounting restatement, this Award, whether or not vested, as well as any amounts payable pursuant to this Award shall be subject to forfeiture, recovery and "clawback."

12. Data Privacy Consent. In order to administer the Plan and this Agreement and to implement or structure future equity grants, the Company, its Subsidiaries and Affiliates and certain agents thereof (together, the "Relevant Companies") may process any and all personal or professional data, including but not limited to Social Security or other identification number, home address and telephone number, date of birth and other information that is necessary or desirable for the administration of the Plan and/or this Agreement (the "Relevant Information"). By entering into this Agreement, the Grantee (i) authorizes the Company to collect, process, register and transfer to the Relevant Companies all Relevant Information; (ii) waives any privacy rights the Grantee may have with respect to the Relevant Information; (iii) authorizes the Relevant Companies to store and transmit such information in electronic form; and (iv) authorizes the transfer of the Relevant Information to any jurisdiction in which the Relevant Companies consider appropriate. The Grantee shall have access to, and the right to change, the Relevant Information. Relevant Information will only be used in accordance with applicable law.

13. Notices. Notices hereunder shall be mailed or delivered to the Company at its principal place of business and shall be mailed or delivered to the Grantee at the address on file with the Company or, in either case, at such other address as one party may subsequently furnish to the other party in writing.

BOSTON PRIVATE FINANCIAL
HOLDINGS, INC.

By:
Title: Chief Executive Officer

The foregoing Agreement is hereby accepted and the terms and conditions thereof hereby agreed to by the undersigned. Electronic acceptance of this Agreement pursuant to the Company's instructions to the Grantee (including through an online acceptance process) is acceptable.

Dated:

Grantee's Signature
Grantee's Name

SCHEDULE A
PERFORMANCE CRITERIA

(Back To Top)

Section 3: EX-31.1 (EXHIBIT 31.1 CEO CERT)

Exhibit 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Anthony DeChellis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Boston Private Financial Holdings, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ ANTHONY DECHELLIS

Anthony DeChellis

Date: November 5, 2020 ***Chief Executive Officer, President and Director***

(Back To Top)

Section 4: EX-31.2 (EXHIBIT 31.2 CFO CERT)

Exhibit 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Steven M. Gaven, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Boston Private Financial Holdings, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ STEVEN M. GAVEN

Steven M. Gaven
Executive Vice President, Chief Financial Officer

Date: November 5, 2020

(Back To Top)

Section 5: EX-32.1 (EXHIBIT 32.1 CEO CERT)

Exhibit 32.1*

CERTIFICATION PURSUANT TO
18 U.S.C. § 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned Chief Executive Officer of Boston Private Financial Holdings, Inc. (the "Company") hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ANTHONY DECHELLIS

Anthony DeChellis
Chief Executive Officer, President and Director

Date: November 5, 2020

* This certification shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

(Back To Top)

Section 6: EX-32.2 (EXHIBIT 32.2 CFO CERT)

Exhibit 32.2*

CERTIFICATION PURSUANT TO
18 U.S.C. § 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned Chief Financial Officer of Boston Private Financial Holdings, Inc. (the "Company") hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ STEVEN M. GAVEN

Steven M. Gaven

Date: November 5, 2020

Executive Vice President, Chief Financial Officer

* This certification shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

(Back To Top)