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, 2019

Or

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

For the transition period from ______ to ______.

Commission File Number: 001-35070

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

Massachusetts	**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 31, 2019:

Common Stock, Par Value $1.00 Per Share	83,242,001
(class)	**(outstanding)**

BOSTON PRIVATE FINANCIAL HOLDINGS, INC.
FORM 10-Q
TABLE OF CONTENTS

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

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

	September 30, 2019	December 31, 2018
	(In thousands, except share and per share data)	
Assets:		
Cash and cash equivalents	$ 78,010	$ 127,259
Investment securities available-for-sale (amortized cost of $922,112 and $1,018,774 at September 30, 2019 and December 31, 2018, respectively)	935,538	994,065
Investment securities held-to-maturity (fair value of $51,015 and $68,595 at September 30, 2019 and December 31, 2018, respectively)	51,379	70,438
Equity securities at fair value	21,780	14,228
Stock in Federal Home Loan Bank and Federal Reserve Bank	47,756	49,263
Loans held for sale	6,658	2,812
Total loans	7,067,151	6,893,158
Less: Allowance for loan losses	75,359	75,312
Net loans	6,991,792	6,817,846
Other real estate owned (“OREO”)	—	401
Premises and equipment, net	42,658	45,412
Goodwill	57,607	57,607
Intangible assets, net	10,622	12,227
Fees receivable	5,007	5,101
Accrued interest receivable	24,851	24,366
Deferred income taxes, net	15,704	26,638
Right-of-use assets	107,045	—
Other assets	294,537	246,962
Total assets	$ 8,690,944	$ 8,494,625
Liabilities:		
Deposits	$ 6,658,242	$ 6,781,170
Securities sold under agreements to repurchase	48,860	36,928
Federal funds purchased	230,000	250,000
Federal Home Loan Bank borrowings	570,904	420,144
Junior subordinated debentures	106,363	106,363
Lease liabilities	122,799	—
Other liabilities	143,607	143,540
Total liabilities	7,880,775	7,738,145
Redeemable Noncontrolling Interests	1,481	2,526
Shareholders’ Equity:		
Common stock, $1.00 par value; authorized: 170,000,000 shares; issued and outstanding: 83,241,952 shares at September 30, 2019 and 83,655,651 shares at December 31, 2018	83,242	83,656
Additional paid-in capital	599,877	600,196
Retained earnings	116,210	87,821
Accumulated other comprehensive income/ (loss)	9,359	(17,719)
Total shareholders’ equity	808,688	753,954
Total liabilities, redeemable noncontrolling interests and shareholders’ equity	$ 8,690,944	$ 8,494,625

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
	(In thousands, except share and per share data)			
Interest and dividend income:				
Loans	**$ 71,036**	$ 68,254	**$ 212,912**	$ 193,231
Taxable investment securities	**938**	1,510	**3,244**	4,521
Non-taxable investment securities	**1,924**	1,779	**5,726**	5,261
Mortgage-backed securities	**2,622**	2,941	**8,225**	9,168
Short-term investments and other	**1,084**	1,617	**3,049**	3,831
Total interest and dividend income	**77,604**	76,101	**233,156**	216,012
Interest expense:				
Deposits	**15,487**	11,487	**44,060**	26,376
Federal Home Loan Bank borrowings	**4,337**	3,877	**12,144**	11,668
Junior subordinated debentures	**1,022**	1,028	**3,223**	2,882
Repurchase agreements and other short-term borrowings	**605**	68	**1,778**	517
Total interest expense	**21,451**	16,460	**61,205**	41,443
Net interest income	**56,153**	59,641	**171,951**	174,569
Provision/ (credit) for loan losses	**167**	(949)	**104**	(2,291)
Net interest income after provision/ (credit) for loan losses	**55,986**	60,590	**171,847**	176,860
Fees and other income:				
Wealth management and trust fees	**19,067**	25,505	**57,037**	76,030
Investment management fees	**2,496**	3,245	**7,601**	18,897
Other banking fee income	**2,658**	2,775	**8,024**	7,793
Gain on sale of loans, net	**934**	67	**1,065**	204
Gain/ (loss) on sale of investments, net	**—**	—	**—**	(17)
Gain/ (loss) on OREO, net	**—**	—	**91**	—
Other	**(29)**	722	**936**	1,245
Total fees and other income	**25,126**	32,314	**74,754**	104,152
Operating expense:				
Salaries and employee benefits	**31,684**	38,944	**100,116**	125,461
Occupancy and equipment	**8,260**	8,164	**24,460**	24,141
Information systems	**5,169**	6,233	**16,166**	18,889
Professional services	**4,435**	2,877	**11,308**	8,926
Marketing and business development	**1,403**	1,710	**4,422**	5,373
Amortization of intangibles	**671**	750	**2,015**	2,249
FDIC insurance	**59**	674	**1,304**	2,126
Restructuring	**—**	5,763	**1,646**	5,763
Other	**3,856**	3,442	**10,312**	10,870
Total operating expense	**55,537**	68,557	**171,749**	203,798
Income before income taxes	**25,575**	24,347	**74,852**	77,214
Income tax expense	**5,517**	5,461	**15,803**	28,886
Net income from continuing operations	**20,058**	18,886	**59,049**	48,328
Net income from discontinued operations	**—**	—	**—**	1,696
Net income before attribution to noncontrolling interests	**20,058**	18,886	**59,049**	50,024

(Continued)

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Less: Net income attributable to noncontrolling interests	**96**	924	**265**	2,942
Net income attributable to the Company	**$ 19,962**	$ 17,962	**$ 58,784**	$ 47,082
Adjustments to net income attributable to the Company to arrive at net income attributable to common shareholders	**304**	(829)	**1,045**	(4,376)
Net income attributable to common shareholders for earnings per share calculation	**$ 20,266**	$ 17,133	**$ 59,829**	$ 42,706
Basic earnings per share attributable to common shareholders:				
From continuing operations:	**$ 0.24**	$ 0.20	**$ 0.72**	$ 0.49
From discontinued operations:	**$ —**	$ —	**$ —**	$ 0.02
Total attributable to common shareholders:	**$ 0.24**	$ 0.20	**$ 0.72**	$ 0.51
Weighted average basic common shares outstanding	**83,631,403**	84,017,284	**83,495,361**	83,544,754
Diluted earnings per share attributable to common shareholders:				
From continuing operations:	**$ 0.24**	$ 0.20	**$ 0.71**	$ 0.48
From discontinued operations:	**$ —**	$ —	**$ —**	$ 0.02
Total attributable to common shareholders:	**$ 0.24**	$ 0.20	**$ 0.71**	$ 0.50
Weighted average diluted common shares outstanding	**83,956,708**	85,498,568	**84,003,281**	85,254,295

See accompanying notes to 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,	
	2019	**2018**	**2019**	**2018**
	(In thousands)			
Net income attributable to the Company	**$ 19,962**	$ 17,962	**$ 58,784**	$ 47,082
Other comprehensive income/ (loss), net of tax:				
Net unrealized gain/ (loss) on securities available-for-sale	**5,236**	(4,040)	**27,469**	(18,888)
Unrealized gain/ (loss) on cash flow hedges	**2**	(138)	**(31)**	574
Reclassification adjustment for net realized (gain)/ loss included in net income	**(4)**	(72)	**(360)**	(273)
Net unrealized gain/ (loss) on cash flow hedges	**(2)**	(210)	**(391)**	301
Net unrealized gain/ (loss) on other	**—**	—	**—**	1
Other comprehensive income/ (loss), net of tax	**5,234**	(4,250)	**27,078**	(18,586)
Total comprehensive income attributable to the Company, net	**$ 25,196**	$ 13,712	**$ 85,862**	$ 28,496

See accompanying notes to consolidated financial statements.

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

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (Loss)	Non-controlling Interests	Total
	(In thousands, except share data)						
Balance, December 31, 2017	$ 47,753	$ 84,208	$ 607,929	$ 49,526	$ (8,658)	$ 5,186	$ 785,944
Reclassification due to change in accounting principles (1)	—	—	—	334	(334)	—	—
Net income attributable to the Company	—	—	—	47,082	—	—	47,082
Other comprehensive income/ (loss), net	—	—	—	—	(18,586)	—	(18,586)
Dividends paid to common shareholders: $0.36 per share	—	—	—	(30,586)	—	—	(30,586)
Dividends paid to preferred shareholders	—	—	—	(1,738)	—	—	(1,738)
Net change in noncontrolling interests	—	—	—	—	—	(2,977)	(2,977)
Redemption of Series D preferred stock	(47,753)	—	(2,247)	—	—	—	(50,000)
Repurchase of 137,114 shares of common stock	—	(137)	(1,768)	—	—	—	(1,905)
Net proceeds from issuance of:							
142,738 shares of common stock	—	143	1,722	—	—	—	1,865
7,355 shares of incentive stock grants, net of 132,964 incentive stock grant shares canceled or forfeited and 127,894 shares withheld for employee taxes	—	(253)	(1,699)	—	—	—	(1,952)
Exercise of warrants	—	438	(277)	—	—	—	161
Amortization of stock compensation and employee stock purchase plan	—	—	5,131	—	—	—	5,131
Stock options exercised	—	204	1,457	—	—	—	1,661
Other equity adjustments	—	—	3,909	—	—	—	3,909
Balance at September 30, 2018	$ —	$ 84,603	$ 614,157	$ 64,618	$ (27,578)	$ 2,209	$ 738,009
Balance, 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**

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(1) Reclassification due to the adoption of ASU 2016-01 and ASU 2017-12. See Part I. Item 1. "Financial Statements and Supplementary Data - Note 15: Recent Accounting Pronouncements."

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30,	
	2019	**2018**
	(In thousands)	
Cash flows from operating activities:		
Net income attributable to the Company	**$ 58,784**	$ 47,082
Adjustments to arrive at net income from continuing operations		
Net income attributable to noncontrolling interests	**265**	2,942
Less: Net income from discontinued operations	**—**	(1,696)
Net income from continuing operations	**59,049**	48,328
Adjustments to reconcile net income from continuing operations to net cash provided by/ (used in) operating activities:		
Depreciation and amortization	**17,726**	17,192
Net income attributable to noncontrolling interests	**(265)**	(2,942)
Stock compensation, net of cancellations	**4,022**	5,232
Provision/ (credit) for loan losses	**104**	(2,291)
Loans originated for sale	**(32,796)**	(32,364)
Proceeds from sale of loans held for sale	**29,176**	33,935
Deferred income tax expense/ (benefit)	**432**	8,548
Increase in right-of-use assets	**1,416**	—
Increase in operating lease liabilities	**(1,465)**	—
Net decrease/ (increase) in other operating activities	**(36,916)**	(14,348)
Net cash provided by/ (used in) operating activities of continuing operations	**40,483**	61,290
Net cash provided by/ (used in) operating activities of discontinued operations	**—**	1,696
Net cash provided by/ (used in) operating activities	**40,483**	62,986
Cash flows from investing activities:		
Investment securities available-for-sale:		
Purchases	**(24,977)**	(25,204)
Sales	**—**	24
Maturities, calls, redemptions, and principal payments	**115,857**	86,085
Investment securities held-to-maturity:		
Purchases	**—**	(11,876)
Maturities, calls, and principal payments	**18,880**	10,726
Equity securities at fair value:		
Purchases	**(44,537)**	(38,042)
Sales	**36,985**	51,757
(Investments)/ distributions in trusts, net	**357**	1,252
Contingent considerations from divestitures	**3,254**	—
(Purchase)/ redemption of Federal Home Loan Bank and Federal Reserve Bank stock	**1,507**	11,246
Net increase in portfolio loans	**(268,238)**	(217,317)
Proceeds from recoveries of loans previously charged-off	**887**	1,578
Proceeds from sale of OREO	**492**	—
Proceeds from sale of portfolio loans	**92,304**	—
Capital expenditures	**(5,795)**	(18,349)
Proceeds from sale of affiliate	**—**	34,120
Net cash provided by/ (used in) investing activities	**(73,024)**	(114,000)

(Continued)

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

	Nine months ended September 30,	
	2019	**2018**
	(In thousands)	
Cash flows from financing activities:		
Net increase/ (decrease) in deposits	**(122,928)**	258,477
Net increase/ (decrease) in securities sold under agreements to repurchase	**11,932**	7,284
Net increase/ (decrease) in federal funds purchased	**(20,000)**	90,000
Net increase/ (decrease) in short-term Federal Home Loan Bank borrowings	**110,000**	(230,000)
Advances of long-term Federal Home Loan Bank borrowings	**340,000**	91,444
Repayments of long-term Federal Home Loan Bank borrowings	**(299,240)**	(113,289)
Redemption of Series D preferred stock	**—**	(50,000)
Dividends paid to common shareholders	**(30,395)**	(30,586)
Dividends paid to preferred shareholders	**—**	(1,738)
Proceeds from warrant exercises	**—**	161
Repurchase of common stock	**(7,193)**	(1,905)
Proceeds from stock option exercises	**545**	1,661
Proceeds from issuance of common stock	**2,274**	1,865
Tax withholding for share based compensation awards	**(1,268)**	(2,053)
Distributions paid to noncontrolling interests	**(265)**	(2,848)
Other equity adjustments	**(170)**	4,634
Net cash provided by/ (used in) financing activities	**(16,708)**	23,107
Net increase/ (decrease) in cash and cash equivalents	**(49,249)**	(27,907)
Cash and cash equivalents at beginning of year	**127,259**	120,541
Cash and cash equivalents at end of period	**$ 78,010**	$ 92,634
Supplemental disclosure of cash flow items:		
Cash paid for interest	**$ 60,489**	$ 40,703
Cash paid for income taxes, (net of refunds received)	**18,122**	18,898
Change in unrealized gain/ (loss) on available-for-sale securities, net of tax	**27,469**	(18,888)
Change in unrealized gain/ (loss) on cash flow hedges, net of tax	**(391)**	301
Change in unrealized gain/ (loss) on other, net of tax	**—**	1
Non-cash transactions:		
Loans transferred into other real estate owned from loan portfolio	**—**	108
Loans charged-off	**(944)**	(529)

See accompanying notes to 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. Boston Private Bank primarily operates in three geographic markets: New England, the San Francisco Bay Area, and Southern California. The Private Banking segment is principally engaged in providing 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, and 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. The results of KLS were reported in a third reportable segment "Affiliate Partners" as further discussed below. The Wealth Management and Trust segment operates in New England, New York, Southeast Florida, the San Francisco Bay Area, 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. For the first two quarters of 2019, the Affiliate Partners segment was comprised of two affiliates: KLS and Dalton, Greiner, Hartman, Maher & Co., LLC (“DGHM”), each of which are RIAs. Prior to the first quarter of 2019, the Affiliate Partners segment also included Anchor Capital Advisors, LLC (“Anchor”) and Bingham, Osborn & Scarborough, LLC (“BOS”). On April 13, 2018, the Company completed the sale of its ownership interest in Anchor. On December 3, 2018, the Company completed the sale of its ownership interest in BOS.

With the integration of KLS into Boston Private Wealth, 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 now included in the results of Boston Private Wealth within the Wealth Management and Trust segment, and the results of DGHM are now included within the Holding Company and Eliminations for all periods presented. The results of Anchor and BOS for the periods owned are included in the Holding Company and Eliminations. 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, 2018 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 of DGHM, Anchor, and BOS other than the Company is included in “Net income attributable to noncontrolling interests” in the Consolidated Statement of Operations for the periods owned. Redeemable noncontrolling interests in the Consolidated Balance Sheets reflect the maximum redemption value of agreements with other owners.

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, 2018, 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 Statement of Operations, which was previously presented as Wealth advisory fees in prior periods. The Company identified an immaterial change relating to the presentation of equity securities at fair value in the Consolidated Statement of Cash Flows. The impact was a change in the presentation of cash flows relating to $38.0 million of purchases and $51.8 million of sales for the nine months ended September 30, 2018, which were previously presented as investment securities available-for-sale but should have been presented as equity securities at fair value, within investing activities in the Consolidated Statement of Cash Flows.

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, 2018, 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, 2019:

- 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 new standard establishes a right-of-use model ("ROU") that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The new standard was effective on January 1, 2019 and 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, providing significant new disclosures about leasing activities, and the impact of additional assets on certain financial measures such as capital ratios and return on average asset ratios. Additionally, the Company elected the package of practical expedients, as prescribed by ASU 2016-02. The Company elected not to reassess whether any expired or existing contracts are or contain leases nor the lease classification of those leases. The Company also elected not to reassess any initial direct costs for any existing leases. On adoption, the Company recognized $124.1 million of lease liabilities and $108.5 million of ROU assets.

- In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)* ("ASU 2018-15"). The amendments in ASU 2018-15 align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in ASU 2018-15. This update is effective on a retrospective basis for the Company beginning January 1, 2021. The Company early adopted this update on January 1, 2019. The adoption of this update did not have a material impact on the consolidated financial statements.

- In October 2018, the FASB issued ASU 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate ("SOFR") Overnight Index Swap ("OIS") Rate as a Benchmark Interest Rate for Hedge Accounting* ("ASU 2018-16"). ASU 2018-16 introduces OIS Rate based on the SOFR as an acceptable US benchmark interest rate for purposes of applying hedge accounting under Topic 815. This update is effective for interim and annual reporting periods beginning after December 15, 2018 because the Company has already adopted ASU 2017-12. The Company adopted this update on January 1, 2019. The adoption of this update did not have a material impact on the consolidated financial statements.

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, 2019 and 2018. The following tables present the computations of basic and diluted EPS:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(In thousands, except share and per share data)			
Basic earnings per share - Numerator:				
Net income from continuing operations	**$ 20,058**	$ 18,886	**$ 59,049**	$ 48,328
Less: Net income attributable to noncontrolling interests	**96**	924	**265**	2,942
Net income from continuing operations attributable to the Company	**19,962**	17,962	**58,784**	45,386
Decrease/ (increase) in noncontrolling interests' redemption values (1)	**304**	(829)	**1,045**	(391)
Dividends on preferred stock	**—**	—	**—**	(3,985)
Total adjustments to income attributable to common shareholders	**304**	(829)	**1,045**	(4,376)
Net income from continuing operations attributable to common shareholders, treasury stock method	**20,266**	17,133	**59,829**	41,010
Net income from discontinued operations	**—**	—	**—**	1,696
Net income attributable to common shareholders, treasury stock method	**$ 20,266**	$ 17,133	**$ 59,829**	$ 42,706
Basic earnings per share - Denominator:				
Weighted average basic common shares outstanding	**83,631,403**	84,017,284	**83,495,361**	83,544,754
Per share data - Basic earnings per share from:				
Continuing operations	**$ 0.24**	$ 0.20	**$ 0.72**	$ 0.49
Discontinued operations	**$ —**	$ —	**$ —**	$ 0.02
Total attributable to common shareholders	**$ 0.24**	$ 0.20	**$ 0.72**	$ 0.51

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(In thousands, except share and per share data)			
Diluted earnings per share - Numerator:				
Net income from continuing operations attributable to common shareholders, after assumed dilution	**$ 20,266**	$ 17,133	**$ 59,829**	$ 41,010
Net income from discontinued operations	**—**	—	**—**	1,696
Net income attributable to common shareholders, after assumed dilution	**$ 20,266**	$ 17,133	**$ 59,829**	$ 42,706
Diluted earnings per share - Denominator:				
Weighted average basic common shares outstanding	**83,631,403**	84,017,284	**83,495,361**	83,544,754
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)	**325,305**	853,906	**507,920**	1,052,855
Warrants to purchase common stock	**—**	627,378	**—**	656,686
Dilutive common shares	**325,305**	1,481,284	**507,920**	1,709,541
Weighted average diluted common shares outstanding (2)	**83,956,708**	85,498,568	**84,003,281**	85,254,295
Per share data - Diluted earnings per share from:				
Continuing operations	**$ 0.24**	$ 0.20	**$ 0.71**	$ 0.48
Discontinued operations	**$ —**	$ —	**$ —**	$ 0.02
Total attributable to common shareholders	**$ 0.24**	$ 0.20	**$ 0.71**	$ 0.50
Dividends per share declared and paid on common stock	**$ 0.12**	$ 0.12	**$ 0.36**	$ 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, 2018 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. Decreases in redemption value from period to period increase 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, 2019 and 2018 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. 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,	
	2019	**2018**	**2019**	**2018**
Shares excluded due to exercise price exceeding the average market price of common shares during the period (total outstanding):		**(In thousands)**		
Potential common shares from:				
Options, restricted stock, or other dilutive securities	**808**	408	**760**	226
Total shares excluded due to exercise price exceeding the average market price of common shares during the period	**808**	408	**760**	226

3. Reportable Segments

Management Reporting

The Company has two reportable segments: (i) Private Banking and (ii) Wealth Management and Trust, as well as the Parent Company (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, the San Francisco Bay Area, and Southern California.

The Bank currently 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, the San Francisco Bay Area, and Southern California.

Changes to Segment Reporting

The 2018 segment results have been adjusted for comparability to the 2019 segment results for the following changes. Prior to the third quarter of 2019, the Company had three reportable segments: Affiliate Partners, Private Banking, and Wealth Management and Trust. For the first two quarters of 2019, the Affiliate Partners segment was comprised of two affiliates: KLS and DGHM, each of which are RIAs. Prior to the first quarter of 2019, the Affiliate Partners segment also included Anchor and BOS for the periods owned. On April 13, 2018, the Company completed the sale of its ownership interest in Anchor. On December 3, 2018, the Company completed the sale of its ownership interest in BOS.

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 now included in the results of Boston Private Wealth within the Wealth Management and Trust segment, and the results of DGHM are now included in Holding Company and Eliminations for all periods presented. The results of Anchor and BOS for the periods owned are included in Holding Company and Eliminations. 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, 2018 for additional information.

Measurement of Segment Profit and Assets

The accounting policies of the segments are the same as those described in Part II. Item 8. “Financial Statements and Supplementary Data - 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, profits, assets, and other significant items of reportable segments as of and for the three and nine months ended September 30, 2019 and 2018.

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Private Banking	(In thousands)			
Net interest income	**$ 57,058**	$ 60,551	**$ 174,814**	$ 177,129
Fees and other income	**3,403**	3,337	**9,465**	8,637
Total revenue	**60,461**	63,888	**184,279**	185,766
Provision/ (credit) for loan losses	**167**	(949)	**104**	(2,291)
Operating expense (1)	**38,134**	44,706	**117,256**	124,003
Income before income taxes	**22,160**	20,131	**66,919**	64,054
Income tax expense	**4,212**	4,469	**13,520**	13,063
Net income from continuing operations	**17,948**	15,662	**53,399**	50,991
Net income attributable to the Company	**$ 17,948**	$ 15,662	**$ 53,399**	$ 50,991
Assets	**$ 8,617,207**	$ 8,292,901	**$ 8,617,207**	$ 8,292,901
Depreciation	**$ 2,229**	$ 2,398	**$ 7,271**	$ 6,013

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Wealth Management and Trust	(In thousands)			
Net interest income	**$ 99**	$ 98	**$ 309**	$ 222
Fees and other income	**19,106**	19,769	**57,188**	59,108
Total revenue	**19,205**	19,867	**57,497**	59,330
Operating expense (1)	**13,888**	16,434	**43,864**	49,981
Income before income taxes	**5,317**	3,433	**13,633**	9,349
Income tax expense	**1,751**	1,130	**4,465**	3,019
Net income from continuing operations	**3,566**	2,303	**9,168**	6,330
Net income attributable to the Company	**$ 3,566**	$ 2,303	**$ 9,168**	$ 6,330
Assets	**$ 143,326**	$ 127,229	**$ 143,326**	$ 127,229
Amortization of intangibles	**$ 671**	$ 701	**$ 2,015**	$ 2,103
Depreciation	**$ 290**	$ 409	**$ 991**	$ 1,230

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Holding Company and Eliminations (2)	(In thousands)			
Net interest income (3)	**$ (1,004)**	$ (1,008)	**$ (3,172)**	$ (2,782)
Fees and other income	**2,617**	9,208	**8,101**	36,407
Total revenue	**1,613**	8,200	**4,929**	33,625
Operating expense	**3,515**	7,417	**10,629**	29,814
Income/ (loss) before income taxes	**(1,902)**	783	**(5,700)**	3,811
Income tax expense/ (benefit)	**(446)**	(138)	**(2,182)**	12,804
Net income/ (loss) from continuing operations	**(1,456)**	921	**(3,518)**	(8,993)
Noncontrolling interests	**96**	924	**265**	2,942
Discontinued operations (4)	**—**	—	**—**	1,696
Net income/ (loss) attributable to the Company	**$ (1,552)**	$ (3)	**$ (3,783)**	$ (10,239)
Assets (including eliminations)	**$ (69,589)**	$ (44,290)	**$ (69,589)**	$ (44,290)
Amortization of intangibles	**$ —**	$ 49	**$ —**	$ 146
Depreciation	**$ 51**	$ 109	**$ 147**	$ 336

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Total Company (2)	(In thousands)			
Net interest income	**$ 56,153**	$ 59,641	**$ 171,951**	$ 174,569
Fees and other income	**25,126**	32,314	**74,754**	104,152
Total revenue	**81,279**	91,955	**246,705**	278,721
Provision/ (credit) for loan losses	**167**	(949)	**104**	(2,291)
Operating expense	**55,537**	68,557	**171,749**	203,798
Income before income taxes	**25,575**	24,347	**74,852**	77,214
Income tax expense	**5,517**	5,461	**15,803**	28,886
Net income from continuing operations	**20,058**	18,886	**59,049**	48,328
Noncontrolling interests	**96**	924	**265**	2,942
Discontinued operations (4)	**—**	—	**—**	1,696
Net income attributable to the Company	**$ 19,962**	$ 17,962	**$ 58,784**	$ 47,082
Assets	**$ 8,690,944**	$ 8,375,840	**$ 8,690,944**	$ 8,375,840
Amortization of intangibles	**$ 671**	$ 750	**$ 2,015**	$ 2,249
Depreciation	**$ 2,570**	$ 2,916	**$ 8,409**	$ 7,579

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(1) Operating expense includes restructuring expense of $1.3 million and $0.4 million for the nine months ended September 30, 2019 related to the Private Banking and Wealth Management and Trust segments, respectively. Operating expense includes restructuring expense of $5.2 million and $0.6 million for the nine months ended September 30, 2018 related to the Private Banking and Wealth Management & Trust segments, respectively.

(2) The results of Anchor and BOS for the periods owned in 2018 are included in Holding Company and Eliminations and the Total Company.

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

(4) The Holding Company and Eliminations calculation of net income attributable to the Company includes net income from discontinued operations of zero and $1.7 million for the nine months ended September 30, 2019 and 2018, respectively. The Company received the final payment related to a revenue sharing agreement with Westfield Capital Management Company, LLC (“Westfield”) in the first quarter of 2018. The Company will not receive additional income from Westfield now that the final payment has been received.

4. Investments

The following table presents a summary of investment securities at September 30, 2019 and December 31, 2018:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In thousands)			
At September 30, 2019				
Available-for-sale securities at fair value:				
U.S. government and agencies	**$ 19,953**	**$ 104**	**$ —**	**$ 20,057**
Government-sponsored entities	**155,081**	**1,483**	**(8)**	**156,556**
Municipal bonds	**314,970**	**13,055**	**(10)**	**328,015**
Mortgage-backed securities (1)	**432,108**	**1,847**	**(3,045)**	**430,910**
Total	**$ 922,112**	**$ 16,489**	**$ (3,063)**	**$ 935,538**
Held-to-maturity securities at amortized cost:				
Mortgage-backed securities (1)	**$ 51,379**	**$ 33**	**$ (397)**	**$ 51,015**
Total	**$ 51,379**	**$ 33**	**$ (397)**	**$ 51,015**
Equity securities at fair value:				
Money market mutual funds (2)	**$ 21,780**	**$ —**	**$ —**	**$ 21,780**
Total	**$ 21,780**	**$ —**	**$ —**	**$ 21,780**
At December 31, 2018				
Available-for-sale securities at fair value:				
U.S. government and agencies	$ 30,043	$ —	$ (929)	$ 29,114
Government-sponsored entities	211,655	—	(3,952)	207,703
Municipal bonds	309,837	2,223	(3,101)	308,959
Mortgage-backed securities (1)	467,239	214	(19,164)	448,289
Total	$ 1,018,774	$ 2,437	$ (27,146)	$ 994,065
Held-to-maturity securities at amortized cost:				
U.S. government and agencies	$ 9,898	$ 2	$ —	$ 9,900
Mortgage-backed securities (1)	60,540	—	(1,845)	58,695
Total	$ 70,438	$ 2	$ (1,845)	$ 68,595
Equity securities at fair value:				
Money market mutual funds (2)	$ 14,228	$ —	$ —	$ 14,228
Total	$ 14,228	$ —	$ —	$ 14,228

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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 following table presents the maturities of available-for-sale investment securities, based on contractual maturity, as of September 30, 2019. 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	$ 12,614	$ 12,647
After one, but within five years	290,921	292,357
After five, but within ten years	250,045	253,765
Greater than ten years	368,532	376,769
Total	$ 922,112	$ 935,538

The following table presents the maturities of held-to-maturity investment securities, based on contractual maturity, as of September 30, 2019.

	Held-to-maturity Securities	
	Amortized Cost	Fair Value
	(In thousands)	
After five, but within ten years	$ 41,912	$ 41,593
Greater than ten years	9,467	9,422
Total	$ 51,379	$ 51,015

The following table presents the proceeds from sales, gross realized gains and gross realized losses for available-for-sale securities that were sold or called during the following periods as well as changes in the fair value of equity securities as prescribed by ASC 321, *Investment - Equity Securities*. ASU 2016-01, *Recognition and Measurements of Financial Assets and Financial Liabilities* was adopted on January 1, 2018, at which time a cumulative effect adjustment of $339 thousand was recorded to reclassify the amount of accumulated unrealized gains related to equity securities from accumulated other comprehensive income to retained earnings.

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
Proceeds from sales	$ —	$ 16,231	$ —	$ 51,781
Realized gains	—	—	—	7
Realized losses	—	—	—	(1)
Change in unrealized gain/ (loss) on equity securities reflected in the Consolidated Statement of Operations	—	—	—	(23)

The following tables present information regarding securities at September 30, 2019 and December 31, 2018 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.

	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, 2019							
Available-for-sale securities							
U.S. government and agencies	$ —	$ —	$ —	$ —	$ —	$ —	—
Government-sponsored entities	**6,735**	**(8)**	—	—	**6,735**	**(8)**	**4**
Municipal bonds	**8,506**	**(10)**	—	—	**8,506**	**(10)**	**3**
Mortgage-backed securities (1)	**63,489**	**(226)**	**206,795**	**(2,819)**	**270,284**	**(3,045)**	**79**
Total	**$ 78,730**	**$ (244)**	**$ 206,795**	**$ (2,819)**	**$ 285,525**	**$ (3,063)**	**86**
Held-to-maturity securities							
Mortgage-backed securities (1)	**$ 5,608**	**$ (21)**	**$ 32,425**	**$ (376)**	**$ 38,033**	**$ (397)**	**13**
Total	**$ 5,608**	**$ (21)**	**$ 32,425**	**$ (376)**	**$ 38,033**	**$ (397)**	**13**

	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, 2018							
Available-for-sale securities							
U.S. government and agencies	$ —	$ —	$ 29,114	$ (929)	$ 29,114	$ (929)	5
Government-sponsored entities	—	—	207,703	(3,952)	207,703	(3,952)	32
Municipal bonds	25,394	(128)	130,209	(2,973)	155,603	(3,101)	85
Mortgage-backed securities (1)	2,469	(11)	433,888	(19,153)	436,357	(19,164)	110
Total	$ 27,863	$ (139)	$ 800,914	$ (27,007)	$ 828,777	$ (27,146)	232
Held-to-maturity securities							
Mortgage-backed securities (1)	$ —	$ —	$ 58,695	$ (1,845)	$ 58,695	$ (1,845)	16
Total	$ —	$ —	$ 58,695	$ (1,845)	$ 58,695	$ (1,845)	16

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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, 2019, the government-sponsored entities securities and mortgage-backed securities in the first table above had current Standard and Poor’s credit rating of at least AAA. The municipal bonds in the first table above had a current Standard and Poor’s credit rating of at least AA. As of September 30, 2019, the Company does not consider these investments other-than-temporarily impaired as the decline in fair value on investments is primarily attributed to changes in interest rates and not as a result of the deterioration of credit quality. As of September 30, 2019, 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, 2019 or December 31, 2018. The Company's other investments primarily include low income housing partnerships which generate tax credits. The Company also holds partnership interests in venture capital funds formed to provide financing to small businesses and to promote community development. The Company had $65.4 million and $54.4 million in other investments included in other assets as of September 30, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, 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, 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	$ 20,057	$ —	$ 20,057	$ —
Government-sponsored entities	156,556	—	156,556	—
Municipal bonds	328,015	—	328,015	—
Mortgage-backed securities	430,910	—	430,910	—
Total available-for-sale securities	935,538	—	935,538	—
Equity securities	21,780	21,780	—	—
Derivatives - interest rate customer swaps	47,851	—	47,851	—
Derivatives - risk participation agreement	74	—	74	—
Trading securities held in the "rabbi trust" (1)	6,482	6,482	—	—
Liabilities:				
Derivatives - interest rate customer swaps	$ 48,891	$ —	$ 48,891	$ —
Derivatives - risk participation agreement	344	—	344	—
Deferred compensation "rabbi trust" (1)	6,482	6,482	—	—

		Fair value measurements at reporting date using:		
	As of December 31, 2018	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	$ 29,114	$ —	$ 29,114	$ —
Government-sponsored entities	207,703	—	207,703	—
Municipal bonds	308,959	—	308,959	—
Mortgage-backed securities	448,289	—	448,289	—
Total available-for-sale securities	994,065	—	994,065	—
Equity securities	14,228	14,228	—	—
Derivatives - interest rate customer swaps	21,889	—	21,889	—
Derivatives - interest rate swaps	553	—	553	—
Derivatives - risk participation agreements	2	—	2	—
Trading securities held in the “rabbi trust” (1)	6,839	6,839	—	—
Liabilities:				
Derivatives - interest rate customer swaps	$ 22,385	$ —	$ 22,385	$ —
Derivatives - risk participation agreements	152	—	152	—
Deferred compensation “rabbi trust” (1)	6,839	6,839	—	—

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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, 2019 and December 31, 2018, 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 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, 2019 or December 31, 2018 were categorized as Level 3.

As of September 30, 2019 and December 31, 2018, 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 utilizes 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, 2019 and December 31, 2018. 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, 2019 and December 31, 2018.

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, 2019 and December 31, 2018.

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 sheet. 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 sheet. 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, 2019. During the year ended December 31, 2018, five U.S. Treasury securities totaling $33.4 million transferred from Level 1 to Level 2 as the securities were determined to be “off-the-run”. There were no other transfers for assets or liabilities recorded at fair value on a recurring basis for the year ended December 31, 2018.

There were no Level 3 assets valued on a recurring basis at September 30, 2019 or December 31, 2018.

There were no changes in the valuation techniques used for measuring the fair value.

The following tables present the Company’s assets and liabilities measured at fair value on a non-recurring basis during the periods ended September 30, 2019 and 2018, respectively, 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, 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.

		Fair value measurements at reporting date using:			Gain (losses) from fair value changes	
	As of September 30, 2018	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, 2018	Nine months ended September 30, 2018
	(In thousands)					
Assets:						
Impaired loans (1)	$ 2,005	$ —	$ —	$ 2,005	$ (440)	$ (1,367)

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(1) Collateral-dependent impaired loans held as of September 30, 2018 that had write-downs or recoveries in fair value or whose specific reserve changed during the nine months ended September 30, 2018.

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, 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	—%	—%

	As of September 30, 2018					
	Fair Value		Valuation Technique	Unobservable Input	Range of Inputs Utilized	Weighted Average of Inputs Utilized
	(In thousands)					
Impaired Loans	$	2,005	Appraisals of Collateral	Discount for costs to sell	0% - 23%	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, 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	$ 78,010	$ 78,010	$ 78,010	$ —	$ —
Investment securities held-to-maturity	51,379	51,015	—	51,015	—
Loans held for sale	6,658	6,708	—	6,708	—
Loans, net	6,991,792	7,006,120	—	—	7,006,120
Other financial assets	77,614	77,614	—	77,614	—
FINANCIAL LIABILITIES:					
Deposits	6,658,242	6,658,538	—	6,658,538	—
Securities sold under agreements to repurchase	48,860	48,860	—	48,860	—
Federal funds purchased	230,000	230,000	—	230,000	—
Federal Home Loan Bank borrowings	570,904	571,606	—	571,606	—
Junior subordinated debentures	106,363	96,363	—	—	96,363
Other financial liabilities	2,730	2,730	—	2,730	—

	As of December 31, 2018				
	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	$ 127,259	$ 127,259	$ 127,259	$ —	$ —
Investment securities held-to-maturity	70,438	68,595	—	68,595	—
Loans held for sale	2,812	2,837	—	2,837	—
Loans, net	6,817,846	6,734,216	—	—	6,734,216
Other financial assets	78,730	78,730	—	78,730	—
FINANCIAL LIABILITIES:					
Deposits	6,781,170	6,777,928	—	6,777,928	—
Securities sold under agreements to repurchase	36,928	36,928	—	36,928	—
Federal funds purchased	250,000	250,000	—	250,000	—
Federal Home Loan Bank borrowings	420,144	417,092	—	417,092	—
Junior subordinated debentures	106,363	96,363	—	—	96,363
Other financial liabilities	2,001	2,001	—	2,001	—

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 balance sheet 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 currently consist of mortgage-backed securities. As of December 31, 2018, investment securities held-to-maturity consisted of mortgage-backed securities and a U.S. Treasury security. The U.S. Treasury security held as of December 31, 2018 is an “off-the-run” U.S. Treasury security and, therefore, it has been categorized as Level 2. 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, 2019 and December 31, 2018.

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. Following the adoption of ASU 2016-01 in 2018, the Company updated its process for estimating the fair value of loans, net of allowance for loan losses. The updated process estimates the fair value of loans using the exit price notion, 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. See Part I. Item 1. “Notes to Unaudited Consolidated Financial Statements - Note 15: Recent Accounting Pronouncements” for additional information on ASU 2016-01.

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 balance sheet 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

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, a consideration for illiquidity of trading in the 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 consists 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

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, the San Francisco Bay Area, 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, in particular, 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, San Francisco Bay Area, and Southern California economies and real estate markets.

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

	September 30, 2019	December 31, 2018
	(In thousands)	
Commercial and industrial	**$ 695,029**	$ 623,037
Commercial tax-exempt	**448,488**	451,671
Total commercial and industrial	**1,143,517**	1,074,708
Commercial real estate	**2,533,346**	2,395,692
Construction and land	**209,741**	240,306
Residential	**2,964,042**	2,948,973
Home equity	**84,432**	90,421
Consumer and other	**132,073**	143,058
Total	**$ 7,067,151**	$ 6,893,158

In the third quarter of 2019, the Bank sold $92.4 million of the residential loan portfolio for a $0.8 million net gain.

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

	September 30, 2019	December 31, 2018
	(In thousands)	
Commercial and industrial	**$ 800**	$ 2,554
Commercial tax-exempt	**—**	—
Total commercial and industrial	**800**	2,554
Commercial real estate	**—**	546
Residential	**14,219**	7,914
Home equity	**2,545**	3,031
Consumer and other	**1**	12
Total	**$ 17,565**	$ 14,057

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, 2019 and December 31, 2018. 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, 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	**$ 554**	**$ 2,494**	**$ 3,048**	**$ 83**	**$ 186**	**$ 531**	**$ 800**	**$ 691,181**	**$ 695,029**
Commercial tax-exempt	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**448,488**	**448,488**
Commercial real estate	**497**	**—**	**497**	**—**	**—**	**—**	**—**	**2,532,849**	**2,533,346**
Construction and land	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**209,741**	**209,741**
Residential	**—**	**266**	**266**	**9,084**	**301**	**4,834**	**14,219**	**2,949,557**	**2,964,042**
Home equity	**74**	**279**	**353**	**991**	**—**	**1,554**	**2,545**	**81,534**	**84,432**
Consumer and other	**15**	**—**	**15**	**1**	**—**	**—**	**1**	**132,057**	**132,073**
Total	**$ 1,140**	**$ 3,039**	**$ 4,179**	**$ 10,159**	**$ 487**	**$ 6,919**	**$ 17,565**	**$ 7,045,407**	**$ 7,067,151**

	December 31, 2018								
	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	$ 9,794	$ —	$ 9,794	$ 979	$ —	$ 1,575	$ 2,554	$ 610,689	$ 623,037
Commercial tax-exempt	—	—	—	—	—	—	—	451,671	451,671
Commercial real estate	—	—	—	—	—	546	546	2,395,146	2,395,692
Construction and land	—	—	—	—	—	—	—	240,306	240,306
Residential	6,477	366	6,843	2,639	716	4,559	7,914	2,934,216	2,948,973
Home equity	252	350	602	—	48	2,983	3,031	86,788	90,421
Consumer and other	17	5,043	5,060	8	4	—	12	137,986	143,058
Total	$ 16,540	$ 5,759	$ 22,299	$ 3,626	$ 768	$ 9,663	$ 14,057	$ 6,856,802	$ 6,893,158

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.

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 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.

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 general 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, 2018, 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.

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, 2019				
	By Loan Grade or Nonaccrual Status				
	Pass	Special Mention	Accruing Classified (1)	Nonaccrual Loans	Total
	(In thousands)				
Commercial and industrial	$ 656,012	$ 13,084	$ 25,133	$ 800	$ 695,029
Commercial tax-exempt	441,811	2,625	4,052	—	448,488
Commercial real estate	2,460,408	42,124	30,814	—	2,533,346
Construction and land	209,741	—	—	—	209,741
Residential	2,946,823	—	3,000	14,219	2,964,042
Home equity	81,308	300	279	2,545	84,432
Consumer and other	132,072	—	—	1	132,073
Total	$ 6,928,175	$ 58,133	$ 63,278	$ 17,565	$ 7,067,151

	December 31, 2018				
	By Loan Grade or Nonaccrual Status				
	Pass	Special Mention	Accruing Classified (1)	Nonaccrual Loans	Total
	(In thousands)				
Commercial and industrial	$ 581,278	$ 16,213	$ 22,992	$ 2,554	$ 623,037
Commercial tax-exempt	444,835	2,785	4,051	—	451,671
Commercial real estate	2,314,223	53,871	27,052	546	2,395,692
Construction and land	234,647	5,659	—	—	240,306
Residential	2,941,059	—	—	7,914	2,948,973
Home equity	87,390	—	—	3,031	90,421
Consumer and other	143,046	—	—	12	143,058
Total	$ 6,746,478	$ 78,528	$ 54,095	$ 14,057	$ 6,893,158

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(1) Accruing Classified includes 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, 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 three and nine months ended September 30, 2018						
	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	$ 1,150	$ 2,083	n/a	$ 1,617	$ 1,730	$ 33	$ 55
Commercial tax-exempt	—	—	n/a	—	—	—	—
Commercial real estate	1,625	2,966	n/a	2,526	2,439	583	633
Construction and land	—	—	n/a	—	66	—	16
Residential	7,097	7,457	n/a	10,102	10,002	146	335
Home equity	—	—	n/a	—	1,056	—	24
Consumer and other	—	—	n/a	—	—	—	—
Subtotal	$ 9,872	$ 12,506	n/a	$ 14,245	$ 15,293	$ 762	$ 1,063
With an allowance recorded:							
Commercial and industrial	$ 1,635	$ 1,638	$ 577	$ 625	$ 322	$ 4	$ 6
Commercial tax-exempt	—	—	—	—	—	—	—
Commercial real estate	—	—	—	4,045	5,314	476	704
Construction and land	—	—	—	—	—	—	—
Residential	682	681	74	734	787	5	17
Home equity	1,769	1,769	596	1,769	729	1	1
Consumer and other	—	—	—	—	13	—	3
Subtotal	$ 4,086	$ 4,088	$ 1,247	$ 7,173	$ 7,165	$ 486	$ 731
Total:							
Commercial and industrial	$ 2,785	$ 3,721	$ 577	$ 2,242	$ 2,052	$ 37	$ 61
Commercial tax-exempt	—	—	—	—	—	—	—
Commercial real estate	1,625	2,966	—	6,571	7,753	1,059	1,337
Construction and land	—	—	—	—	66	—	16
Residential	7,779	8,138	74	10,836	10,789	151	352
Home equity	1,769	1,769	596	1,769	1,785	1	25
Consumer and other	—	—	—	—	13	—	3
Total	$ 13,958	$ 16,594	$ 1,247	$ 21,418	$ 22,458	$ 1,248	$ 1,794

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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, 2018				
	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	$ 1,435	$ 2,397	n/a	$ 1,614	$ 69
Commercial tax-exempt	—	—	n/a	—	—
Commercial real estate	546	900	n/a	2,002	1,544
Construction and land	—	—	n/a	50	16
Residential	8,403	8,764	n/a	9,638	408
Home equity	990	990	n/a	1,041	24
Consumer and other	—	—	n/a	—	—
Subtotal	$ 11,374	$ 13,051	n/a	$ 14,345	$ 2,061
With an allowance recorded:					
Commercial and industrial	$ 1,770	$ 1,972	$ 598	$ 631	$ 15
Commercial tax-exempt	—	—	—	—	—
Commercial real estate	—	—	—	4,087	705
Construction and land	—	—	—	—	—
Residential	780	780	75	785	22
Home equity	1,719	1,719	562	959	11
Consumer and other	—	—	—	10	3
Subtotal	$ 4,269	$ 4,471	$ 1,235	$ 6,472	$ 756
Total:					
Commercial and industrial	$ 3,205	$ 4,369	$ 598	$ 2,245	$ 84
Commercial tax-exempt	—	—	—	—	—
Commercial real estate	546	900	—	6,089	2,249
Construction and land	—	—	—	50	16
Residential	9,183	9,544	75	10,423	430
Home equity	2,709	2,709	562	2,000	35
Consumer and other	—	—	—	10	3
Total	$ 15,643	$ 17,522	$ 1,235	$ 20,817	$ 2,817

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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.

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, 2019, the Bank has pledged $2.6 billion of loans in a blanket lien agreement with the FHLB. The Bank also has $437.2 million of loans pledged as collateral at the FRB for access to their discount window. As of December 31, 2018, the Bank had pledged $2.6 billion of loans to the FHLB and $540.0 million of loans at the FRB.

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, 2019 and December 31, 2018, TDRs totaled $9.5 million and $8.0 million, respectively. As of September 30, 2019, $6.9 million of the $9.5 million in TDRs were on accrual status. As of December 31, 2018, $3.8 million of the $8.0 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 or allocated reserve on the particular loan. Therefore, depending upon the result of the impairment analysis, there could be an increase or decrease in the related allowance for loan losses. 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 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**	**—**	**$ —**
Commercial tax exempt	**—**	**—**	**—**	**—**	**—**
Commercial real estate	**—**	**—**	**—**	**—**	**—**
Construction and land	**—**	**—**	**—**	**—**	**—**
Residential (1)	**2**	**3,222**	**3,227**	**—**	**—**
Home equity (1)	**1**	**274**	**283**	**—**	**—**
Consumer and other	**—**	**—**	**—**	**—**	**—**
Total	**4**	**$ 3,675**	**$ 3,689**	**—**	**$ —**

	As of and for the three and nine months ended September 30, 2019									
	Extension of term		Temporary rate reduction		Payment deferral		Combination of concessions (1)		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**
Commercial real estate	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Construction and land	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Residential	**—**	**—**	**2**	**3,227**	**—**	**—**	**—**	**—**	**2**	**3,227**
Home equity	**—**	**—**	**1**	**283**	**—**	**—**	**—**	**—**	**1**	**283**
Consumer and other	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**

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

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, 2019	December 31, 2018
	(In thousands)	
Commercial and industrial	**$ 14,358**	$ 8,024
Commercial tax-exempt	**18,711**	19,105
Commercial real estate	**34,816**	60,688
Construction and land	**23,133**	39,966
Total loan participations serviced for others	**$ 91,018**	$ 127,783
Residential	**$ 119,389**	$ 33,168
Total loans serviced for others	**$ 119,389**	$ 33,168

Total loans include deferred loan origination (fees)/ costs, net, of $8.4 million and $8.5 million as of September 30, 2019 and December 31, 2018, respectively.

7. Allowance for Loan Losses

The allowance for loan losses, which is reported as a reduction of outstanding loan balances, totaled $75.4 million and $75.3 million as of September 30, 2019 and December 31, 2018, respectively.

The following tables present 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,	
	2019	**2018**	**2019**	**2018**
	(In thousands)			
Allowance for loan losses, beginning of period:				
Commercial and industrial	**$ 16,082**	$ 12,381	**$ 15,912**	$ 11,735
Commercial real estate	**43,741**	45,183	**41,934**	46,820
Construction and land	**4,780**	4,613	**6,022**	4,949
Residential	**9,555**	9,804	**10,026**	9,773
Home equity	**805**	1,336	**1,284**	835
Consumer and other	**104**	147	**134**	630
Total allowance for loan losses, beginning of period	**75,067**	73,464	**75,312**	74,742
Loans charged-off:				
Commercial and industrial	**(180)**	—	**(375)**	(339)
Commercial real estate	**—**	—	**—**	(135)
Construction and land	**—**	—	**—**	—
Residential	**—**	—	**—**	(16)
Home equity	**—**	—	**(562)**	—
Consumer and other	**(5)**	—	**(7)**	(39)
Total charge-offs	**(185)**	—	**(944)**	(529)
Recoveries on loans previously charged-off:				
Commercial and industrial	**275**	153	**503**	387
Commercial real estate	**27**	820	**246**	995
Construction and land	**—**	—	**—**	—
Residential	**—**	—	**100**	27
Home equity	**6**	—	**6**	1
Consumer and other	**2**	12	**32**	168
Total recoveries	**310**	985	**887**	1,578
Provision/ (credit) for loan losses:				
Commercial and industrial	**361**	1,921	**498**	2,672
Commercial real estate	**(762)**	(3,179)	**826**	(4,856)
Construction and land	**6**	172	**(1,236)**	(164)
Residential	**617**	144	**46**	164
Home equity	**(57)**	6	**26**	506
Consumer and other	**2**	(13)	**(56)**	(613)
Total provision/(credit) for loan losses	**167**	(949)	**104**	(2,291)

	As of and for the three months ended September 30,		As of and for the nine months ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
Allowance for loan losses, end of period:				
Commercial and industrial	**16,538**	14,455	**16,538**	14,455
Commercial real estate	**43,006**	42,824	**43,006**	42,824
Construction and land	**4,786**	4,785	**4,786**	4,785
Residential	**10,172**	9,948	**10,172**	9,948
Home equity	**754**	1,342	**754**	1,342
Consumer and other	**103**	146	**103**	146
Total allowance for loan losses, end of period	**$ 75,359**	$ 73,500	**$ 75,359**	$ 73,500

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 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. The provision/ (credit) for loan losses and related allowance balance in the allowance for loan losses for tax-exempt commercial real estate loans is included with commercial real estate loans. There were no charge-offs or recoveries, for any period presented, for both commercial and industrial and commercial real estate tax-exempt loans.

The following tables present the Company's allowance for loan losses and loan portfolio as of September 30, 2019 and December 31, 2018 by portfolio segment, disaggregated by method of impairment analysis. The Company had no loans acquired with deteriorated credit quality as of September 30, 2019 or December 31, 2018.

	September 30, 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	**$ 1,017**	**$ 341**	**$ 1,142,500**	**$ 16,197**	**$ 1,143,517**	**$ 16,538**
Commercial real estate	**—**	**—**	**2,533,346**	**43,006**	**2,533,346**	**43,006**
Construction and land	**—**	**—**	**209,741**	**4,786**	**209,741**	**4,786**
Residential	**16,938**	**712**	**2,947,104**	**9,460**	**2,964,042**	**10,172**
Home equity	**2,592**	**23**	**81,840**	**731**	**84,432**	**754**
Consumer and other	**—**	**—**	**132,073**	**103**	**132,073**	**103**
Total	**$ 20,547**	**$ 1,076**	**$ 7,046,604**	**$ 74,283**	**$ 7,067,151**	**$ 75,359**

	December 31, 2018					
	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	$ 3,205	$ 598	$ 1,071,503	$ 15,314	$ 1,074,708	$ 15,912
Commercial real estate	546	—	2,395,146	41,934	2,395,692	41,934
Construction and land	—	—	240,306	6,022	240,306	6,022
Residential	9,183	75	2,939,790	9,951	2,948,973	10,026
Home equity	2,709	562	87,712	722	90,421	1,284
Consumer and other	—	—	143,058	134	143,058	134
Total	$ 15,643	$ 1,235	$ 6,877,515	$ 74,077	$ 6,893,158	$ 75,312

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, 2019 and December 31, 2018:

	September 30, 2019				December 31, 2018			
	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	**$ —**	Other assets	$ 553	Other liabilities	$ —
Derivatives not designated as hedging instruments:								
Interest rate swaps	Other assets	**47,851**	Other liabilities	**48,891**	Other assets	21,889	Other liabilities	22,385
Risk participation agreements	Other assets	**74**	Other liabilities	**344**	Other assets	2	Other liabilities	152
Total		**$ 47,925**		**$ 49,235**		$ 22,444		$ 22,537

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(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, 2019 and 2018:

Derivatives in cash flow hedging relationships	Amount of gain or (loss) recognized in OCI on derivatives Three months ended September 30, 2019	2018	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, 2019	2018
	(In thousands)			(In thousands)	
Interest rate swaps	**$ 1**	$ (193)	Interest expense	**$ 6**	$ 101
Total	**$ 1**	$ (193)		**$ 6**	$ 101

Derivatives in cash flow hedging relationships	Amount of gain or (loss) recognized in OCI on derivatives (1) Nine months ended September 30, 2019	2018	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, 2019	2018
	(In thousands)			(In thousands)	
Interest rate swaps	**$ (46)**	$ 818	Interest expense	**$ 508**	$ 385
Total	**$ (46)**	$ 818		**$ 508**	$ 385

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(1) The guidance in ASU 2017-12 requires that amounts in accumulated other comprehensive income that are included in the assessment of effectiveness should be reclassified into earnings in the same period in which the hedged forecasted transactions impact earnings. Transition guidance for this ASU further states that upon adoption, previously recorded cumulative ineffectiveness for cash flow hedges existing at the adoption date be eliminated by means of a cumulative-effect adjustment to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the initial application date. There was a $5 thousand reclassification related to the adoption of ASU 2017-12 effective January 1, 2018.

The following table presents the effect of the Company's derivative financial instruments in the Consolidated Statement of Operations for the three and nine months ended September 30, 2019 and 2018:

	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, 2019	2018	Amount of gain or (loss) recognized in income on cash flow hedging relationships Nine months ended September 30, 2019	2018
		(In thousands)			
Total amounts of income and (expense) line items presented in the statement of operations in which the effects of fair value or cash flow hedges are recorded	Interest expense	**$ 6**	$ 101	**$ 508**	$ 385
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 expense	**$ 6**	$ 101	**$ 508**	$ 385

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, 2019 and December 31, 2018.

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, 2019 and December 31, 2018.

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, 2019 and December 31, 2018.

As of September 30, 2019 and December 31, 2018, the termination amounts related to collateral determinations of derivatives in a liability position were $48.7 million and $2.2 million, respectively. The Company has minimum collateral posting thresholds with its derivative counterparties. As of September 30, 2019, the Company had pledged securities with a market value of $51.8 million against its obligations under these agreements. As of December 31, 2018, the Company had no pledged securities. 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. The Company has utilized interest rate derivatives in the past, but as of September 30, 2019, there were no active cash flow hedges.

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 Company'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 Statement of Operations in other income. The Bank has interest rate swaps and caps related to this program with an aggregate notional amount of $1.5 billion as of September 30, 2019 and $1.3 billion as of December 31, 2018. As of September 30, 2019, there were no foreign currency exchange contracts and as of December 31, 2018, there were foreign currency exchange contracts with an aggregate notional amount of $0.1 million 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, 2019 and December 31, 2018, there were seven of these risk participation transactions with an aggregate notional amount of $59.1 million and $59.8 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, 2019 and December 31, 2018, there were four of these risk participation transactions with an aggregate notional amount of $20.6 million and $20.7 million, respectively.

The following table presents the effect of the Bank's derivative financial instruments not designated as hedging instruments in the Consolidated Statement of Operations for the three and nine months ended September 30, 2019 and 2018.

		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**	**2019**	**2018**	**2019**	**2018**
		(In thousands)			
Interest rate swaps	Other income/ (expense)	**$ (289)**	$ 8	**$ (544)**	$ (39)
Risk participation agreements	Other income/ (expense)	**(11)**	18	**(120)**	238
Total		**$ (300)**	$ 26	**$ (664)**	$ 199

9. Income Taxes

The following table presents the components of income tax expense for continuing operations, discontinued operations, noncontrolling interests and the Company:

	Nine months ended September 30,	
	2019	**2018**
	(In thousands)	
Income from continuing operations:		
Income before income taxes	**$ 74,852**	$ 77,214
Income tax expense	**15,803**	28,886
Net income from continuing operations	**$ 59,049**	$ 48,328
Effective tax rate, continuing operations	**21.1%**	37.4%
Income from discontinued operations:		
Income before income taxes	**$ —**	$ 2,388
Income tax expense	**—**	692
Net income from discontinued operations	**$ —**	$ 1,696
Effective tax rate, discontinued operations	**—%**	29.0%
Less: Income attributable to noncontrolling interests:		
Income before income taxes	**$ 265**	$ 2,942
Income tax expense	**—**	—
Net income attributable to noncontrolling interests	**$ 265**	$ 2,942
Effective tax rate, noncontrolling interests	**—%**	—%
Income attributable to the Company		
Income before income taxes	**$ 74,587**	$ 76,660
Income tax expense	**15,803**	29,578
Net income attributable to the Company	**$ 58,784**	$ 47,082
Effective tax rate attributable to the Company	**21.2%**	38.6%

The effective tax rate for continuing operations for the nine months ended September 30, 2019 of 21.1%, with related tax expense of $15.8 million, was calculated based on a projected 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 savings were partially offset by earnings from tax-exempt investments and income tax credits.

The effective tax rate for continuing operations for the nine months ended September 30, 2018 of 37.4%, with related tax expense of $28.9 million, was calculated based on a projected 2018 annual effective tax rate. The effective tax rate was more than the statutory rate of 21% due primarily to the sale of Anchor and state and local income taxes. These items were partially offset by earnings from tax-exempt investments and income tax credits. The Company recorded tax expense of $12.7 million on the sale of Anchor in April 2018, which was primarily due to a book-to-tax basis difference associated with nondeductible goodwill.

The effective tax rate for continuing operations for the nine months ended September 30, 2019 is less than the effective tax rate for the same period in 2018 primarily as a result of the $12.7 million tax expense that was recorded on the sale of Anchor in April 2018.

10. Noncontrolling Interests

Noncontrolling interests consist of equity owned by management of the Company's respective majority-owned affiliates, DGHM, BOS, and Anchor for the periods in which the Company had an ownership interest in them. Net income attributable to noncontrolling interests in the Consolidated Statement of Operations represents the net income allocated to the noncontrolling interest owners of the affiliates. Net income allocated to the noncontrolling interest owners was $0.1 million and $0.9 million for the three-month periods ended September 30, 2019 and 2018, respectively, and $0.3 million and $2.9 million for the nine-month periods ended September 30, 2019 and 2018, 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, the Company had redeemable noncontrolling interests held in mezzanine equity in the accompanying consolidated balance sheets of $1.5 million and $2.5 million as of September 30, 2019 and December 31, 2018, 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, 2019 and December 31, 2018.

Each non-wholly owned affiliate operating agreement provides the Company and/or the noncontrolling interests with contingent call or put redemption features used for the orderly transfer of noncontrolling equity interests between the affiliate noncontrolling interest owners and the Company at either a contractually predetermined fair value; multiple of earnings before interest, taxes, depreciation, and amortization ("EBITDA"); or fair value. The Company may liquidate these noncontrolling interests in cash, shares of the Company's common stock, or other forms of consideration dependent on the operating agreement. These agreements are 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, 2018.

Generally, these put and call redemption features refer to shareholder rights of both the Company and the noncontrolling interest owners of the Company's majority-owned affiliate companies. The affiliate company noncontrolling interests generally take the form of limited liability company units, profits interests, or common stock (collectively, the "noncontrolling equity interests"). In most circumstances, the put and call redemption features generally relate to the Company's right and, in some cases, obligation to purchase and the noncontrolling equity interests' right to sell their equity interests. There are various events that could cause the puts or calls to be exercised, such as a change in control, death, disability, retirement, resignation or termination. The puts and calls are generally to be exercised at the then fair value or a contractually agreed upon approximation thereof. The terms of these rights vary and are governed by the respective individual operating and legal documents.

Redeemable noncontrolling interests recorded as of September 30, 2019 and December 31, 2018 were exclusively related to the rights of DGHM owners. The divestitures of BOS and Anchor in 2018 resulted in the Company no longer carrying noncontrolling interests within permanent shareholders' equity. The following tables present a rollforward of the Company's redeemable noncontrolling interests and noncontrolling interests for the periods indicated:

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

	Three months ended September 30, 2018		Nine months ended September 30, 2018	
	Redeemable noncontrolling interests	Noncontrolling interests	Redeemable noncontrolling interests	Noncontrolling interests
	(In thousands)			
Noncontrolling interests at beginning of period	$ 10,747	$ 1,996	$ 17,461	$ 5,186
Net income attributable to noncontrolling interests	711	213	2,202	740
Distributions	(687)	(203)	(2,136)	(712)
Purchases/ (sales) of ownership interests	—	—	(6,353)	(3,051)
Amortization of equity compensation	125	—	373	161
Adjustments to fair value	790	203	139	(115)
Noncontrolling interests at end of period	$ 11,686	$ 2,209	$ 11,686	$ 2,209

11. Accumulated Other Comprehensive Income

The following table presents a summary of the amounts reclassified from accumulated other comprehensive income/ (loss) for the three and nine months ended September 30, 2019 and 2018:

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
	2019	2018	2019	2018	
	(In thousands)		(In thousands)		
Net realized gain/ (loss) on cash flow hedges:					
Hedges related to deposits and borrowings:					
Pre-tax gain/ (loss)	**$ 6**	$ 101	**$ 508**	$ 385	Interest (expense)
Tax (expense)/ benefit	**(2)**	(29)	**(148)**	(112)	Income tax (expense)/ benefit
Net	**$ 4**	$ 72	**$ 360**	$ 273	Net income/ (loss) attributable to the Company
Total reclassifications for the period, net of tax	**$ 4**	$ 72	**$ 360**	$ 273	

On January 1, 2018, the Company elected to early adopt ASU No. 2017-12. As a result, the Company reclassified unrealized losses on cash flow hedges of $5 thousand from accumulated other comprehensive income/ (loss) to beginning retained earnings.

On January 1, 2018, the Company adopted ASU No. 2016-01. As a result, the Company reclassified unrealized gains on equity securities available-for-sale, net of tax, of $339 thousand from accumulated other comprehensive income/ (loss) to beginning retained earnings.

	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, 2017	$ (8,140)	$ 332	$ (850)	$ (8,658)
Other comprehensive income/ (loss) before reclassifications	(18,888)	574	1	(18,313)
Reclassified from other comprehensive income/ (loss)	—	(273)	—	(273)
Other comprehensive income/ (loss), net	(18,888)	301	1	(18,586)
Reclassification from the adoption of ASUs 2017-12 and 2016-01	$ (339)	$ 5	$ —	$ (334)
Balance at September 30, 2018	$ (27,367)	$ 638	$ (849)	$ (27,578)
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**

12. Restructuring

In the third and fourth quarters of 2018 and the first quarter of 2019, the Company incurred restructuring charges of $5.8 million, $2.1 million, and $1.6 million, respectively. The charges were in connection with a previously announced reduction to the Company's workforce of approximately 7% of total staffing, which included executive transition changes as well as other employee benefit and technology related initiatives. The restructuring is 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, 2019 and 2018:

	Severance Charges	Other Associated Costs	Total
		(In thousands)	
Accrued charges at December 31, 2018	**$ 3,896**	**$ 790**	**$ 4,686**
Cost incurred	**1,646**	**—**	**1,646**
Costs paid	**(1,986)**	**—**	**(1,986)**
Accrued charges at March 31, 2019	**3,556**	**790**	**4,346**
Costs paid	**(1,364)**	**—**	**(1,364)**
Accrued charges at June 30, 2019	**2,192**	**790**	**2,982**
Costs paid	**(1,156)**	**—**	**(1,156)**
Accrued charges at September 30, 2019	**$ 1,036**	**$ 790**	**$ 1,826**
Accrued charges at December 31, 2017	$ 337	$ —	$ 337
Costs paid	(254)	—	(254)
Accrued charges at March 31, 2018	83	—	83
Costs paid	(83)	—	(83)
Accrued charges at June 30, 2018	—	$ —	$ —
Costs incurred	5,763	—	5,763
Accrued charges at September 30, 2018	$ 5,763	$ —	$ 5,763

13. Revenue Recognition

On January 1, 2018, the Company adopted ASU 2014-09 *et al*. As stated in Part I. Item 1. "Notes to Unaudited Consolidated Financial Statements - Note 15: Recent Accounting," the implementation of the new standard did not have an impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, *Revenue from Contracts with Customers* ("ASC 606"), while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under ASC 605, *Revenue Recognition*.

ASC 606 does not apply to revenue associated with financial instruments, including interest income on loans and investment securities. In addition, certain noninterest income such as fees associated with mortgage servicing rights, late fees, BOLI income, and derivatives are also not in scope of the new guidance. ASC 606 is applicable to noninterest income such as investment management fees, wealth management and trust fees, and certain banking fees. However, the recognition of this revenue did not change upon adoption of ASC 606. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest income considered in-scope of ASC 606 is discussed below.

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 assets under management and advisory ("AUM") and the applicable fee rate, depending on the terms of the contract. 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 sheet in the fees receivable line item.

All of the investment management fee income on the Consolidated Statement of Operations for the three and nine months ended September 30, 2019 and 2018 is considered in-scope of ASC 606.

Wealth management and trust fees

Wealth management and trust fees are earned for providing investment management, 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 contract. 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 ("asset based fees"), depending on the terms of the contract. No performance based incentives are earned on wealth management contracts. Receivables are recorded on the consolidated balance sheet in the fees receivable line item. Deferred revenues of $6.2 million and $6.9 million as of September 30, 2019 and 2018, respectively, are recorded on the consolidated balance sheet within the other liabilities line item.

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 sheet in the fees receivable line item.

All of the wealth management and trust fee income on the Consolidated Statement of Operations for the three and nine months ended September 30, 2019 and 2018 is considered in-scope of ASC 606.

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 as it relates to foreign exchange fees as they are governed by client disclosure statements and the Bank's internal policies and procedures.

For the three months ended September 30, 2019 and 2018, $0.7 million and $1.1 million, respectively, of other banking fee income as described above is considered in-scope for ASC 606. For the nine months ended September 30, 2019 and 2018, $2.0 million and $3.1 million, respectively, of other banking fee income as described above is considered in-scope for ASC 606.

14. Lease Accounting

On January 1, 2019, the Company adopted ASU 2016-02. As stated in Part I. Item 1. "Notes to Unaudited Consolidated Financial Statements - Note 1: Basis of Presentation and Summary of Significant Accounting Policies", the implementation of the new standard had a material effect on the financial statements. The most significant effects relate to the recognition of new operating ROU assets and operating lease liabilities on the balance sheet for real estate operating leases, providing significant new disclosures about leasing activities, and the impact of additional assets on certain financial measures, such as capital ratios and return on average asset ratios. On adoption, the Company recognized $124.1 million of lease liabilities and $108.5 million of ROU assets on the face of the balance sheet. 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 Statement of Cash Flows upon adoption, since the net impact of all adjustments recorded upon transition represents non-cash activity.

The Company, as lessee, has 41 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 following table presents information about the Company's leases as of the dates indicated.

	Three months ended September 30, 2019	Nine months ended September 30, 2019
	(In thousands)	
Lease cost		
Operating lease cost	$ 4,866	$ 14,392
Short-term lease cost	12	41
Variable lease cost	143	147
Less: Sublease income	(27)	(73)
Total operating lease cost	$ 4,994	$ 14,507

	Nine months ended September 30,
	(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	$ 15,013
ROU assets obtained in exchange for new operating lease liabilities	$ 10,510
Weighted-average remaining lease term for operating leases	8.2 years
Weighted-average discount rate for operating leases	3.4%

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, 2019:

	September 30, 2019
	(In thousands)
Remainder of 2019	$ 5,084
2020	20,224
2021	20,406
2022	20,360
2023	19,575
Thereafter	57,005
Total future minimum lease payments	142,654
Less: Amounts representing interest	(19,855)
Present value of net future minimum lease payments	$ 122,799

Prior to the adoption of ASC 842, the Company's operating leases were not recognized on the balance sheet. The following table presents the undiscounted future minimum lease payments under the Company's operating leases as of December 31, 2018:

	December 31, 2018
	(In thousands)
2019	$ 20,053
2020	19,344
2021	19,064
2022	18,802
2023	16,552
Thereafter	41,412
Total	$ 135,227

Rent expense for the three and nine months ended September 30, 2018, prior to the adoption of ASU 2016-02, was $5.3 million and $16.1 million, respectively.

15. Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”). ASU 2014-09 replaces existing revenue recognition standards and expands the disclosure requirements for revenue agreements with customers. ASU 2014-09 has been subsequently amended by additional ASUs, including ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* and ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, collectively*, “ASU 2014-09 *et al*.” Under the new standard, a company will recognize 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. ASU 2014-09 *et al*. does not apply to revenue associated with financial instruments such as loans and securities. ASU 2014-09 *et al*. was adopted using the modified retrospective transition method as of January 1, 2018, however no cumulative effect adjustment was required. This new guidance was applied to all revenue contracts in place at the date of adoption. See Part I. Item 1. “Notes to Unaudited Consolidated Financial Statements - Note 13: Revenue Recognition” for further details.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”). This ASU requires equity investments to be measured at fair value with changes in fair value, net of tax, recognized in net income. As a result of implementing this standard, the Company reclassified $339 thousand in unrealized gains on available-for-sale equity investments, net of tax, from accumulated other comprehensive income to retained earnings as of January 1, 2018. Additionally, this amendment requires that entities use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. As a result of implementing this standard, the Company’s updated process includes identifying a fair value for loans using the exit price notion. See Part I. Item 1. “Notes to Unaudited Consolidated Financial Statements - Note 5: Fair Value Measurements” for further details.

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 new standard establishes a right-of-use model ("ROU") that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The new standard was effective on January 1, 2019, with early adoption permitted. 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 new disclosures about leasing activities. Additionally, the Company elected the package of practical expedients, as prescribed by ASU 2016-02. The Company elected not to reassess whether any expired or existing contracts are or contain leases nor the lease classification of those leases. The Company also elected not to reassess any initial direct costs for any existing leases. 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”). This update is 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 in current GAAP with a current expected credit losses ("CECL") model methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU will be effective for fiscal years beginning after December 15, 2019. Early adoption is available as of the fiscal year beginning after December 15, 2018, but the Company does not plan on adopting early. The Company plans to adopt on January 1, 2020 utilizing a modified retrospective approach and is currently assessing the impact on the Company's consolidated financial statements and disclosures. Management assembled a project team that has developed an approach for implementation. The project team has selected a third-party software service provider and is implementing a probability of default/loss given default model where the project team has evaluated the use of both peer data and internal data to estimate the expected losses over the remaining life of the portfolio as required by the standard. Further, the team has identified the necessary data requirements and is in the process of testing the material data inputs, and assessing and validating potential model options. Within the Expected Loss model, the project team has determined to use a two factor regression based model identifying two economic factors per loan segment. In addition, we have determined both the forecast and reversion method to be used. The Company continues to develop accounting policies and establish internal controls relevant to the updated methodologies and models.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* ("ASU 2017-07"). This amendment requires an employer to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This ASU was effective for fiscal years beginning after December 15, 2017, and interim periods within those years. For the three and nine months ended September 30, 2019, $0.8 million and $1.4 million, respectively, are presented within other expense that would have been presented within salaries and employee benefits prior to adoption of ASU 2017-07. For the three and nine months ended September 30, 2018, $131 thousand and $411 thousand, respectively, are presented within other expense that would have been presented within salaries and employee benefits prior to adoption of ASU 2017-07.

In August 2017, the FASB issued ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"). The standard is intended to improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and to reduce the complexity of and simplify the application of hedge accounting by preparers. ASU No. 2017-12 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. The Company early adopted this ASU as of January 1, 2018 with a modified retrospective transition. As a result of implementing this standard, the Company reclassified $5 thousand in unrealized losses on derivatives from accumulated other comprehensive income to retained earnings as of January 1, 2018. This ASU will provide more flexibility in the Company's risk management activities and we believe it will enhance the Company's ability to employ risk management strategies, while improving the transparency and understanding of those strategies for financial statement users.

In February 2018, the FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* ("ASU 2018-02"). This update was issued to address a narrow-scope financial reporting issue that arose as a consequence of the change in the tax law. On December 22, 2017, the U.S. federal government enacted the Tax Cuts and Jobs Act (the "Tax Act"), which, among other significant changes, lowers the federal corporate tax rate from 35% to 21% effective January 1, 2018. This update requires a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the enactment of the Tax Act. ASC 740 requires that the tax effects of changes in tax rates be recognized in income tax expense/ (benefit) attributable to continuing operations in the period in which the law is enacted. As a result, the tax effect of accumulated other comprehensive income does not reflect the appropriate tax rate. The amendments in this ASU would eliminate the stranded tax effects associated with the change in the federal corporate income tax rate related to the Tax Act and would improve the usefulness of information reported to financial statement users. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted for public business entities for reporting periods for which financial statements have not yet been issued. The Company adopted this ASU on December 31, 2017 and made a one-time reclassification of $1.5 million from accumulated other comprehensive income to retained earnings, which is reflected in the Consolidated Statement of Changes in Shareholders' Equity.

In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases* ("ASU 2018-10"), and ASU 2018-11, *Leases (Topic 842): Targeted Improvements* ("ASU 2018-11"). These updates clarify the guidance in ASU 2016-02 which introduced Topic 842 and add an additional transition method for leases. ASU 2018-11 allows entities to initially apply the new lease standard at the adoption date (January 1, 2019 for the Company) and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. This transition method is in addition to the initial modified retrospective transition method, which would require an entity to initially apply the new leases standard (subject to specific transition requirements and optional practical expedients) at the beginning of the earliest period presented in the financial statements. Lessees also must provide the new and enhanced disclosures in the period of adoption; ASU 2018-11 would not require the amended disclosures of Topic 842 for comparative periods. The Company adopted these provisions along with those of ASU 2016-02 as of January 1, 2019. The Company has elected to use the prospective transition method and has deemed a cumulative effect adjustment not necessary at adoption. See Part I. Item 1. "Notes to Unaudited Consolidated Financial Statements - Note 14: Lease Accounting" for further details.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). The amendments in ASU 2018-13 modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. Among other changes, this update removes the requirements to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. This update adds to required disclosures for changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted but the Company does not plan on adopting early.

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 still 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 ("SERP") and a long-term incentive plan ("LTIP").

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)* ("ASU 2018-15"). The amendments in ASU 2018-15 align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in ASU 2018-15. This update is effective on a retrospective basis for interim and annual reporting periods beginning January 1, 2021. The Company early adopted this update on January 1, 2019. The adoption of this update did not have a material impact on the consolidated financial statements.

In October 2018, the FASB issued ASU 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate ("SOFR") Overnight Index Swap ("OIS") Rate as a Benchmark Interest Rate for Hedge Accounting* ("ASU 2018-16"). ASU 2018-16 introduces OIS Rate based on the SOFR as an acceptable US benchmark interest rate for purposes of applying hedge accounting under Topic 815. This update is effective for interim and annual reporting periods beginning after December 15, 2018 because the Company has already adopted ASU 2017-12. The Company adopted this update on January 1, 2019. The adoption of this update did not have a material impact on the consolidated financial statements.

In April and May 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") and ASU 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief* ("ASU 2019-05"), respectively. These updates clarify the guidance in ASU 2016-13 which introduced Topic 326. ASU 2019-04 clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement. ASU 2019-05 provides entities that have certain instruments within the scope of subtopic 326-20 with an option to irrevocably elect the fair value option. These ASUs will be effective for fiscal years beginning after December 15, 2019. Early adoption is available as of the fiscal year beginning after December 15, 2018, but the Company does not plan on adopting early. The Company is still assessing the potential disclosure impact for these amendments and will adopt on January 1, 2020 in conjunction with ASU 2016-13.

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, 2019

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

Forward-looking statements are based on the current assumptions and beliefs of management and are only expectations of future results. The Company's actual results could differ materially from those projected in the forward-looking statements as a result of, among others, factors referenced herein under the section captioned "Risk Factors"; adverse conditions in the capital and debt markets and the impact of such conditions on the Company's business; changes in interest rates; competitive pressures from other financial institutions; the effects of weakness in general economic conditions on a national basis or in the local markets in which the Company operates; changes in the value of securities and other assets; changes in loan default and charge-off rates; the adequacy of loan loss reserves, or decreases in deposit levels necessitating increased borrowing to fund loans and investments; operational risks including, but not limited to, cybersecurity, fraud, and natural disasters; changes in government regulation; the risk that goodwill and intangibles recorded in the Company's financial statements will become impaired; the risk that the Company's deferred tax assets may not be realized; risks related to 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: Private Banking and Wealth Management and Trust. This Executive Summary provides an overview of the most significant aspects of our operating segments and the Company's operations in the third quarter of 2019. 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,			
	2019	2018	$ Change	% Change
	(In thousands, except per share data)			
Total revenue	**$ 81,279**	$ 91,955	$ (10,676)	(12)%
Provision/ (credit) for loan losses	**167**	(949)	1,116	nm
Total operating expense	**55,537**	68,557	(13,020)	(19)%
Net income from continuing operations	**20,058**	18,886	1,172	6 %
Net income attributable to noncontrolling interests	**96**	924	(828)	(90)%
Net income attributable to the Company	**19,962**	17,962	2,000	11 %
Diluted earnings per share:				
From continuing operations	**$ 0.24**	$ 0.20	$ 0.04	20 %
ASSETS UNDER MANAGEMENT AND ADVISORY ("AUM"):				
Wealth Management and Trust	**$ 14,695,000**	$ 15,598,000	(903,000)	(6)%
Other (1)	**1,533,000**	6,832,000	(5,299,000)	(78)%
Total AUM	**$ 16,228,000**	$ 22,430,000	$ (6,202,000)	(28)%

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nm = not meaningful

(1) Includes the AUM at DGHM of $1.5 billion at September 30, 2019 and $2.1 billion at September 30, 2018, and the AUM at BOS of $4.7 billion at September 30, 2018.

Net income attributable to the Company was $20.0 million for the three months ended September 30, 2019 and $18.0 million for the same period of 2018. The Company recognized total diluted earnings per share of $0.24 and $0.20 for the three months ended September 30, 2019 and 2018, respectively.

Key items that affected the Company's results in the third quarter of 2019 compared to the same period of 2018 include:

- Total revenue decreased 12%, or $10.7 million, to $81.3 million for the three months ended September 30, 2019, compared to $92.0 million for the same period of 2018 as described below.

- Total fees and other income decreased 22%, or $7.2 million, to $25.1 million for the three months ended September 30, 2019, compared to $32.3 million for the same period of 2018. This decrease was primarily driven by the divestiture of BOS in 2018, as well as lower AUM balances at September 30, 2019. Total fees and other income represents 31% of Total revenue for the three months ended September 30, 2019, compared to 35% of Total revenue for the same period of 2018.

- Net interest income decreased 6%, or $3.5 million, to $56.2 million for the three months ended September 30, 2019, compared to $59.6 million for the same period of 2018. Net interest margin ("NIM") was 2.72% for the three months ended September 30, 2019, representing a decrease of 18 basis points compared to the same period in 2018. The decreases in net interest income and NIM were primarily driven by higher funding costs, partially offset by higher asset yields on cash and investments.

- Total operating expenses decreased 19%, or $13.0 million, to $55.5 million for the three months ended September 30, 2019, compared to $68.6 million for the same period of 2018. The decrease was primarily driven by the divestiture of BOS, as well as realized savings from efficiency initiatives and restructuring charges of $5.9 million in the third quarter of 2018.

- For the three months ended September 30, 2019, total loans decreased slightly by $13.1 million, while total deposits increased $220.3 million, or 3%, from prior quarter. During the third quarter of 2019, the Company sold $92.4 million of residential mortgage loans. The Company’s loan-to-deposit ratio was 106% as of September 30, 2019. Deposits are the Company’s primary source of funds to originate loans. When the Company’s loan-to-deposit ratio exceeds 100%, we rely 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, we will evaluate other options such as slowing loan growth, selling a portion of portfolio loans, or originating mortgage loans as held for sale.

The Company’s Private Banking segment reported net income attributable to the Company of $17.9 million in the third quarter of 2019, compared to $15.7 million for the same period of 2018. Net income attributable to the Company increased $2.3 million, or 15%, from the same period in 2018 largely driven by a decrease of $6.6 million in operating expenses due to realized savings from efficiency initiatives, a $5.2 million restructuring charge in the third quarter of 2018, and an FDIC insurance credit, partially offset by a decrease of $3.4 million in total revenue due to lower net interest income, and an increase of $1.1 million to the provision for loan loss.

The Company’s Wealth Management and Trust segment reported net income attributable to the Company of $3.6 million in the third quarter of 2019, compared to $2.3 million for the same period of 2018. The increase of $1.3 million was primarily driven by a decrease of $2.5 million in total operating expenses due to realized savings from efficiency initiatives, and a $0.6 million restructuring charge in the third quarter of 2018, partially offset by a decrease of $0.7 million in total revenue due to the impact of lower AUM on accounts that are billed based on AUM levels. Wealth Management and Trust AUM decreased $0.9 billion, or 6%, to $14.7 billion at September 30, 2019 from $15.6 billion at September 30, 2018. The decrease in AUM was driven by lost business of $1.3 billion and current client net outflows of $0.5 billion, partially offset by new business of $0.7 billion and positive results of $0.2 billion for the twelve months ended September 30, 2019.

The Company completed the sale of its ownership interest in BOS on December 3, 2018. The results of BOS through its closing date remain consolidated in the results of the Company through its closing date and in prior periods. Results after the close of the transaction do not include BOS operations.

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, 2018. There have been no changes to these policies through the filing of this Quarterly Report on Form 10-Q.

Results of operations for the three and nine months ended September 30, 2019 versus September 30, 2018

Net Income. The Company recorded net income from continuing operations for the three and nine months ended September 30, 2019 of $20.1 million and $59.0 million, respectively, compared to $18.9 million and $48.3 million for the same respective periods in 2018. Net income attributable to the Company, which includes income from both continuing and discontinued operations, if any, as well as net income attributable to noncontrolling interests, for the three and nine months ended September 30, 2019 was $20.0 million and $58.8 million, respectively, compared to $18.0 million and $47.1 million for the same respective periods in 2018.

The Company recorded no net income from discontinued operations for the nine months ended September 30, 2019, compared to $1.7 million for the same period in 2018, the majority of which was recorded in the first quarter of 2018. The Company received the final payment related to a revenue sharing agreement with Westfield Capital Management Company, LLC (“Westfield”) in the first quarter of 2018. The Company recognized a tax credit in the fourth quarter of 2018, recorded in discontinued operations, related to an adjustment to deferred taxes in connection with the Westfield revenue share. The Company will not receive additional income from Westfield now that the final payment has been received.

The Company recognized diluted EPS attributable to common shareholders, which includes both continuing and discontinued operations, if any, for the three and nine months ended September 30, 2019 of $0.24 per share and $0.71 per share, respectively, compared to $0.20 per share and $0.50 per share for the same respective periods in 2018. Net income from continuing operations for 2019 and 2018 were partially offset by charges that reduce income available to common shareholders. See Part I. Item 1. “Notes to Unaudited Consolidated Financial Statements - Note 2: Earnings Per Share” for further detail on these charges to income available to common shareholders.

The following discussions are based on the Company’s continuing operations, unless otherwise stated. The following table presents selected financial highlights:

	Three months ended September 30,				Nine months ended September 30,			
	2019	**2018**	**$ Change**	**% Change**	**2019**	**2018**	**$ Change**	**% Change**
				(In thousands)				
Net interest income	**$ 56,153**	$ 59,641	(3,488)	(6)%	**$ 171,951**	$ 174,569	$ (2,618)	(1)%
Fees and other income	**25,126**	32,314	(7,188)	(22)%	**74,754**	104,152	(29,398)	(28)%
Total revenue	**81,279**	91,955	(10,676)	(12)%	**246,705**	278,721	(32,016)	(11)%
Provision/ (credit) for loan losses	**167**	(949)	1,116	nm	**104**	(2,291)	2,395	nm
Operating expense	**55,537**	68,557	(13,020)	(19)%	**171,749**	203,798	(32,049)	(16)%
Income tax expense	**5,517**	5,461	56	1 %	**15,803**	28,886	(13,083)	(45)%
Net income from continuing operations	**20,058**	18,886	1,172	6 %	**59,049**	48,328	10,721	22 %
Net income from discontinued operations	**—**	—	—	nm	**—**	1,696	(1,696)	nm
Less: Net income attributable to noncontrolling interests	**96**	924	(828)	(90)%	**265**	2,942	(2,677)	(91)%
Net income attributable to the Company	**$ 19,962**	$ 17,962	$ 2,000	11 %	**$ 58,784**	$ 47,082	$ 11,702	25 %

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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 $63.3 million at September 30, 2019 and could be placed on nonaccrual status if their credit quality declines further.

Net interest income for the three months ended September 30, 2019 was $56.2 million, a decrease of $3.5 million, or 6%, compared to the same period in 2018. For the nine months ended September 30, 2019, net interest income was $172.0 million, a decrease of $2.6 million, or 1%, compared to the same period in 2018. The decreases for the three and nine months were primarily driven by higher funding costs, partially offset by higher asset yields and higher loan volumes. The NIM was 2.72% for the three months ended September 30, 2019, a decrease of eighteen basis points compared to the same period in 2018. For the nine months ended September 30, 2019, the NIM was 2.80%, a decrease of eight basis points compared to the same period in 2018. The decrease in NIM for the three and nine month periods ended September 30, 2019 is also primarily driven by higher funding costs, partially offset by higher asset yields and higher loan volumes.

Previously, the Company reported NIM on both a GAAP basis and on a fully taxable equivalent ("FTE") basis to enhance comparability. Currently, the FTE adjustment for interest income on non-taxable investments and loans is immaterial due to the decline in the federal tax rate in 2018 and the recent increases in interest expense. Therefore, FTE has not been applied, and for comparison purposes GAAP amounts are shown for all periods presented.

The following tables present the composition of the Company’s NIM for the three and nine months ended September 30, 2019 and 2018.

AVERAGE BALANCE SHEET:	Average Balance 2019	Average Balance 2018	Interest Income/Expense 2019	Interest Income/Expense 2018	Average Yield/Rate (1) 2019	Average Yield/Rate (1) 2018
	As of and for the three months ended September 30,					
AVERAGE ASSETS	(In thousands)					
Interest-earning assets:						
Cash and investments: (2)						
Taxable investment securities	**$ 198,655**	$ 324,583	**$ 938**	$ 1,510	**1.95%**	1.86%
Non-taxable investment securities	**305,108**	297,710	**1,924**	1,779	**2.52%**	2.39%
Mortgage-backed securities	**492,514**	552,820	**2,622**	2,941	**2.13%**	2.13%
Short-term investments and other	**101,958**	204,814	**1,084**	1,617	**4.06%**	3.11%
Total cash and investments	**1,098,235**	1,379,927	**6,568**	7,847	**2.39%**	2.27%
Loans: (3)						
Commercial and industrial	**1,101,672**	998,817	**11,523**	9,894	**4.09%**	3.88%
Commercial real estate	**2,518,048**	2,475,143	**29,118**	29,482	**4.52%**	4.66%
Construction and land	**195,843**	179,248	**2,410**	2,193	**4.82%**	4.79%
Residential	**3,016,265**	2,836,593	**25,567**	23,907	**3.39%**	3.37%
Home equity	**89,068**	94,050	**1,121**	1,089	**4.99%**	4.59%
Other consumer	**127,987**	163,224	**1,297**	1,689	**4.02%**	4.11%
Total loans	**7,048,883**	6,747,075	**71,036**	68,254	**3.98%**	3.99%
Total earning assets	**8,147,118**	8,127,002	**77,604**	76,101	**3.76%**	3.70%
LESS: Allowance for loan losses	**75,199**	73,861				
Cash and due from banks (non-interest bearing)	**49,065**	46,056				
Other assets	**544,368**	392,757				
TOTAL AVERAGE ASSETS	**$ 8,665,352**	$ 8,491,954				
AVERAGE LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Savings and NOW	**$ 615,730**	$ 693,419	**$ 275**	$ 301	**0.18%**	0.17%
Money market	**3,378,006**	3,244,628	**11,523**	8,110	**1.35%**	0.99%
Certificates of deposit	**711,299**	730,117	**3,689**	3,076	**2.06%**	1.67%
Total interest-bearing deposits	**4,705,035**	4,668,164	**15,487**	11,487	**1.31%**	0.98%
Junior subordinated debentures	**106,363**	106,363	**1,022**	1,028	**3.76%**	3.78%
FHLB borrowings and other	**833,535**	768,015	**4,942**	3,945	**2.32%**	2.01%
Total interest-bearing liabilities	**5,644,933**	5,542,542	**21,451**	16,460	**1.50%**	1.17%
Non-interest bearing demand deposits	**1,953,214**	2,063,642				
Payables and other liabilities	**258,371**	135,508				
Total average liabilities	**7,856,518**	7,741,692				
Redeemable noncontrolling interests	**944**	13,074				
Average shareholders' equity	**807,890**	737,188				
TOTAL AVERAGE LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND SHAREHOLDERS' EQUITY	**$ 8,665,352**	$ 8,491,954				
Net interest income			**$ 56,153**	$ 59,641		
Interest rate spread					**2.26%**	2.53%
Net interest margin					**2.72%**	2.90%

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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.

	Average Balance		Interest Income/Expense		Average Yield/Rate (1	
	As of and for the nine months ended September 30,					
AVERAGE BALANCE SHEET:	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
AVERAGE ASSETS	(In thousands)					
Interest-earning assets:						
Cash and investments: (2)						
Taxable investment securities	**$ 223,072**	$ 328,054	**$ 3,244**	$ 4,521	**1.94%**	1.84
Non-taxable investment securities	**305,422**	297,509	**5,726**	5,261	**2.50%**	2.36
Mortgage-backed securities	**507,338**	570,578	**8,225**	9,168	**2.16%**	2.14
Short-term investments and other	**104,225**	174,736	**3,049**	3,831	**3.78%**	2.91
Total cash and investments	**1,140,057**	1,370,877	**20,244**	22,781	**2.36%**	2.21
Loans: (3)						
Commercial and industrial	**1,088,027**	969,063	**33,673**	27,554	**4.08%**	3.75
Commercial real estate	**2,474,804**	2,464,788	**87,222**	83,020	**4.65%**	4.44
Construction and land	**203,211**	171,825	**7,610**	6,142	**4.94%**	4.71
Residential	**2,999,480**	2,771,875	**76,847**	68,263	**3.42%**	3.28
Home equity	**90,361**	95,217	**3,388**	3,172	**5.01%**	4.45
Other consumer	**128,879**	176,086	**4,172**	5,080	**4.33%**	3.86
Total loans	**6,984,762**	6,648,854	**212,912**	193,231	**4.04%**	3.85
Total earning assets	**8,124,819**	8,019,731	**233,156**	216,012	**3.80%**	3.57
LESS: Allowance for loan losses	**74,863**	73,894				
Cash and due from banks (non-interest bearing)	**46,906**	47,859				
Other assets	**516,642**	404,375				
TOTAL AVERAGE ASSETS	**$ 8,613,504**	$ 8,398,071				
AVERAGE LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Savings and NOW	**$ 658,154**	$ 709,751	**$ 847**	$ 820	**0.17%**	0.15
Money market	**3,317,117**	3,139,107	**32,072**	17,967	**1.29%**	0.77
Certificates of deposit	**746,453**	691,670	**11,141**	7,589	**2.00%**	1.47
Total interest-bearing deposits	**4,721,724**	4,540,528	**44,060**	26,376	**1.25%**	0.78
Junior subordinated debentures	**106,363**	106,363	**3,223**	2,882	**4.05%**	3.62
FHLB borrowings and other	**801,519**	889,178	**13,922**	12,185	**2.29%**	1.81
Total interest-bearing liabilities	**5,629,606**	5,536,069	**61,205**	41,443	**1.45%**	1.00
Non-interest bearing demand deposits	**1,949,948**	1,948,573				
Payables and other liabilities	**243,370**	130,410				
Total average liabilities	**7,822,924**	7,615,052				
Redeemable noncontrolling interests	**1,642**	16,294				
Average shareholders' equity	**788,938**	766,725				
TOTAL AVERAGE LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND SHAREHOLDERS' EQUITY	**$ 8,613,504**	$ 8,398,071				
Net interest income			**$ 171,951**	$ 174,569		
Interest rate spread					**2.35%**	2.57
Net interest margin					**2.80%**	2.88

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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, 2019 was $77.6 million, an increase of $1.5 million, or 2%, compared to the same period in 2018. Interest and dividend income for the nine months ended September 30, 2019 was $233.2 million, an increase of $17.1 million, or 8%, compared to the same period in 2018. The increase for the three months is primarily driven by higher volumes on loans, partially offset by lower yields on loans and lower investment security volumes. The increase for the nine months is primarily driven by higher yields and volumes on loans, partially offset by lower investment security volumes.

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 for the three months ended September 30, 2019 was $11.5 million, an increase of $1.6 million, or 16%, compared to the same period in 2018, as a result of a 10% increase in the average balance and a 21 basis point increase in the average yield. For the nine months ended September 30, 2019, commercial and industrial interest income was $33.7 million, an increase of $6.1 million, or 22%, compared to the same period in 2018, as a result of a 12% increase in the average balance and a 33 basis point increase in the average yield. The increases in the average balance for the three and nine month periods are related primarily to growth in the New England region. The increases in the average yield for the three and nine month periods are the result of higher yields on recent loan originations and the timing of changes in interest rates, specifically changes to the interest rate benchmarks to which the variable rate loans are tied.

Interest income on commercial real estate loans for the three months ended September 30, 2019 was $29.1 million, a decrease of $0.4 million, or 1%, compared to the same period in 2018, as a result of a 14 basis point decrease in the average yield partially offset by a 2% increase in the average balance. For the nine months ended September 30, 2019, commercial real estate interest income was $87.2 million, an increase of $4.2 million, or 5%, compared to the same period in 2018, as a result of a 21 basis point increase in the average yield and the average balance remaining flat. The increases in the average yield for the three and nine month periods are primarily driven by the higher yields on recent loan originations and timing of changes in interest rates, specifically changes to the interest rate benchmarks to which the variable rate loans are tied. The increase in the average balance for the three month period is primarily driven by increases in the New England and San Francisco Bay Area regions.

Interest income on construction and land loans for the three months ended September 30, 2019 was $2.4 million, an increase of $0.2 million, or 10%, compared to the same period in 2018, as a result of a 9% increase in the average balance and a 3 basis point increase in the average yield. For the nine months ended September 30, 2019, construction and land interest income was $7.6 million, an increase of $1.5 million, or 24%, compared to the same period in 2018, as a result of an 18% increase in the average balance and a 23 basis point increase in the average yield. 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 draw- or pay-down 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 increases in the average balance for the three and nine month periods are driven primarily by increased utilization of existing loans in all regions in which the Bank operates. The increase in the average yield for the three and nine months is primarily driven by the timing of changes to the interest rate benchmarks to which the variable rate loans are tied.

Interest income on residential mortgage loans for the three months ended September 30, 2019 was $25.6 million, an increase of $1.7 million, or 7%, from the same period in 2018, as a result of a 6% increase in the average balance and a 2 basis point increase in the average yield. For the nine months ended September 30, 2019, residential mortgage interest income was $76.8 million, an increase of $8.6 million, or 13%, compared to the same period in 2018, as a result of an 8% increase in the average balance and a 14 basis point increase in the average yield. The increases in the average balance for the three and nine month periods are related to the organic growth of the residential loan portfolio across all regions in which the Bank operates, partially offset by the sale of $92.4 million of residential mortgage loans in the New England region. The increases in the average yield for the three and nine month periods are related to higher yields on residential mortgage originations.

Interest income on home equity loans for the three months ended September 30, 2019 was $1.1 million, an increase of 3% compared to the same period in 2018, as a result of a 40 basis point increase in the average yield, partially offset by a 5% decrease in the average balance. For the nine months ended September 30, 2019, home equity interest income was $3.4 million, an increase of 7% compared to the same period in 2018, as a result of a 56 basis point increase in the average yield, partially offset by a 5% decrease in the average balance. The increases in the average yield for the three and nine month periods are the result of the timing of changes to benchmark interest rates, while the decreases in the average balance for the three and nine month periods are primarily driven by reduced demand.

Interest income on other consumer loans for the three months ended September 30, 2019 was $1.3 million, a decrease of $0.4 million, or 23%, compared to the same period in 2018, as a result of a 22% decrease in the average balance, and a 9 basis point decrease in the average yield. For the nine months ended September 30, 2019, other consumer interest income was $4.2 million, a decrease of $0.9 million, or 18%, compared to the same period in 2018, as a result of a 27% decrease in the average balance, partially offset by a 47 basis point increase in the average yield. The decreases in the average balance for the three and nine month periods are primarily driven by strategic decisions to run off non-core balances, while the changes in the average yield for the three and nine month periods are the result of the timing of changes in interest rate benchmarks to which loans are tied.

Investment income for the three months ended September 30, 2019 was $6.6 million, a decrease of $1.3 million, or 16%, from the same period in 2018, as a result of a 20% decrease in the average balance, partially offset by a 12 basis point increase in the average yield. For the nine months ended September 30, 2019, investment income was $20.2 million, a decrease of $2.5 million, or 11%, compared to the same period in 2018, as a result of a 17% decrease in the average balance, partially offset by a 15 basis point increase in the average yield. The decreases in the average balance for the three and nine month periods are primarily due to the proceeds from maturing investment securities being utilized to pay down higher cost borrowings and to fund loan generation. The increases in the average yield for the three and nine month periods are primarily due to recent purchases made at higher interest rates.

Interest expense. Total interest expense for the three months ended September 30, 2019 was $21.5 million, an increase of $5.0 million, or 30%, compared to the same period in 2018. For the nine months ended September 30, 2019, total interest expense was $61.2 million, an increase of $19.8 million, or 48%, compared to the same period in 2018. The increases for the three and nine month periods are primarily driven by the impact of higher interest rates on interest-bearing deposits and borrowings, and increases in the volume of interest-bearing deposits and borrowings.

Interest expense on interest-bearing deposits for the three months ended September 30, 2019 was $15.5 million, an increase of $4.0 million, or 35%, compared to the same period in 2018, as a result of a 1% increase in the average balance and a 33 basis point increase in the average rate. For the nine months ended September 30, 2019, interest expense on interest-bearing deposits was $44.1 million, an increase of $17.7 million, or 67%, compared to the same period in 2018, as a result of a 47 basis point increase in the average rate paid and a 4% increase in the average balance. The increases for the three and nine month periods in the average rate paid on deposits are driven primarily by increases in the rates paid for certificates of deposit and money market demand accounts due to market competition. The increases for the three and nine month periods in the average balance for interest-bearing deposits are primarily driven by an increase in savings, and money market balances in the New England region.

Interest paid on non-deposit interest-bearing liabilities for the three months ended September 30, 2019 was $6.0 million, an increase of $1.0 million, or 20%, compared to the same period in 2018, as a result of a 31 basis point increase in the average rate paid on FHLB borrowings and other borrowings and a 9% increase in the average balance of FHLB borrowings and other borrowings, partially offset by a 2 basis point decrease in the average rate on junior subordinated debentures. For the nine months ended September 30, 2019, interest paid on non-deposit interest-bearing liabilities was $17.1 million, an increase of $2.1 million, or 14%, compared to the same period in 2018, as a result of a 48 basis point increase in the average rate paid on FHLB borrowings and other borrowings, and a 43 basis point increase in the average rate paid on junior subordinated debentures, partially offset by a 10% decrease in the average balance of FHLB borrowings and other borrowings. The increases for the three and nine month periods in the average rate paid on non-deposit interest-bearing liabilities are primarily driven by the timing of changes to benchmark interest rates to which the instruments are tied. The increase for the three month period and the decrease for the nine month period in the average balance for non-deposit interest-bearing liabilities are primarily driven by changes in FHLB borrowings, which are used to fund loan growth based on current deposit levels.

Provision/ (credit) for loan losses. The Company recorded a provision for loan losses of $0.2 million for the three months ended September 30, 2019, compared to a credit to the provision for loan losses of $0.9 million for the same period in 2018. For the nine months ended September 30, 2019, the Company recorded a provision for loan losses of $0.1 million, compared to a credit to the provision for loan losses of $2.3 million for the same period in 2018. The provision for loan losses in the third quarter of 2019 was primarily driven by required reserves for criticized and classified loans, and the mix of loans in the portfolio, partially offset by improved loss rates.

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 Bank incorporates both quantitative and qualitative loss factors to determine the appropriate level of the allowance for loan losses. Quantitative loss factors are based on historical net charge-offs by loan portfolio. Qualitative factors are estimated by management and include trends in problem loans, economic and business conditions, strength of management, real estate collateral values, and underwriting standards. For further details, see “Loan Portfolio and Credit Quality” below.

Fees and other income

	Three months ended September 30,		$		Nine months ended September 30,		$	%
	2019	2018	Change	% Change	2019	2018	Change	Change
				(In thousands)				
Wealth management and trust fees	**$ 19,067**	$ 25,505	$ (6,438)	(25)%	**$ 57,037**	$ 76,030	$ (18,993)	(25)%
Investment management fees	**2,496**	3,245	(749)	(23)%	**7,601**	18,897	(11,296)	(60)%
Other banking fee income	**2,658**	2,775	(117)	(4)%	**8,024**	7,793	231	3 %
Gain on sale of loans, net	**934**	67	867	nm	**1,065**	204	861	nm
Total core fees and income	**25,155**	31,592	(6,437)	(20)%	**73,727**	102,924	(29,197)	(28)%
Total other income	**(29)**	722	(751)	nm	**1,027**	1,228	(201)	(16)%
Total fees and other income	**$ 25,126**	$ 32,314	$ (7,188)	(22)%	**$ 74,754**	$ 104,152	$ (29,398)	(28)%

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nm = not meaningful

Total fees and other income for the three months ended September 30, 2019 decreased $7.2 million, or 22%, compared to the same period in 2018. Total fees and other income for the nine months ended September 30, 2019 decreased $29.4 million, or 28%, compared to the same period in 2018. The decreases for the three and nine month periods in total fees and other income are primarily driven by the decreases in wealth management and trust fees and investment management fees as a result of the divestiture of BOS in the fourth quarter of 2018, and the divestiture of Anchor in the second quarter of 2018.

- Total AUM managed or advised by the Company was $16.2 billion at September 30, 2019, a decrease of $6.2 billion, or 28%, compared to September 30, 2018. The decrease was primarily driven by the divestiture of BOS in the fourth quarter of 2018. Excluding AUM at BOS as of September 30, 2018, AUM decreased $1.5 billion, or 8%, compared to September 30, 2018 driven by net outflows of $1.5 billion for the twelve months ended September 30, 2019.

- Other banking fee income for the three months ended September 30, 2019 decreased $0.1 million, or 4%, compared to the same period in 2018. Other banking fee income for the nine months ended September 30, 2019 increased $0.2 million, or 3%, compared to the same period in 2018. The decrease for the three month period is primarily driven by lower foreign exchange fee income. The increase for the nine month period is primarily driven by swap fee income reflecting changes in client demand for loan swap agreements.

- Gain on sale of loans, net for the three and nine months ended September 30, 2019 includes a $0.8 million gain on the sale of $92.4 million of residential mortgage loans from the New England region in the third quarter of 2019.

Operating Expense

	Three months ended September 30, 2019	Three months ended September 30, 2018	$ Change	% Change	Nine months ended September 30, 2019	Nine months ended September 30, 2018	$ Change	% Change
	(In thousands)							
Salaries and employee benefits	**$ 31,684**	$ 38,944	$ (7,260)	(19)%	**$ 100,116**	$ 125,461	$ (25,345)	(20)%
Occupancy and equipment	**8,260**	8,164	96	1 %	**24,460**	24,141	319	1 %
Information systems	**5,169**	6,233	(1,064)	(17)%	**16,166**	18,889	(2,723)	(14)%
Professional services	**4,435**	2,877	1,558	54 %	**11,308**	8,926	2,382	27 %
Marketing and business development	**1,403**	1,710	(307)	(18)%	**4,422**	5,373	(951)	(18)%
Amortization of intangibles	**671**	750	(79)	(11)%	**2,015**	2,249	(234)	(10)%
FDIC insurance	**59**	674	(615)	(91)%	**1,304**	2,126	(822)	(39)%
Restructuring	**—**	5,763	(5,763)	(100)%	**1,646**	5,763	(4,117)	(71)%
Other	**3,856**	3,442	414	12 %	**10,312**	10,870	(558)	(5)%
Total operating expense	**$ 55,537**	**$ 68,557**	$ (13,020)	(19)%	**$ 171,749**	$ 203,798	$ (32,049)	(16)%

Total operating expense for the three months ended September 30, 2019 decreased $13.0 million, or 19%, compared to the same period in 2018 and total operating expense for the nine months ended September 30, 2019 decreased $32.0 million, or 16%, compared to the same period in 2018. The decrease for the three month period was primarily due to the $5.8 million restructuring expense in the third quarter of 2018 and the divestiture of BOS. The decrease for the nine month period was primarily due to the divestitures of Anchor and BOS, a $1.6 million restructuring expense in the first quarter of 2019 compared to a $5.8 million restructuring expense in the third quarter of 2018, as well as the impact of efficiency initiatives.

- Salaries and employee benefits expense decreased for the three and nine months ended September 30, 2019 compared to the same periods of 2018. The decrease for the three month period was primarily due to the divestiture of BOS and lower variable compensation. The decrease for the nine month period was primarily due to the divestitures of Anchor and BOS, as well as lower variable compensation. The Company also realized further cost savings as a result of a previously announced efficiency program.

- Restructuring expense decreased for the three and nine months ended September 30, 2019, compared to the same periods in 2018, as the Company incurred a restructuring charge of $1.6 million due to severance of executives in the first quarter of 2019, which is less than the $5.8 million of restructuring charges in the third quarter of 2018. There were no restructuring charges in the third quarter of 2019.

- Information systems expense for the three and nine months ended September 30, 2019 decreased compared to the same periods in 2018. The decrease for the three month period was primarily due to the divestiture of BOS and realized savings from telecommunication services and data processing contract renegotiations. The decrease for the nine month period was primarily due to the divestitures of Anchor and BOS, as well as realized savings from telecommunication services and data processing contract renegotiations.

- Marketing and business development expense for the three and nine months ended September 30, 2019 decreased compared to the same periods in 2018. The decrease for the three month period was primarily due to the divestiture of BOS and a decrease in business development expenses. The decrease for the nine month period was primarily due to the divestitures of Anchor and BOS, as well as a decrease in business development expenses.

- Professional services expense for the three and nine months ended September 30, 2019 increased compared to the same periods in 2018, primarily due to information technology consulting costs and recruiting expense, partially offset by the divestitures of Anchor and BOS for the periods owned.

Income Tax Expense. Income tax expense for continuing operations for the nine months ended September 30, 2019 was $15.8 million. The effective tax rate for continuing operations for the nine months ended September 30, 2019 was 21.1%, compared to an effective tax rate of 37.4% for the same period of 2018. 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, 2019		December 31, 2018		Increase/ (decrease)	% Change
				(In thousands)			
Assets:							
Total cash and investments	**$**	**1,134,463**	$	1,255,253	$	(120,790)	(10)%
Loans held for sale		**6,658**		2,812		3,846	nm
Total loans		**7,067,151**		6,893,158		173,993	3 %
Less: Allowance for loan losses		**75,359**		75,312		47	— %
Net loans		**6,991,792**		6,817,846		173,946	3 %
Goodwill and intangible assets, net		**68,229**		69,834		(1,605)	(2)%
Right-of-use assets		**107,045**		—		107,045	nm
Total other assets		**382,757**		348,880		33,877	10 %
Total assets	**$**	**8,690,944**	$	8,494,625	$	196,319	2 %
Liabilities and Equity:							
Deposits	**$**	**6,658,242**	$	6,781,170	$	(122,928)	(2)%
Total borrowings		**956,127**		813,435		142,692	18 %
Lease liabilities		**122,799**		—		122,799	nm
Total other liabilities		**143,607**		143,540		67	— %
Total liabilities		**7,880,775**		7,738,145		142,630	2 %
Redeemable noncontrolling interests (“RNCI”)		**1,481**		2,526		(1,045)	(41)%
Total shareholders’ equity		**808,688**		753,954		54,734	7 %
Total liabilities, RNCI and shareholders’ equity	**$**	**8,690,944**	$	8,494,625	$	196,319	2 %

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nm = not meaningful

Total assets. Total assets increased $196.3 million, or 2%, to $8.7 billion at September 30, 2019 from $8.5 billion at December 31, 2018, primarily driven by an increase in total loans and right-of-use assets, partially offset by a decrease in total cash and investments.

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 FHLB and Federal Reserve Bank) decreased $120.8 million, or 10%, from December 31, 2018. The decrease on a point-in-time basis was primarily driven by a decrease of $77.6 million in investment securities available-for-sale and held-to-maturity, and a decrease of $49.2 million in cash and cash equivalents, partially offset by an increase of $7.6 million in equity securities at fair value. The Company utilized cash and proceeds from maturing investment securities to fund loan growth. Total cash and investments represent 13% of total assets at September 30, 2019 and 15% of total assets at December 31, 2018.

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), provided $102.2 million of cash proceeds during the nine months ended September 30, 2019, compared to $73.5 million in the same period in 2018. The Company used these cash proceeds primarily to fund loan growth. 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 $16.5 million of unrealized gains and $3.1 million of unrealized losses at September 30, 2019, compared to $2.4 million of unrealized gains and $27.1 million of unrealized losses at December 31, 2018.

No impairment losses were recognized through earnings related to investment securities during the nine months ended September 30, 2019 and 2018. The Company does not consider these investments other-than-temporarily 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, 2019 and December 31, 2018, the Company held $51.4 million and $70.4 million, respectively, of held-to-maturity securities at amortized cost. All of the held-to-maturity securities held at September 30, 2019 were mortgage-backed securities guaranteed by the U.S. government, U.S. government agencies, or government-sponsored entities.

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, 2019 increased $3.8 million, compared to the balance at December 31, 2018. 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, 2019 decreased $1.6 million, or 2%, compared to the balance at December 31, 2018, primarily due to amortization of intangible assets, partially offset by the addition of mortgage servicing rights from the sale, with servicing rights retained, of $92.4 million of residential mortgage loans in the third quarter of 2019. There was no change to goodwill during the nine months ended September 30, 2019.

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

Management performed its annual goodwill and indefinite-lived intangible asset impairment testing during the fourth quarter of 2018. 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 during the fourth quarter of 2019.

Right-of-use assets. Total ROU assets at September 30, 2019 increased $107.0 million compared to the balance at December 31, 2018. Upon adoption of the new lease accounting standard, ASU 2016-02, the Company recognized $108.5 million of ROU assets 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 assets. Total other assets, as presented in the table above, consists of the following line items from the consolidated balance sheet: OREO, if any; premises and equipment, net; fees receivable; accrued interest receivable; deferred income taxes, net; and other assets. Total other assets at September 30, 2019 increased $33.9 million, or 10%, compared to the balance at December 31, 2018. These changes resulted from the following factors:

- Other assets, which consist primarily of BOLI, investment in partnerships, prepaid expenses, the fair value of interest rate derivatives, and other receivables increased $47.6 million, or 19%, to $294.5 million at September 30, 2019 from $247.0 million at December 31, 2018. The increase was primarily driven by an increase in the market value adjustment on derivative assets.

- Deferred income taxes, net, decreased $10.9 million, or 41%, to $15.7 million at September 30, 2019 from $26.6 million at December 31, 2018. The decrease was primarily due to the tax effect of unrealized gains on securities available-for-sale at September 30, 2019 compared to the tax effect of unrealized losses on securities available-for-sale at December 31, 2018.

- Premises and equipment, net, decreased $2.8 million, or 6%, to $42.7 million at September 30, 2019 from $45.4 million at December 31, 2018. The decrease is related to the timing of new purchases, primarily related to the Company's information technology initiatives, as well as leasehold improvements.

Deposits. Deposits at September 30, 2019 decreased $122.9 million, or 2%, compared to the balance at December 31, 2018. Average total deposits for the three months ended September 30, 2019 decreased 1% from the same period in 2018 as shown in the average balance sheet. 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, 2019 and December 31, 2018:

	September 30, 2019		December 31, 2018	
	Balance	**as a % of total**	**Balance**	**as a % of total**
		(In thousands)		
Demand deposits (non-interest bearing)	**$ 1,947,363**	**29%**	$ 1,951,274	29%
NOW (1)	**598,048**	**9%**	626,686	9%
Savings	**68,059**	**1%**	73,834	1%
Money market (1)	**3,366,623**	**51%**	3,338,891	49%
Certificates of deposit less than $100,000 (1)	**155,267**	**2%**	265,883	4%
Certificates of deposit $100,000 to $250,000	**102,138**	**2%**	98,120	2%
Certificates of deposit more than $250,000	**420,744**	**6%**	426,482	6%
Total deposits	**$ 6,658,242**	**100%**	$ 6,781,170	100%

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(1) Includes brokered deposits of $355.4 million and $541.1 million at September 30, 2019 and December 31, 2018, respectively.

Total borrowings. Total borrowings (consisting of securities sold under agreements to repurchase, federal funds purchased, FHLB borrowings, and junior subordinated debentures) at September 30, 2019 increased $142.7 million, or 18%, compared to the balance at December 31, 2018, primarily driven by an increase in FHLB borrowings, partially offset by a decrease in federal funds purchased. As described below, total borrowings increased primarily to fund loans as deposit balances decreased during the same period.

- FHLB borrowings increased $150.8 million, or 36%, to $570.9 million at September 30, 2019 from $420.1 million at December 31, 2018. The increase was primarily due to asset liability management considerations to reduce the outstanding balance of brokered deposits and overnight federal funds purchased with term FHLB 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 increased $11.9 million, or 32%, to $48.9 million at September 30, 2019 from $36.9 million at December 31, 2018. Repurchase agreements are generally linked to commercial demand deposit accounts with an overnight sweep feature.

- From time to time, the Bank purchases federal funds from the FHLB and other banking institutions to supplement its liquidity position. At September 30, 2019, the Company had $230.0 million federal funds purchased outstanding compared to $250.0 million at December 31, 2018.

Lease liabilities. Lease liabilities at September 30, 2019 increased $122.8 million compared to the balance at December 31, 2018. Upon adoption of the new 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, deferred rent, and other accrued expenses, at September 30, 2019 increased $0.1 million, compared to the balance at December 31, 2018. The increase was primarily driven by an increase in the market value adjustment on derivative liabilities, partially offset by deferred rent and landlord allowance balances at December 31, 2018 that were moved to right-of-use assets when ASU 2016-12 was adopted on January 1, 2019, and the payment of accrued variable compensation, bonuses, and employee benefits in the first quarter of 2019 that had been accrued for at December 31, 2018.

Loan Portfolio and Credit Quality

Loans. Total loans increased $174.0 million, or 3%, to $7.1 billion, or 81% of total assets, as of September 30, 2019, from $6.9 billion, or 81% of total assets, as of December 31, 2018. 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, 2019	December 31, 2018	$ Change	% Change
		(In thousands)		
Commercial and industrial	**$ 695,029**	$ 623,037	$ 71,992	12 %
Commercial tax-exempt	**448,488**	451,671	(3,183)	(1)%
Total commercial and industrial	**1,143,517**	1,074,708	68,809	6 %
Commercial real estate	**2,533,346**	2,395,692	137,654	6 %
Construction and land	**209,741**	240,306	(30,565)	(13)%
Residential	**2,964,042**	2,948,973	15,069	1 %
Home equity	**84,432**	90,421	(5,989)	(7)%
Consumer and other	**132,073**	143,058	(10,985)	(8)%
Total loans	**$ 7,067,151**	$ 6,893,158	$ 173,993	3 %

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

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

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

	September 30, 2019	December 31, 2018
	(In thousands)	
Multifamily and residential investment	$ 901,163	$ 687,395
Retail	622,431	635,222
Office and medical	493,886	543,697
Manufacturing, industrial, and warehouse	208,428	193,472
Hospitality	136,119	187,132
Other	171,319	148,774
Total commercial real estate loans	$ 2,533,346	$ 2,395,692

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, 2019							
	New England		San Francisco Bay Area		Southern California		Total	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(In thousands)							
Commercial and industrial	$ 558,686	8%	$ 49,075	1%	$ 87,268	1%	$ 695,029	10%
Commercial tax-exempt	340,610	5%	96,846	1%	11,032	—%	448,488	6%
Commercial real estate	1,030,865	14%	785,156	12%	717,325	10%	2,533,346	36%
Construction and land	146,799	2%	27,958	—%	34,984	1%	209,741	3%
Residential	1,628,082	23%	569,920	8%	766,040	11%	2,964,042	42%
Home equity	56,732	1%	18,068	—%	9,632	—%	84,432	1%
Consumer and other	106,916	2%	12,546	—%	12,611	—%	132,073	2%
Total loans (1)	$ 3,868,690	55%	$ 1,559,569	22%	$ 1,638,892	23%	$ 7,067,151	100%

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

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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 $75.4 million and $75.3 million as of September 30, 2019 and December 31, 2018, respectively.

The allowance for loan losses increased $0.1 million to $75.4 million, or 1.07% of total loans, as of September 30, 2019 from $75.3 million, or 1.09% of total loans, as of December 31, 2018. The increase in the overall allowance for loan losses was primarily due to loan growth and the related mix in the loan portfolio, partially offset by net changes to loss factors and a decline in criticized loans. 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.

An analysis of the risk in the loan portfolio as well as management judgment is used to determine the estimated appropriate amount of the allowance for loan losses. The Company's allowance for loan losses is comprised of three primary components (general reserves, allocated reserves on non-impaired special mention and substandard loans, and allocated reserves on impaired loans). See Part II. Item 8. "Notes to Unaudited Consolidated Financial Statements - Note 6: Allowance for Loan Losses" and the Company's Annual Report on Form 10-K for the year ended December 31, 2018 for further information.

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,	
	2019	**2018**	**2019**	**2018**
	(In thousands)			
Net loans (charged-off)/ recovered:				
New England	**$ 275**	$ 232	**$ 528**	$ (126)
San Francisco Bay Area	**6**	706	**44**	864
Southern California	**(156)**	47	**(629)**	311
Total net loans (charged-off)/ recovered	**$ 125**	$ 985	**$ (57)**	$ 1,049

There were $0.1 million in net recoveries recorded in the third quarter of 2019 compared to $1.0 million of net recoveries for the same period of 2018.

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, 2019, nonperforming assets totaled $17.6 million, or 0.20% of total assets, an increase of $3.1 million, or 21%, compared to $14.5 million, or 0.17% of total assets, as of December 31, 2018.

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 $17.6 million of loans on nonaccrual status as of September 30, 2019, $10.2 million, or 58%, had a current payment status, $0.5 million, or 3%, were 30-89 days past due, and $6.9 million, or 39%, were 90 days or more past due. Of the $14.1 million of loans on nonaccrual status as of December 31, 2018, $3.6 million, or 26%, had a current payment status, $0.8 million, or 5%, were 30-89 days past due, and $9.7 million, or 69%, were 90 days or more past due.

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 $18.1 million, or 81%, to $4.2 million as of September 30, 2019 from $22.3 million as of December 31, 2018. Loan delinquencies can be attributed to many factors, such as continuing weakness in, or deteriorating, economic conditions in the region in which the collateral is located, the loss of a tenant or lower lease rates for commercial borrowers, or the loss of income for consumers and the resulting liquidity impacts on the borrowers. Further deterioration in the credit condition of these delinquent loans could lead to the loans going to nonaccrual status and/or being downgraded. Downgrades would generally result in additional provision for loan losses. Past due loans may be included with accruing substandard loans.

In certain instances, although very infrequently, loans that have become 90 days or more past due may remain on accrual status if the value of the collateral securing the loan is sufficient to cover principal and interest and the loan is in the process of collection. There were no loans 90 days or more past due, but still accruing, as of September 30, 2019 and December 31, 2018.

Impaired Loans. Impaired loans individually evaluated for impairment in the allowance for loan losses totaled $20.5 million as of September 30, 2019, an increase of $4.9 million, or 31%, compared to $15.6 million as of December 31,

2018. As of September 30, 2019, $2.9 million of the individually evaluated impaired loans had $1.1 million in specific reserve allocations. The remaining $17.6 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, 2018, $4.2 million of individually evaluated impaired loans had $1.2 million in specific reserve allocations, and the remaining $11.4 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, 2019 and December 31, 2018, TDRs totaled $9.5 million and $8.0 million, respectively. As of September 30, 2019, $6.9 million of the $9.5 million in TDRs were on accrual status. As of December 31, 2018, $3.8 million of the $8.0 million in TDRs were on accrual status.

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

As of September 30, 2019, the Bank has identified $63.3 million in potential problem loans, an increase of $9.2 million, or 17% compared to $54.1 million as of December 31, 2018. 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 rollforward of nonaccrual loans for the three and nine months ended September 30, 2019 and 2018:

	As of and for the three months ended September 30,		As of and for the nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
	(In thousands)			
Nonaccrual loans, beginning of period	**$ 17,155**	$ 15,651	**$ 14,057**	$ 14,295
Transfers in to nonaccrual status	**2,830**	3,901	**9,088**	8,819
Transfers out to OREO	**—**	—	**—**	(108)
Transfers out to accrual status	**(642)**	(2,122)	**(846)**	(3,914)
Charge-offs	**(185)**	—	**(944)**	(514)
Paid off/ paid down	**(1,593)**	(5,333)	**(3,790)**	(6,481)
Nonaccrual loans, end of period	**$ 17,565**	$ 12,097	**$ 17,565**	$ 12,097

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

	September 30, 2019	December 31, 2018
	(In thousands)	
Nonaccrual loans:		
New England	**$ 8,999**	$ 6,728
San Francisco Bay Area	**2,395**	2,488
Southern California	**6,171**	4,841
Total nonaccrual loans	**$ 17,565**	$ 14,057
Loans 30-89 days past due and accruing:		
New England	**$ 1,404**	$ 15,961
San Francisco Bay Area	**15**	2,246
Southern California	**2,760**	4,092
Total loans 30-89 days past due	**$ 4,179**	$ 22,299
Accruing classified loans: (1)		
New England	**$ 21,830**	$ 10,392
San Francisco Bay Area	**23,938**	24,584
Southern California	**17,510**	19,119
Total accruing classified loans	**$ 63,278**	$ 54,095

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(1) Accruing Classified includes 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, 2019	December 31, 2018
	(In thousands)	
Nonaccrual loans:		
Commercial and industrial	**$ 800**	$ 2,554
Commercial tax-exempt	**—**	—
Commercial real estate	**—**	546
Construction and land	**—**	—
Residential	**14,219**	7,914
Home equity	**2,545**	3,031
Consumer and other	**1**	12
Total nonaccrual loans	**$ 17,565**	$ 14,057
Loans 30-89 days past due and accruing:		
Commercial and industrial	**$ 3,048**	$ 9,794
Commercial tax-exempt	**—**	—
Commercial real estate	**497**	—
Construction and land	**—**	—
Residential	**266**	6,843
Home equity	**353**	602
Consumer and other	**15**	5,060
Total loans 30-89 days past due	**$ 4,179**	$ 22,299
Accruing classified loans: (1)		
Commercial and industrial	**$ 25,133**	$ 22,992
Commercial tax-exempt	**4,052**	4,051
Commercial real estate	**30,814**	27,052
Construction and land	**—**	—
Residential	**3,000**	—
Home equity	**279**	—
Consumer and other	**—**	—
Total accruing classified loans	**$ 63,278**	$ 54,095

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(1) Accruing Classified includes 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, 2019	December 31, 2018	$ Change	% Change
		(In thousands)		
Cash and cash equivalents	**$ 78,010**	$ 127,259	$ (49,249)	(39)%
Investment securities available-for-sale	**935,538**	994,065	(58,527)	(6)%
Equity securities at fair value	**21,780**	14,228	7,552	53 %
LESS: Securities pledged against current borrowings and derivatives	**(96,055)**	(44,022)	(52,033)	nm
Cash and investments	**$ 939,273**	$ 1,091,530	$ (152,257)	(14)%
As a percent of assets	**11%**	13%		
Access to additional FHLB borrowings	**1,222,142**	1,405,083	(182,941)	(13)%
Total liquidity	**$ 2,161,415**	$ 2,496,613	$ (335,198)	(13)%
As a percent of assets	**25%**	29%		
As a percent of deposits	**32%**	37%		

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nm = not meaningful

At September 30, 2019, the Company’s cash and cash equivalents amounted to $78.0 million. The Holding Company’s cash and cash equivalents amounted to $41.2 million at September 30, 2019. Management believes that the Holding Company and its affiliates, including the Bank, have adequate liquidity to meet their commitments for the foreseeable future.

Management is responsible for establishing and monitoring liquidity targets as well as strategies to meet these targets. At September 30, 2019, 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 $0.9 billion, or 11% of total assets, compared to $1.1 billion, or 13% of total assets, at December 31, 2018. Future loan growth may depend upon the Company’s ability to grow its core deposit levels. In addition, the Company has access to available borrowings through the FHLB totaling $1.2 billion at September 30, 2019 and $1.4 billion at December 31, 2018. Combined, this liquidity totals $2.2 billion, or 25% of assets and 32% of deposits, as of September 30, 2019, compared to $2.5 billion, or 29% of assets and 37% of deposits, at December 31, 2018.

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 the Company’s majority-owned affiliate, DGHM, hold put and call options that would require the Company to purchase (and the noncontrolling interest owners of the majority-owned affiliate to sell) the remaining noncontrolling interest in DGHM at either a contractually predetermined fair value, a multiple of EBITDA, or fair value, as determined by the agreement. At September 30, 2019, the estimated maximum redemption value for DGHM related to outstanding put options was $1.5 million, all of which could be redeemed within the next 12 months, under certain circumstances, and is classified on the consolidated balance sheets as redeemable noncontrolling interests. These put and call options are discussed in detail in Part II. Item 8. “Financial Statements and Supplementary Data - Note 14: Noncontrolling Interests” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

Although not a primary source of funds, the Holding Company has generated liquidity from the sale of affiliates in the past. Additional funds were generated at the time of the Anchor sale which closed in April 2018 and the BOS sale which closed in December 2018. As part of the sale agreements for both Anchor and BOS, the Company expects to receive future contingent payments that have estimated present values of $12.5 million and $12.6 million at September 30, 2019, 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, 2018 for further details.

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

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 2019 for the interest payments is approximately $1.0 million based on the debt outstanding at September 30, 2019. 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 plans to pay cash dividends on its common stock on a quarterly basis dependent upon a number of factors such as profitability, Holding Company liquidity, and the Company's capital levels. However, the ultimate declaration of dividends by the Board of Directors of the Company will depend on consideration of, among other things, recent financial trends and internal forecasts, regulatory limitations, alternative uses of capital deployment, general economic conditions, and regulatory changes to capital requirements. Additionally, the Company is required to inform and consult with the Federal Reserve in advance of declaring a dividend that exceeds earnings for the period for which the dividend is being paid. Based on the current quarterly dividend rate of $0.12 per share, as announced by the Company on October 24, 2019, and estimated shares outstanding, the Company estimates that the amount to be paid out for dividends to common shareholders in the remaining three months of 2019 will be approximately $10.0 million. The estimated dividend payments in 2019 could increase or decrease if the Company's Board of Directors votes to increase or decrease, respectively, the current dividend rate, and/or the number of shares outstanding changes significantly.

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

In addition to the above liquidity, the Bank has access to the FRB discount window facility, which can provide short-term liquidity as "lender of last resort". 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, 2019, the Bank had unused federal fund lines of credit totaling $380.0 million, compared to $465.0 million at December 31, 2018, with correspondent institutions to provide it with immediate access to overnight borrowings. At September 30, 2019, the Bank had $150.0 million outstanding borrowings under the federal funds lines with these correspondent institutions along with an additional $80.0 million of outstanding borrowings under federal funds lines with the FHLB. At December 31, 2018, the Bank had $100.0 million outstanding borrowings under the federal funds lines with these correspondent institutions along with an additional $150.0 million of outstanding borrowings under federal funds lines with the FHLB. Certain liquidity sources, such as federal funds lines, may be withdrawn by the correspondent bank at any time especially in the event of financial deterioration of the institution.

The Bank has negotiated brokered deposit agreements with several institutions that have nationwide distribution capabilities. The Bank participates in deposit placement services that can be used to provide customers to expanded deposit insurance coverage. At September 30, 2019, the Bank had $355.4 million of brokered deposits outstanding under these agreements, compared to $541.1 million at December 31, 2018.

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

Capital Resources

Total shareholders' equity at September 30, 2019 was $808.7 million compared to $754.0 million at December 31, 2018, an increase of $54.7 million. The increase in shareholders' equity was primarily the result of net income attributable to the Company and the change in accumulated other comprehensive income, partially offset by dividends paid to common shareholders and the repurchase of common shares.

The Company and the Bank are subject to capital rules issued by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Under these rules, 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 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, 2019 and December 31, 2018. Also presented are the minimum requirements established by the Federal Reserve and the FDIC as of those dates for the Company and the Bank, respectively, to meet applicable capital requirements and the requirements of the FDIC as of those dates for the Bank to be considered "well capitalized" under all regulatory definitions. 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)				
As of September 30, 2019							
Common equity tier 1 risk-based capital							
Company	**$ 732,980**	**11.22%**	**$ 294,025**	**4.5%**	**n/a**	**n/a**	**7.0%**
Boston Private Bank	**775,161**	**11.91**	**292,785**	**4.5**	**$ 422,912**	**6.5%**	**7.0**
Tier 1 risk-based capital							
Company	**833,431**	**12.76**	**392,033**	**6.0**	**n/a**	**n/a**	**8.5**
Boston Private Bank	**775,161**	**11.91**	**390,380**	**6.0**	**520,507**	**8.0**	**8.5**
Total risk-based capital							
Company	**910,076**	**13.93**	**522,711**	**8.0**	**n/a**	**n/a**	**10.5**
Boston Private Bank	**851,660**	**13.09**	**520,507**	**8.0**	**650,634**	**10.0**	**10.5**
Tier 1 leverage capital							
Company	**833,431**	**9.70**	**343,534**	**4.0**	**n/a**	**n/a**	**4.0**
Boston Private Bank	**775,161**	**9.10**	**340,674**	**4.0**	**425,843**	**5.0**	**4.0**
As of December 31, 2018							
Common equity tier 1 risk-based capital							
Company	$ 702,728	11.40%	$ 277,275	4.5%	n/a	n/a	7.0%
Boston Private Bank	745,051	12.13	276,352	4.5	$ 399,175	6.5%	7.0
Tier 1 risk-based capital							
Company	803,311	13.04	369,701	6.0	n/a	n/a	8.5
Boston Private Bank	745,051	12.13	368,469	6.0	491,292	8.0	8.5
Total risk-based capital							
Company	879,927	14.28	492,934	8.0	n/a	n/a	10.5
Boston Private Bank	821,584	13.38	491,292	8.0	614,115	10.0	10.5
Tier 1 leverage capital							
Company	803,311	9.54	336,648	4.0	n/a	n/a	4.0
Boston Private Bank	745,051	8.92	334,029	4.0	417,537	5.0	4.0

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(1) Required capital ratios with the fully phased-in capital conservation buffer added to the minimum risk-based capital ratios. The fully phased-in ratios are effective for 2019.

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, 2019 and December 31, 2018, 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 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, 2018.

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, 2019 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 the disclosure controls and procedures, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that the Company’s 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, 2019, 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

Before deciding to invest in us or deciding to maintain or increase your investment, you should carefully consider the risks described in Part I. Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2018 as filed with the SEC. There have been no material changes to these risk factors since the filing of that report.

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

The following table summarizes repurchases of the Company's outstanding common shares in the third quarter of 2019.

	Issuer Purchases of Equity Securities			
Period	**(a) Total number of shares purchased**	**(b) Average price paid per share**	**(c) Total number of shares purchased as part of publicly announced plans**	**(d) Maximum approximate dollar value of shares that may yet be purchased under the plans**
July 1 - 31, 2019	—	$ —	—	$ 20,000,000
August 1 - 31, 2019	499,910	10.58	499,910	14,710,315
September 1 - 30, 2019	178,255	10.68	678,165	12,807,043
Total	678,165	$ 10.61	678,165	$ 12,807,043

On August 13, 2019, the Company received a notice of non-objection from the Federal Reserve Bank of Boston for a share repurchase program of up to $20.0 million of the Company's outstanding common shares. Under the program, shares may be repurchased from time to time in the open market or in privately negotiated transactions in amounts and at prices the Company deems appropriate, subject to market conditions and other considerations, for a one-year period. The program does not obligate the Company to purchase any shares. The repurchases will be funded from cash on hand, available borrowings or proceeds from potential debt or other capital markets sources. The share repurchase program may be suspended or discontinued at any time without prior notice. The Company's Board of Directors approved the program, subject to regulatory non-objection, on August 7, 2019.

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	Boston Private Financial Holdings, Inc. 2001 Employee Stock Purchase Plan (As Amended and Restated as of July 24, 2019)				Filed
14.1	Code of Business Conduct and Ethics				Filed
21.1	List of Subsidiaries of Boston Private Financial Holdings, Inc.				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	XBRL Instance Document - 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	XBRL Taxonomy Extension Schema Document				Filed
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				Filed
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				Filed
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				Filed
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				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.

	/s/ ANTHONY DECHELLIS
November 4, 2019	**Anthony DeChellis**
	Chief Executive Officer, President and Director ***(Principal Executive Officer)***
	/s/ STEVEN M. GAVEN
November 4, 2019	**Steven M. Gaven**
	Executive Vice President, Chief Financial Officer

(Back To Top)

Section 2: EX-10.1 (EXHIBIT 10.1)

Exhibit 10.1

BOSTON PRIVATE FINANCIAL HOLDINGS, INC.
2001 EMPLOYEE STOCK PURCHASE PLAN
(As Amended and Restated as of July 24, 2019)

The purpose of the Boston Private Financial Holdings, Inc. 2001 Employee Stock Purchase Plan, as amended and restated herein (the “Plan”), is to provide eligible employees of Boston Private Financial Holdings, Inc. (“the Company”) and certain of its subsidiaries with opportunities to purchase shares of the Company’s common stock, par value $1.00 per share (the “Common Stock”). Two million seven hundred thousand (2,700,000) shares of Common Stock in the aggregate have been approved and reserved for this purpose. The Plan is intended to constitute an “employee stock purchase plan” within the meaning of Section 423(b) of the Internal Revenue Code of 1986, as amended (the “Code”), and shall be interpreted in accordance with that intent.

1. *Administration.* The Plan will be administered by the person or persons (the “Administrator”) appointed by the Company’s Board of Directors (the “Board”) for such purpose. The Administrator has authority at any time to: (i) prescribe, adopt, alter and repeal such rules, guidelines and practices for the administration of the Plan and for its own acts and proceedings as it shall deem advisable; (ii) interpret the terms and provisions of the Plan; (iii) make all determinations it deems advisable for the administration of the Plan; (iv) decide all disputes arising in connection with the Plan; and (v) otherwise supervise the administration of the Plan. All interpretations and decisions of the Administrator shall be final and conclusive. No member of the Board or individual exercising administrative authority with respect to the Plan shall be liable for any action or determination made in good faith with respect to the Plan or any option granted hereunder.

2. *Offerings.* The Company will make one or more offerings to eligible employees to purchase Common Stock under the Plan (“Offerings”). Unless otherwise determined by the Administrator, the next Offering will begin on the first business day on or after January 1, 2020 and will end on the last business day on or before June 30, 2020. Thereafter, unless otherwise determined by the Administrator, an Offering will begin on the first business day occurring on or after each January 1 and July 1 and will end on the last business day occurring on or before the following June 30 and December 31, respectively. The Administrator may, in its discretion, designate a different period for any Offering, provided that no Offering shall exceed six months in duration or overlap any other Offering.

3. *Eligibility.* All employees of the Company (including employees who are also directors of the Company) and all employees of each Designated Subsidiary (as defined in Section 11) are eligible to participate in any one or more of the Offerings under the Plan, provided that as of the first day of the applicable Offering (the “Offering Date”) they are customarily employed by the Company or a Designated Subsidiary for more than 20 hours a week.

4. *Participation.* An employee eligible on any Offering Date may participate in such Offering by submitting an enrollment form to the Company in such manner prescribed by the Administrator at least 15 business days before the relevant Offering Date (or by such other deadline as shall be established by the Administrator for the Offering). The form will (a) state a whole percentage to be deducted from the employee’s Compensation (as defined in Section 11) per pay period, (b) authorize the purchase of Common Stock for the employee in each Offering in accordance with the terms of the Plan and

(c) specify the exact name or names in which shares of Common Stock purchased for the employee are to be issued pursuant to Section 10. An employee who does not enroll in accordance with these procedures will be deemed to have waived the employee's right to participate. Unless an employee files a new enrollment form or withdraws from the Plan, the employee's deductions and purchases will continue at the same percentage of Compensation for future Offerings, provided the employee remains eligible. Notwithstanding the foregoing, participation in the Plan will neither be permitted nor be denied contrary to the requirements of the Code.

5. *Employee Contributions*. Each eligible employee may authorize payroll deductions at a minimum of one percent (1%) up to a maximum of fifteen percent (15%) of the employee's Compensation for each pay period. The Company will maintain book accounts showing the amount of payroll deductions made by each participating employee for each Offering. No interest will accrue or be paid on payroll deductions.

6. *Deduction Changes*. Except as may be determined by the Administrator in advance of an Offering, an employee may not increase or decrease the employee's payroll deduction during any Offering, but may increase or decrease the employee's payroll deduction with respect to the next Offering (subject to the limitations of Section 5) by filing a new enrollment form at least 15 business days before the next Offering Date (or by such other deadline as shall be established by the

Administrator for the relevant Offering). The Administrator may, in advance of any Offering, establish rules permitting an employee to increase, decrease or terminate the employee's payroll deduction during an Offering.

7. *Withdrawal.* An employee may withdraw from participation in the Plan by delivering a written notice of withdrawal to the Company. The employee's withdrawal will be effective as of the next business day. Following an employee's withdrawal, the Company will promptly refund to the employee his or her entire account balance under the Plan (after payment for any Common Stock purchased before the effective date of withdrawal). Partial withdrawals are not permitted. The employee may not begin participation again during the remainder of the Offering, but may enroll in a subsequent Offering in accordance with Section 4.

8. *Grant of Options.* On each Offering Date, the Company will grant to each eligible employee who is then a participant in the Plan an option ("Option") to purchase on the last day of such Offering (the "Exercise Date"), at the Option Price hereinafter provided for, a number of shares of Common Stock equal to the lesser of (a) a number of shares of Common Stock determined by dividing such employee's accumulated payroll deductions on such Exercise Date by the lower of (i) 85% of the Fair Market Value of the Common Stock on the Offering Date, or (ii) 85% of the Fair Market Value of the Common Stock on the Exercise Date, or (b) 10,000 shares of Common Stock (or such other maximum number of shares as shall have been established by the Administrator in advance of the Offering); provided, however, that such Option shall be subject to the limitations set forth below. Each employee's Option shall be exercisable only to the extent of such employee's accumulated payroll deductions on the Exercise Date. The purchase price for each share purchased under each Option (the "Option Price") will be 85% of the Fair Market Value of the Common Stock on the Offering Date or the Exercise Date, whichever is less.

Notwithstanding the foregoing, no employee may be granted an option hereunder if such employee, immediately after the option was granted, would be treated as owning stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or any Parent or Subsidiary (as defined in Section 11). For purposes of the preceding sentence, the attribution rules of Section 424(d) of the Code shall apply in determining the stock ownership of an employee, and all stock which the employee has a contractual right to purchase shall be treated as stock owned by the employee. In addition, no employee may be granted an Option which permits the employee's rights to purchase stock under the Plan, and any other employee stock purchase plan of the Company and its Parents and Subsidiaries, to accrue at a rate which exceeds $25,000 of the fair market value of such stock (determined on the option grant date or dates) for each calendar year in which the Option is outstanding at any time. The purpose of the limitation in the preceding sentence is to comply with Section 423(b)(8) of the Code and shall be applied taking Options into account in the order in which they were granted.

9. *Exercise of Option and Purchase of Shares; Holding Period for the Shares.* Each employee who continues to be a participant in the Plan on the Exercise Date shall be deemed to have exercised the employee's Option on such date and shall acquire from the Company such number of shares of Common Stock reserved for the purpose of the Plan as the employee's accumulated payroll deductions on such date will purchase at the Option Price, subject to any other limitations contained in the Plan. Any amount remaining in an employee's account at the end of an Offering will be refunded to the employee promptly.

Unless otherwise determined by the Administrator in the case of an employee's hardship, employees are required to hold shares of Common Stock acquired under the Plan after January 1, 2020 for the one-year period after the Exercise Date of such shares (the "Holding Period"). During the Holding Period, an employee may not sell or transfer shares of Common Stock acquired under the Plan without the prior written consent of the Administrator. The Holding Period shall continue to be applicable even if the employee's employment with the Company or a Designated Subsidiary terminates, unless such termination is due to the employee's death or disability, as determined by the Administrator.

10. *Issuance of Certificates.* In accordance with any rules established by the Administrator, certificates or registration in book entry form or electronic delivery to the Depository Trust Company representing shares of Common Stock purchased under the Plan may be issued only in the name of the employee, or at the discretion of the Administrator, in the name of the employee and another person of legal age as joint tenants with rights of survivorship, or in the name of a broker or nominee authorized by the employee to be the employee's, or their, nominee for such purpose.

11. *Definitions.* The term "Compensation means" the amount of base pay, prior to salary reduction pursuant to Sections 125, 132(f) or 401(k) of the Code, but excluding overtime, incentive or bonus awards, allowances and reimbursements for expenses such as relocation allowances or travel expenses, income or gains on the exercise of Company stock options, and similar items. The term "Compensation" also includes commissions.

The term “Designated Subsidiary” means any present or future Subsidiary (as defined below) that has been designated by the Board to participate in the Plan. The Board may so designate any Subsidiary, or revoke any such designation, at any time and from time to time, either before or after the Plan is approved by the stockholders.

The term “Fair Market Value of the Common Stock” on any given date means the fair market value of the Common Stock determined in good faith by the Administrator; provided, however, that if the Common Stock is admitted to quotation on the National Association of Securities Dealers Automated Quotation System (“NASDAQ”), NASDAQ National System or another national securities exchange, the determination shall be made by reference to market quotations. If there are no market quotations for such date, the determination shall be made by reference to the last date preceding such date for which there are market quotations.

The term “Parent” means a “parent corporation” with respect to the Company, as defined in Section 424(e) of the Code.

The term “Subsidiary” means a “subsidiary corporation” with respect to the Company, as defined in Section 424(f) of the Code.

12. *Rights on Termination of Employment.* If a participating employee’s employment terminates for any reason before the Exercise Date for any Offering, no payroll deduction will be taken from any pay due and owing to the employee and the balance in the employee’s account will be paid to the employee or, in the case of the employee’s death, to the employee’s designated beneficiary as if the employee had withdrawn from the Plan under Section 7. An employee will be deemed to have terminated employment, for this purpose, if the corporation that employs the employee, having been a Designated Subsidiary, ceases to be a Subsidiary, or if the employee is transferred to any corporation other than the Company or a Designated Subsidiary. An employee will not be deemed to have terminated employment, for this purpose, if the employee is on an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee’s right to reemployment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Administrator otherwise provides in writing.

13. *Special Rules.* Notwithstanding anything herein to the contrary, the Administrator may adopt special rules applicable to the employees of a particular Designated Subsidiary, whenever the Administrator determines that such rules are necessary or appropriate for the implementation of the Plan in a jurisdiction where such Designated Subsidiary has employees; provided that such rules are consistent with the requirements of Section 423(b) of the Code. Such special rules may include (by way of example, but not by way of limitation) the establishment of a method for employees of a given Designated Subsidiary to fund the purchase of shares other than by payroll deduction, if the payroll deduction method is prohibited by local law or is otherwise impracticable. Any special rules established pursuant to this Section 13 shall, to the extent possible, result in the employees subject to such rules having substantially the same rights as other participants in the Plan.

14. *Optionees Not Stockholders.* Neither the granting of an Option to an employee nor the deductions from the employee’s pay shall constitute such employee a holder of the shares of Common Stock covered by an Option under the Plan until such shares have been purchased by and issued to the employee.

15. *Rights Not Transferable.* Rights under the Plan are not transferable by a participating employee other than by will or the laws of descent and distribution, and are exercisable during the employee’s lifetime only by the employee. Any Option shall, unless determined by the Administrator, lapse forthwith if a participating employee purports to sell, assign, transfer, encumber or otherwise dispose of any Option, except in accordance with the express terms of the Plan or as may otherwise be permitted by the Administrator in its sole discretion.

16. *Application of Funds.* All funds received or held by the Company under the Plan may be combined with other corporate funds and may be used for any corporate purpose.

17. *Adjustment in Case of Changes Affecting Common Stock.* In the event of a subdivision of outstanding shares of Common Stock, or the payment of a dividend in Common Stock, the number of shares approved for the Plan, and the share limitation set forth in Section 8, shall be increased proportionately, and such other adjustment shall be made as may be deemed equitable by the Administrator. In the event of any other change affecting the Common Stock, such adjustment shall be made as may be deemed equitable by the Administrator to give proper effect to such event.

18. *Amendment of the Plan.* The Board may at any time, and from time to time, amend the Plan in any respect, except that without the approval, within 12 months of such Board action, by the stockholders, no amendment shall be made

increasing the number of shares approved for the Plan or making any other change that would require stockholder approval in order for the Plan, as amended, to qualify as an "employee stock purchase plan" under Section 423(b) of the Code.

19. *Insufficient Shares.* If the total number of shares of Common Stock that would otherwise be purchased on any Exercise Date plus the number of shares purchased under previous Offerings under the Plan exceeds the maximum number of shares issuable under the Plan, the shares then available shall be apportioned among participants in proportion to the amount of payroll deductions accumulated on behalf of each participant that would otherwise be used to purchase Common Stock on such Exercise Date. If shares of Common Stock covered by an Option result in a number of shares of Common Stock that may be issued under the Plan being exceeded, such Option shall be void with respect to such excess shares of Common Stock and the Company shall have no liability therefor.

20. *Termination of the Plan.* The Plan may be terminated at any time by the Board. Upon termination of the Plan, all amounts in the accounts of participating employees shall be promptly refunded.

21. *Governmental Regulations.* The Company's obligation to sell and deliver Common Stock under the Plan is subject to obtaining all governmental approvals required in connection with the authorization, issuance, or sale of such stock.

The Plan shall be governed by Massachusetts law except to the extent that such law is preempted by federal law.

22. *Issuance of Shares.* Shares may be issued upon exercise of an Option from authorized but unissued Common Stock, from shares held in the treasury of the Company, or from any other proper source.

23. *Tax Withholding.* Participation in the Plan is subject to any minimum required tax withholding on income of the participant in connection with the Plan. Each employee agrees, by entering the Plan, that the Company and its Subsidiaries shall have the right to deduct any such taxes from any payment of any kind otherwise due to the employee, including shares issuable under the Plan.

24. *Notification Upon Sale of Shares.* Each employee agrees, by entering the Plan, to give the Company prompt notice of any disposition of shares purchased under the Plan where such disposition occurs within two years after the date of grant of the Option pursuant to which such shares were purchased.

25. *Employment and Other Rights.* Neither the Plan nor any Option shall confer upon any participating employee any right with respect to continuing the Participant's employment relationship with the Company or any Designated Subsidiary, nor shall they interfere in any way with the participating employee's right or the right of the Company or any Designated Subsidiary to terminate such employment relationship at any time, with or without cause. The Plan shall not form part of any contract of employment between the Company or any Designated Subsidiary and any employee. Subject to Section 12, it shall be a condition of the Plan that, in the event of the termination of a participating employee's status as an employee (for whatever reason), the employee shall not be entitled to any remuneration whatsoever by reason of any alteration or termination, thereon, of the employee's rights or expectations under the Plan.

26. *Brokerage Account.* At the Company's election, the delivery of any shares of Common Stock to be issued under the Plan may occur through a transfer agent or brokerage account established for this purpose and the Company may require as a condition to participation in the Plan that each grantee establish an account with a brokerage firm selected by the Company.

27. *Trading Policy Restrictions.* Option exercises under the Plan shall be subject to the Company's insider trading policies and procedures, as in effect from time to time.

28. *Effective Date and Approval of Stockholders.* This amended and restated Plan shall take effect on the date it is adopted by the Board.

(Back To Top)

Section 3: EX-14.1 (EXHIBIT 14.1 CODE OF BUSINESS CONDUCT AND ETHICS)

Exhibit 14.1

CODE OF BUSINESS CONDUCT AND ETHICS
Approved by Audit and Finance Committee on January 29, 2019
Approved by Board of Directors on January 30, 2019

I. **Introduction**

Boston Private Financial Holdings, Inc. (together with its subsidiaries, the “Company”) strives to conduct its business in an ethical manner and in compliance with applicable laws, rules and regulations.

This Code of Business Conduct and Ethics (the “Code”) governs the business decisions made and actions taken by the Company’s directors, officers and employees. The standards of conduct in this Code provide general guidance for resolving a variety of legal and ethical questions for employees, officers and directors. However, while the specific provisions of this Code attempt to describe certain foreseeable circumstances and to state the employee’s, officer’s and director’s obligations in such event, it is impossible to anticipate all possibilities. Therefore, in addition to compliance with the Code and applicable laws, rules and regulations, all Company employees, officers and directors are expected to observe the highest standards of business and personal ethics in the discharge of their assigned duties and responsibilities.

The integrity, reputation and profitability of the Company ultimately depend upon the individual actions of the Company’s employees, officers and directors. As a result, each such individual is personally responsible and accountable for compliance with this Code. ***All references in the Code to “employees” should be understood to include all employees, officers and directors of the Company (including its subsidiaries), unless the context requires otherwise.***

Finally, this Code is in addition to any other Company policies and/or agreements and is not intended to reduce or limit other obligations that you may have to the Company. In particular, policies that support this Code and relate specifically to matters described herein include, but are not limited to, the following policies:

- Insider Trading and Disclosure Policy;
- Reporting Unethical Behavior and Financial and Accounting Concerns (“Whistleblower Policy”); and
- Internal Investigations Policy and Procedures

II. Standards of Conduct

A. Conflicts of Interest

The Company recognizes and respects the right of its employees to engage in outside activities that they may deem proper and desirable, provided that employees fulfill their obligations to act in the best interests of the Company and to avoid situations that present a potential or actual conflict between their personal interests and the Company’s interests.

A “conflict of interest” occurs when an employee’s personal interest interferes with the interests of the Company. Conflicts of interest may arise in many situations. They can arise when an employee takes an action or has an outside interest, responsibility or obligation that may make it difficult for him or her to perform the responsibilities of his or her position objectively and/or effectively in the best interests of the Company. They may also occur whenever an employee or his or her family member receives some improper personal benefit as a result of the employee’s position in the Company. Each individual’s situation is different and in evaluating his or her own situation, an employee will have to consider many factors.

If there are any questions as to whether or not a specific act or situation presents, or appears to present, a conflict of interest, an employee should consult the General Counsel. Any material transaction or relationship that reasonably could be expected to give rise to a conflict of interest should be reported promptly to the General Counsel, who shall notify the Audit and Finance Committee as he or she deems appropriate. Conflicts of interest involving the General Counsel should be disclosed directly to the Chairman of the Audit and Finance Committee.

B. Compliance with Laws, Rules and Regulations

The Company is committed to conducting its business in compliance with both the letter and the spirit of applicable laws, rules and regulations. No employee shall engage in any unlawful activity, or instruct others to do so.
As an employee conducts the Company's business, he or she may encounter a variety of legal issues. If employees have questions on specific laws, rules or regulations they should contact the Legal Department.

C. Fair Dealing

Employees must endeavor to deal fairly with the Company's customers, suppliers, competitors and other employees in all business dealings on behalf of the Company. No employee should take unfair advantage of another person through manipulation, concealment, improper benefit, abuse of privileged or confidential information, misrepresentation of material facts, or any other unfair dealing practice.
Whenever the ethical or legal requirements of a situation are unclear, employees should contact their supervisor (if applicable) or the General Counsel.

D. Protection and Proper Use of Company Assets; Corporate Opportunities

Employees are required to protect the Company's assets entrusted to them and to protect the Company's assets in general. Employees shall also take steps to ensure that Company assets are used only for legitimate business purposes consistent with the Company's guidelines. Loss, theft and misuse of Company assets have a direct impact on the Company's profitability.

Each employee is further prohibited from (i) diverting to himself or herself or to others any opportunities that are discovered through the use of Company property or information or as a result of his or her position with the Company unless such opportunity has first been presented to, and expressly rejected by, the Company, (ii) using Company property or information or his or her position for personal gain, or (iii) competing with the Company. Employees owe a duty to the Company to advance its legitimate interests when the opportunity to do so arises.

Any questions concerning the protection and proper use of Company assets or regarding corporate opportunity matters should be directed to the General Counsel.

E. Confidentiality

Confidential information generated and gathered in the Company's business plays a vital role in the Company's business, prospects and ability to compete. "Confidential Information" includes all non-public information that might be of use to competitors or harmful to the Company or its customers if disclosed. "Confidential Information" includes without limitation "Customer Information," which means any and all information (i) that a customer provides to the Company to obtain a financial product or service, (ii) about a customer resulting from any transaction between the Company and a customer involving a financial product or service, (iii) otherwise obtained about a customer of the Company in connection with providing a financial product or service to that customer, or (iv) contained in any list, description, or other grouping of customers of the Company. Customer Information includes specifically, without limitation, (a) information a customer provides to the Company on an application to obtain a loan, deposit account, credit card, or other financial product or service; (b) account balance information, payment history, overdraft history, or credit or debit card purchase information; (c) the fact that an individual is or has been a customer of the Company or has obtained a financial product or service from the Company; (d) information that the Company or one of its agents or service providers receives about a customer in connection with collecting on a loan or servicing a loan; (e) information about a customer that the Company collects through an Internet "cookie" or similar collecting device from a web server; or (f) information contained in a consumer report.

Employees are required not to disclose or distribute such Confidential Information, except when disclosure is expressly authorized by the Company or required by applicable law, rule or regulation or by an applicable legal proceeding. Confidential Information and Customer Information are the property of the Company and not of employees, and employees shall use such information solely for legitimate Company purposes. Employees will not, without the express consent of the Company, download, burn to compact disc, copy, reproduce, or in any other way appropriate Confidential Information or Customer Information available to them through their access to confidential, proprietary or other private systems of the Company. Upon leaving the Company, employees have a continuing obligation and responsibility to the Company to observe and protect the Company's Confidential Information including, but not limited to, all Customer Information, and must delete and purge any duplicates of files or documents that may contain such information from any computer or other device that remains in their property after their separation from the Company. Employees must also return to the

Company all Confidential Information of the Company in their possession and shall not use or disclose any Confidential Information at any time without the express written consent of the Company.

If an employee has any questions concerning whether information in his or her possession is confidential, or whether disclosure or other use of information is permissible, he or she should consult the General Counsel.

F. Accuracy of Records; Quality of Public Disclosures

The Company is committed to maintaining the integrity, accuracy and reliability of the Company's books, records and financial statements. No transaction may be entered into with the intent to document or record it in a deceptive manner, and no false or artificial documentation or book entry is to be made for any transaction. Similarly, all funds, assets, liabilities and transactions must be accurately recorded in the appropriate books and records of the Company.

The Company is committed to providing its shareholders, employees and other interested public and private groups with complete and accurate information about the Company's financial condition and results of operations in accordance with the securities laws of the United States. The Company strives to ensure that the reports and documents it files with or submits to the Securities and Exchange Commission, and other public communications made by Company, include fair, timely and understandable disclosure. The Company's senior management shall be primarily responsible for monitoring the Company's public disclosure.

III. **Compliance Procedures**

A. Administration of Code

The Board of Directors of the Company (the "Board") shall be responsible for the content of the Code and for periodically reviewing the Code. The Audit and Finance Committee of the Board shall be responsible for proposing any changes to the Code that are deemed necessary or appropriate. The Audit and Finance Committee shall also review the Company's performance in implementing and monitoring compliance with the Code on a periodic basis. The Code will be administered by the Company's management, the General Counsel or his or her designee who may perform various ongoing administrative functions in connection with the Code, including responding to questions about the Code and circulating or otherwise communicating updates to the Code. In the event a designee is appointed, employees, officers and directors will be informed of his or her appointment and will be provided information regarding how to contact the designee.

B. Communication of Policies

A copy of the Code shall be supplied to all employees, officers and directors upon commencement of their association with the Company and shall be acknowledged by all employees on an annual basis. Updates will be provided upon any change to the Code. A copy of the Code is also available to all employees by requesting one from the Human Capital Resources department or by accessing the Company's website at www.bostonprivate.com in the Investor Relations section under Corporate Governance.

C. Monitoring Compliance and Disciplinary Action

The Company's management shall take reasonable steps from time to time to (i) monitor and audit compliance with the Code, including the establishment of monitoring and auditing systems that are reasonably designed to investigate and detect conduct in violation of the Code and (ii) when appropriate, impose and enforce appropriate disciplinary measures for violations of the Code. The disciplinary measures may include, but are not limited to, counseling, oral or written reprimands, warnings, probation or suspension with or without pay, demotions, reductions in salary, termination of employment or service to the Company, and restitution.

The Company's management shall periodically report to the Audit and Finance Committee on these compliance efforts including, without limitation, regular reporting of alleged violations of the Code and the actions taken with respect to any such violation. The Audit and Finance Committee shall in turn report to the Board on a regular basis regarding the Company's compliance efforts.

D. Reporting Concerns/Receiving Advice

(1) Reporting Illegal or Unethical Behavior

Every employee is required to act proactively by asking questions, seeking guidance and reporting suspected violations with respect to compliance with the Code, other policies and procedures of the Company, or any applicable government law, rule or regulation. **If any employee believes that actions have taken place, may be taking place, or may be**

about to take place that violate or would violate the Code, he or she is obligated to bring the matter to the attention of the Company. The best starting point for an employee seeking advice on ethics-related issues or reporting potential violations is with his or her supervisor. If the employee has reported the conduct in question to his or her supervisor and does not believe that he or she has dealt with it properly, or if the employee does not feel that he or she can discuss the matter with his or her supervisor, the employee should raise the matter with the General Counsel.

Employees should direct any concerns or questions about violations with respect to accounting, internal accounting controls or auditing matters, directly to the Chairman of the Audit and Finance Committee and to the General Counsel.

(2) Procedures for Submitting Concerns

The Company has established an anonymous employee "hotline" (the "Reporting Line") for receipt of questions and reports of potential employee violations of the Code. Any employee may communicate with the General Counsel by any of the following methods:

- In writing (which may be done anonymously), addressed to the General Counsel, either by facsimile to (617) 912-4551, by email to ccooper@bostonprivate.com, or by U.S. mail to: Christopher A. Cooper, Acting General Counsel, Boston Private Financial Holdings, Inc., Ten Post Office Square, Boston, Massachusetts 02109, CONFIDENTIAL.

- By filing an anonymous report online or via telephone. The information provided will be sent to the Chair of the Company's Audit and Finance Committee and the Company's General Counsel's Office by a third party vendor, EthicsPoint, on a totally confidential and anonymous basis. The report made will not accessible through EthicsPoint by any other member of management of the Company, or of any of its subsidiaries.

    - Online: https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=23693 or www.ethicspoint.com

    - Telephone: Reporting Line at (877) 243-3144.

Employees must not use this compliance program in bad faith, or in a false or frivolous manner. Further, employees should not use the Reporting Line to report grievances not involving the Code, accounting or financial concerns or other ethics-related issues.

(3) Confidentiality; Anonymous Reporting

When reporting conduct suspected of violating the Code, the Company prefers that employees identify themselves in order to facilitate the Company's ability to take appropriate steps to address the report, including conducting any appropriate investigation.

- If an employee wishes to remain anonymous, he or she may do so, and the Company will use reasonable efforts to protect the confidentiality of the reporting person subject to applicable law, rule or regulation or to any applicable legal proceedings. In the event the report is made anonymously, however, the Company may not have sufficient information to look into or otherwise investigate or evaluate the allegations. Accordingly, persons who make reports anonymously should endeavor to provide as much detail as is reasonably necessary to permit the Company to evaluate the matter(s) set forth in the anonymous report and, if appropriate, commence and conduct an appropriate investigation.

(4) Policy Against Retaliation

The Company expressly forbids any retaliation against any employee who, acting in good faith, reports suspected misconduct. Any person who participates in any such retaliation is subject to disciplinary action, up to and including termination.

E. Investigating Violations

In accordance with the Company's Internal Investigations Policy, the Company's General Counsel shall develop and maintain a standard procedure for documenting all allegations received, evaluating and investigating the allegation and documenting the conclusions of that process. The Audit and Finance Committee shall receive quarterly, or more frequently as the General Counsel deems appropriate, a list of all such alleged violations and the outcome of the inquiry or investigation thereof and shall have access to all reports prepared regarding alleged violations of the Code.

F. Waivers and Amendments

From time to time, the Company may waive some provisions of this Code. Any employee who believes that a waiver is appropriate should contact the General Counsel or a member of the Audit and Finance Committee. Any waiver of the Code for executive officers or directors of the Company may only be made by an affirmative vote of a majority of the Board or, if permitted, by a committee thereof, and will be disclosed promptly to shareholders as may be required by applicable United States securities laws and/or the rules of NASDAQ. Any waivers of the Code for other employees may only be made by the Company's Legal Department. All amendments to the Code must be recommended by the Audit and Finance Committee for approval by the Board.

(Back To Top)

Section 4: EX-21.1 (EXHIBIT 21.1 LIST OF SUBSIDIARIES)

Exhibit 21.1

LIST OF SUBSIDIARIES OF

BOSTON PRIVATE FINANCIAL HOLDINGS, INC.

As of September 30, 2019

Subsidiaries of the Company	**State or Other Jurisdiction of Incorporation**
Boston Private Capital, Inc.	MA
Boston Private Bank & Trust Company	MA
Boston Private Wealth LLC	MA
BPB-IMT & Co., LLP	MA
BPB Securities Corporation	MA
BPB Securities Corporation II	MA
Lerob LLC	CA
Ten Winthrop Properties, Inc.	MA
Boston Private Capital Trust I	DE
Boston Private Capital Trust II	DE
Dalton, Greiner, Hartman & Maher & Co. LLC	DE
DGHM Management LLC	DE
DGHM Enhanced Value LP	DE
DGHM Enhanced Value LTD	Grand Cayman Island
DGHM Partners LLC	DE
DGHM Ultra Value Partners LP	DE

(Back To Top)

Section 5: 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

Chief Executive Officer, President and Director

Date: November 4, 2019

(Back To Top)

Section 6: 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

Date: November 4, 2019

Executive Vice President, Chief Financial Officer

(Back To Top)

Section 7: 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, 2019 (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

Date: November 4, 2019

Chief Executive Officer, President and Director

* 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 8: 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, 2019 (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 4, 2019

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)