BOSTON PRIVATE FINANCIAL HOLDINGS INC
Form 10-Q
November 09, 2005

As filed with the Securities and Exchange Commission on November 9, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2005

Or

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

For the transition period from to .

Commission File Number: 0-17089

BOSTON PRIVATE FINANCIAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code: **(888) 666-1363**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15 of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ý No o

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

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, 2005:

Common Stock-Par Value $1.00 (class)	**34,375,694** (outstanding)

BOSTON PRIVATE FINANCIAL HOLDINGS, INC.

FORM 10-Q

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BOSTON PRIVATE FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

Unaudited

	September 30, 2005	December 31, 2004
	(In thousands, except share data)	
Assets:		
Cash and due from banks	$ 97,038	$ 55,252
Federal funds sold and other interest-bearing assets	165,270	73,662
Cash and cash equivalents	262,308	128,914
Restricted Cash	113,000	
Short-term investments		19,019
Investment securities available for sale (amortized cost of $520,806 and $521,023, respectively)	516,289	520,084
Loans held for sale	8,232	42,384
Loans:		
Commercial	1,340,690	1,175,649
Construction	246,185	181,418
Residential mortgage	880,041	796,991
Home equity and other consumer loans	91,071	94,542
Total loans	2,557,987	2,248,600
Less: allowance for loan losses	28,302	25,021
Net loans	2,529,685	2,223,579
Stock in Federal Home Loan Banks	22,450	20,087
Premises and equipment, net	23,277	20,314
Goodwill	132,246	130,486
Intangible assets, net	48,424	56,677
Fees receivable	22,979	21,521
Accrued interest receivable	14,399	11,859
Other assets	96,294	78,269
Total assets	$ 3,789,583	$ 3,273,193
Liabilities:		
Deposits	$ 2,681,272	$ 2,386,368
Securities sold under agreements to repurchase	99,027	84,550
Federal Home Loan Bank borrowings	294,475	275,187
Junior subordinated debentures	214,434	114,434
Accrued interest payable	4,973	3,376
Deferred acquisition obligations	17,809	23,396
Other liabilities	80,144	64,655
Total liabilities	$ 3,392,134	$ 2,951,966
Stockholders equity:		
Common stock, $1.00 par value; authorized: 70,000,000 shares; issued: 30,010,099 shares at September 30, 2005 and 27,657,377 shares at December 31, 2004	30,010	27,657
Additional paid-in capital	238,216	188,719
Retained earnings	136,608	110,189
Unearned compensation	(4,661)	(4,829)
Accumulated other comprehensive loss	(2,724)	(509)
Total stockholders equity	397,449	321,227
Total liabilities and stockholders equity	$ 3,789,583	$ 3,273,193

See accompanying notes to unaudited consolidated financial statements.

BOSTON PRIVATE FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Operation

(Unaudited)

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
	(In thousands, except share data)			
Interest and dividend income:				
Loans	$ 39,563	$ 27,146	$ 108,776	$ 74,331
Taxable investment securities	2,166	1,414	5,880	4,084
Non-taxable investment securities	1,480	1,459	4,415	4,279
Mortgage-backed securities	325	453	1,099	1,304
Federal funds sold and other	1,113	294	3,424	996
Total interest and dividend income	44,647	30,766	123,594	84,994
Interest expense:				
Deposits	9,667	4,868	24,407	13,521
Federal Home Loan Bank borrowings	3,094	2,615	9,128	7,605
Securities sold under agreements to repurchase	285	179	819	537
Federal funds purchased and other	78	18	154	30
Junior subordinated debentures	1,471	77	4,263	188
Total interest expense	14,595	7,757	38,771	21,881
Net interest income	30,052	23,009	84,823	63,113
Provision for loan losses	1,728	795	3,368	2,526
Net interest income after provision for loan losses	28,324	22,214	81,455	60,587
Fees and other income:				
Investment management and trust fees	27,383	23,224	77,752	66,902
Wealth advisory fees	4,824	1,993	14,093	5,977
Earnings in equity investments	548	184	1,053	216
Deposit account service charges	292	264	923	854
Gain on sale of loans, net	533	252	1,303	946
Gain on sale of investment securities, net		162	41	373
Other	1,138	784	3,840	2,468
Total fees and other income	34,718	26,863	99,005	77,736
Operating expense:				
Salaries and employee benefits	29,278	23,012	84,286	66,878
Occupancy and equipment	5,059	3,993	14,606	11,186
Professional services	2,035	2,325	7,190	5,305
Marketing and business development	1,432	1,155	4,744	3,844
Contract services and processing	960	751	2,846	2,106
Amortization of intangibles	1,539	1,244	4,616	3,277
Other	2,785	2,651	9,155	7,630
Total operating expense	43,088	35,131	127,443	100,226
Minority interest	526	366	1,480	968
Income before income taxes	19,428	13,580	51,537	37,129
Income tax expense	7,416	4,800	19,211	12,961
Net income	$ 12,012	$ 8,780	$ 32,326	$ 24,168
Per share data:				
Basic earnings per share	$ 0.43	$ 0.32	$ 1.17	$ 0.87
Diluted earnings per share	$ 0.40	$ 0.31	$ 1.09	$ 0.84
Average basic common shares outstanding	27,954,187	27,390,463	27,718,856	27,627,523
Average diluted common shares outstanding	32,172,759	28,522,147	31,897,471	28,851,817

See accompanying notes to unaudited consolidated financial statements.

BOSTON PRIVATE FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders Equity

(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Total
			(In thousands, except share data)			
Balance at December 31, 2003	$ 25,167	$ 129,827	$ 83,006	$ (5,119)	$ 2,571	$ 235,452
Net income			24,168			24,168
Comprehensive income, net:						
Change in unrealized gain (loss) on securities available for sale, net of tax					(2,068)	(2,068)
Total comprehensive income						22,100
Dividends paid to shareholders			(4,797)			(4,797)
Issuance of 2,196,003 shares of common stock	2,196	50,500				52,696
Issuance of 49,850 shares of incentive common stock	50	1,268		(1,318)		
Amortization of unearned compensation				1,287		1,287
Stock options exercised	154	1,558				1,712
Tax savings on options exercised		1,077				1,077
Balance at September 30, 2004	$ 27,567	$ 184,230	$ 102,377	$ (5,150)	$ 503	$ 309,527
Balance at December 31, 2004	$ 27,657	$ 188,719	$ 110,189	$ (4,829)	$ (509)	$ 321,227
Net income			32,326			32,326
Comprehensive income, net:						
Change in unrealized gain (loss)on securities available for sale, net of tax					(2,215)	(2,215)
Total comprehensive income						30,111
Dividends paid to shareholders			(5,907)			(5,907)
Issuance of 1,769,897 shares of common stock	1,770	38,745				40,515
Issuance of 58,500 shares of incentive common stock	59	1,555		(1,614)		
Amortization of unearned compensation				1,782		1,782
Stock options exercised	524	6,385				6,909
Tax savings on options exercised		2,812				2,812

Balance at September 30, 2005	$	30,010	$	238,216	$	136,608	$	(4,661)	$	(2,724)	$	397,449

See accompanying notes to unaudited consolidated financial statements.

BOSTON PRIVATE FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30, 2005	2004
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 32,326	$ 24,168
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,307	7,833
Amortization of investment premium and (discounts) and loan fees	5,166	(694)
Gain on sale of loans, net	(1,303)	(946)
Gain on sale of investment securities, net	(41)	(373)
Provision for loan losses and off-balance sheet credit risk	3,945	3,156
Distributed earnings of partnership investments	415	66
Common shares issued as compensation	387	249
Tax savings on options exercised	2,812	1,077
Loans originated for sale	(473,109)	(165,917)
Proceeds from sale of loans held for sale	508,093	165,368
Net increase in fees receivable	(1,458)	(2,774)
Net increase in accrued interest receivable	(2,540)	(1,329)
Net increase in other assets	(6,816)	(6,769)
Net increase in accrued interest payable	1,597	532
Net increase in other liabilities	16,224	3,649
Net cash provided by operating activities	96,005	27,296
Cash flows from investing activities:		
Maturity of short-term investments	19,019	
Investment securities available for sale:		
Purchases	(378,912)	(356,139)
Sales	31,276	46,555
Maturities and principal payments	344,773	234,398
Purchase of investments - Rabbi Trust	(4,219)	(6,795)
Purchase of Federal Home Loan Banks stock	(2,363)	(7,067)
Increase in portfolio loans	(311,096)	(293,575)
Net increase in restricted cash	(113,000)	
Capital expenditures, net of sale proceeds	(6,767)	(6,020)
Cash paid for acquisitions, including deferred acquisition obligations, net of cash acquired	(8,546)	(50,599)
Net cash used in investing activities	(429,835)	(439,242)
Cash flows from financing activities:		
Net increase in deposits	294,904	352,126
Net increase in short-term borrowings	14,477	15,500
Proceeds from Federal Home Loan Bank borrowings	24,875	62,551
Repayments of Federal Home Loan Bank borrowings	(5,587)	(5,633)
Proceeds from issuance of Trust Preferred debt	100,000	
Dividends paid to stockholders	(5,907)	(4,797)
Proceeds from stock option exercises	6,909	1,712
Proceeds from issuance of common stock	37,553	16,531
Net cash provided by financing activities	467,224	437,990
Net increase in cash and cash equivalents	133,394	26,044
Cash and cash equivalents at beginning of year	128,914	93,488
Cash and cash equivalents at end of period	$ 262,308	$ 119,532
Supplementary schedule of non-cash investing and financing activities:		
Cash paid for interest	$ 37,174	$ 21,349

Cash paid for income taxes		18,598		22,828
Change in unrealized gain (loss) on securities available for sale, net of estimated income taxes		(2,215)		(2,068)
In conjunction with acquisitions, assets were acquired and liabilities were assumed as follows:				
Fair value of net assets acquired	$		$	125,463
Less: Estimated contingent deferred liability				41,310
Cash paid and common stock issued at close (includes options)	$		$	84,153
Non-Cash Transactions				
Equity issued for acquisitions, including deferred acquisition obligations	$	2,575	$	35,916

See accompanying notes to unaudited consolidated financial statements.

BOSTON PRIVATE FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

(1) Basis of Presentation and Summary of Significant Accounting Policies

The consolidated financial statements of Boston Private Financial Holdings, Inc. (the Company) include the accounts of the Company and its wholly-owned and majority-owned subsidiaries: Boston Private Bank & Trust Company (Boston Private Bank), a Massachusetts chartered trust company; Borel Private Bank & Trust Company (Borel) and First Private Bank & Trust (FPB) formerly known as First State Bank of California, California state banking corporations; Westfield Capital Management Company, LLC (Westfield), Dalton, Greiner, Hartman, Maher & Co., LLC (DGHM), Sand Hill Advisors, Inc. (Sand Hill), Boston Private Value Investors, Inc. (BPVI), KLS Professional Advisors Group, LLC (KLS), and RINET Company LLC (RINET), registered investment advisors and wealth advisory firms. In addition, the Company holds an approximately 26.5% minority interest in Coldstream Holdings, Inc., (Coldstream Holdings) and a 39.9% minority interest in Bingham, Osborn, & Scarborough, LLC (BOS) at September 30, 2005. Coldstream Holdings is the parent of Coldstream Capital Management Inc., a registered investment adviser. BOS is a wealth advisory and investment management firm. The Company conducts substantially all of its business through its wholly-owned and majority-owned subsidiaries, Boston Private Bank, Borel, FPB, (together, the Banks), Westfield, Sand Hill, BPVI, DGHM, KLS, and RINET. All significant intercompany accounts and transactions have been eliminated in consolidation. The minority investments in Coldstream Holdings and BOS are accounted for using the equity method, and such net investments are included in Other Assets.

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America, 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 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, 2004 filed with the Securities and Exchange Commission (SEC). Certain prior year information has been reclassified to conform to current year presentation.

The Company s significant accounting policies are described in Note 3 of the Notes to the Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended December 31, 2004, filed with the SEC. For interim reporting purposes, the Company follows the same significant accounting policies.

Incentive Plans

The Company has a Stock Option and Incentive Plan (the Plan) to encourage and enable the officers, employees, non-employee directors and other key persons of the Company to acquire a proprietary interest in the Company. The Company may grant options or stock under the Plan.

The Company applies the intrinsic-value-based method of accounting to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. As permitted, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements for the fair value based method of accounting for stock based compensation.

The following table illustrates the effects on net income and earnings per share (EPS) if the Company had applied the fair value based method of accounting for stock-based compensation.

	Three Months Ended September 30, 2005		Three Months Ended September 30, 2004		Nine Months Ended September 30, 2005		Nine Months Ended September 30, 2004	
	(In thousands, except per share data)							
Net Income:								
As reported	$	12,012	$	8,780	$	32,326	$	24,168
Stock-based employee and director compensation expense, net of related tax effects		(596)		(537)		(1,939)		(1,721)
Pro forma	$	11,416	$	8,243	$	30,387	$	22,447
Basic earnings per share:								
As reported	$	0.43	$	0.32	$	1.17	$	0.87
Pro forma	$	0.41	$	0.31	$	1.10	$	0.81
Diluted earnings per share:								
As reported	$	0.40	$	0.31	$	1.09	$	0.84
Pro forma	$	0.38	$	0.29	$	1.02	$	0.78

In addition the Company made grants of restricted stock to certain employees. The compensation expense associated with the stock grants is amortized on a straight line basis over the vesting period. Expenses, in connection with the restricted stock awards included in reported net income, net of tax, for the third quarter and nine months ended 2005 and 2004, was $354,000, $1.1 million, $299,000, and $980,000, respectively.

(2) Earnings Per Share

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The dilutive effect of convertible securities is reflected in diluted EPS by application of the if-converted method. Under the if-converted method, the interest expense on the convertible securities, net of tax, is added back to net income and the convertible shares are assumed to have been converted at the beginning of the period. The if-converted method is only used if the effect is dilutive.

The following table provides a reconciliation of the components of basic and diluted EPS computations.

	Three Months Ended September 30, 2005		Three Months Ended September 30, 2004	
	(In thousands, except share data)			
Calculation of net income for EPS:				
Net income as reported and for basic EPS	$	12,012	$	8,780
Interest on convertible trust preferred securities, net of tax		765		
Net income for EPS calculation using the if-converted method	$	12,777	$	8,780
Calculation of average shares outstanding:				
Average basic common shares outstanding (1)		27,954,187		27,390,463
Dilutive effect of:				
Stock options and stock grants		788,480		1,054,088
Forward agreement (1)		247,657		77,596
Convertible trust preferred securities		3,182,435		

Dilutive potential common shares		4,218,572		1,131,684
Average diluted common shares outstanding		32,172,759		28,522,147
Per Share Data:				
Basic earnings per share	$	0.43	$	0.32
Diluted earnings per share	$	0.40	$	0.31

	Nine Months Ended September 30,			
	2005			2004
	(In thousands, except share data)			
Calculation of net income for EPS:				
Net income as reported and for basic EPS	$	32,326	$	24,168
Interest on convertible trust preferred securities, net of tax		2,294		
Net income for EPS calculation using the if-converted method	$	34,620	$	24,168
Calculation of average shares outstanding:				
Average basic common shares outstanding (1)		27,718,856		27,627,523
Dilutive effect of:				
Stock options and stock grants		799,115		1,143,580
Forward agreement (1)		197,042		80,714
Convertible trust preferred securities		3,182,458		
Dilutive potential common shares		4,178,615		1,224,294
Average diluted common shares outstanding		31,897,471		28,851,817
Per Share Data:				
Basic earnings per share	$	1.17	$	0.87
Diluted earnings per share	$	1.09	$	0.84

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(1) On March 31, 2004, the Financial Accounting Standards Board (FASB) changed its interpretation of Statement of Financial Accounting Standards No. 128, *Earnings Per Share,* affecting the calculation of EPS for variable priced contracts. This interpretation applied to the Company s Forward Stock Agreement (the Agreement). As a result, the Company amended this Agreement effective April 1, 2004 and such amendment eliminated the need to include the effect of the Agreement in basic shares after that date. The new interpretation required the Company to account for the original Agreement differently by including approximately 663,000 unissued shares in the calculation of basic and diluted EPS for the nine months ended September 30, 2004.

On September 29, 2005 the Company exercised the Agreement. Under the settlement terms of the Agreement the Company received approximately $36.4 million in net proceeds from the issuance of 1.6 million shares of the Company's common stock, at a price of $22.526 per share.

(3) Business Segments

Management Reporting

The Company has ten reportable segments: Boston Private Bank, Borel, FPB, Westfield, DGHM, Sand Hill, BPVI, KLS, RINET, and the Holding Company. The financial performance of the Company is managed and evaluated by business segment. The segments are managed separately as each business is a company with different clients, employees, systems, risks, and marketing strategies.

Description of Business Segments

Boston Private Bank pursues a private banking business strategy and is principally engaged in providing banking, investment and fiduciary products to high net worth individuals, their families and businesses in the greater Boston area and New England. Boston Private Bank offers its clients a broad range of deposit and loan products. In addition, it provides investment management and trust services to high net worth individuals and institutional clients. Boston Private Bank specializes in separately managed mid to large cap equity and fixed income portfolios.

Borel serves the financial needs of individuals, their families and their businesses in northern California. Borel conducts a commercial banking business, which includes deposit and lending activities. Additionally, Borel offers trust services and provides a variety of other fiduciary services including investment management, advisory and administrative services to individuals.

FPB provides a range of deposit and loan banking products and services to its customers. Its primary focus is on small and medium sized businesses and professionals located in the Los Angeles, Riverside, San Bernardino, and Ventura counties. On October 1, 2004, FPB acquired Encino State Bank (Encino). Upon consummation of the acquisition, Encino was merged into FPB with FPB as the surviving entity. On July 18, 2005 First State Bank of California changed its name to First Private Bank & Trust.

Westfield serves the investment management needs of pension funds, endowments and foundations, mutual funds and high net worth individuals throughout the United States and abroad. Westfield specializes in separately managed domestic growth equity portfolios in all areas of the capitalization spectrum and acts as the investment manager for several limited partnerships.

DGHM, a value driven investment manager headquartered in New York City, specializes in smaller capitalization equities. The firm manages investments for institutional clients and high net worth individuals in mid, small, and micro cap portfolios.

Sand Hill provides wealth management services to high net worth investors and select institutions in northern California. The firm manages investments covering a wide range of asset classes for both taxable and tax-exempt portfolios.

BPVI, a value style investor, serves the investment management needs of high net worth individuals primarily in New England and the Northeast.

KLS, a wealth management firm, specializes in investment management, insurance, retirement planning, estate planning and income tax planning services. Founded in 1989, the firm is headquartered in New York City.

RINET provides fee-only wealth advisory, tax planning and investment management services to high net worth individuals and their families in the greater Boston area, New England, and other areas of the United States. Its capabilities include tax planning and preparation, asset allocation, estate planning, charitable planning, planning for employment benefits, including 401(k) plans, alternative investment analysis and mutual fund investing. It also offers an independent mutual fund rating service.

Measurement of Segment Profit and Assets

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Revenues, expenses, and assets are recorded by each segment, and management reviews separate financial statements for each segment.

Reconciliation of Reportable Segment Items

The following tables are a reconciliation of the revenues, net income, assets, and other significant items of reportable segments as of and for the quarters ended September 30, 2005 and 2004 and for the nine months ended September 30, 2005 and 2004.

At and for the three months ended

September 30, 2005

(In thousands)	**Westfield**	**DGHM**	**Sand Hill**	**BPVI**	**KLS**	**RINET**	**Total Registered Investment Advisers**
Income statement data:							
Revenue							
Net interest income	$ 17	$ 17	$ 6	$ 3	$ 31	$ 6	$ 80
Non-interest income	13,362	7,028	1,642	1,563	2,742	2,040	28,377
Total revenue	**$ 13,379**	**$ 7,045**	**$ 1,648**	**$ 1,566**	**$ 2,773**	**$ 2,046**	**$ 28,457**
Non-interest expense and minority interest	7,658	4,984	1,372	1,294	2,208	1,933	19,449
Income taxes	2,393	947	111	120	256	47	3,874
Segment profit	**$ 3,328**	**$ 1,114**	**$ 165**	**$ 152**	**$ 309**	**$ 66**	**$ 5,134**
Segment assets	**$ 41,395**	**$ 103,518**	**$ 16,734**	**$ 5,169**	**$ 36,286**	**$ 4,985**	**$ 208,087**
(In millions)							
Assets under management and advisory	**$ 8,374**	**$ 3,384**	**$ 1,087**	**$ 849**	**$ 3,030**	**$ 1,092**	**$ 17,816**

(In thousands)	**Boston Private Bank**	**Borel**	**FPB**	**Total Banks**	**Total Registered Investment Advisers**	**BPFH**	**Inter-Segment**	**Consolidated Total**
Income statement data:								
Revenue								

Net interest income	$ 15,890	$ 9,801	$ 5,630	$ 31,321	$ 80	$ (1,351)	$ 2	$ 30,052
Non-interest income	4,242	1,174	605	6,021	28,377	467	(147)	34,718
Total revenue	**$ 20,132**	**$ 10,975**	**$ 6,235**	**$ 37,342**	**$ 28,457**	**$ (884)**	**$ (145)**	**$ 64,770**
Provision for loan losses	$ 910	$ 525	$ 293	$ 1,728	$	$	$	$ 1,728
Non-interest expense and minority interest	12,123	4,879	3,181	20,183	19,449	4,127	(145)	43,614
Income taxes	1,976	2,346	1,153	5,475	3,874	(1,933)		7,416
Segment profit	**$ 5,123**	**$ 3,225**	**$ 1,608**	**$ 9,956**	**$ 5,134**	**$ (3,078)**	**$**	**$ 12,012**
Segment assets	**$ 2,163,786**	**$ 827,235**	**$ 463,112**	**$ 3,454,133**	**$ 208,087**	**$ 187,002**	**$ (59,639)**	**$ 3,789,583**
(In millions)								
Assets under management and advisory	**$ 2,312**	**$ 653**	**$**	**$ 2,965**	**$ 17,816**	**$**	**$ (216)**	**$ 20,565**

At and for the three months ended

September 30, 2004

(In thousands)	Westfield	DGHM	Sand Hill	BPVI	RINET	Total Registered Investment Advisers
Income statement data:						
Revenue						
Net Interest Income	$ 17	$	$ 2	$ 1	$ 3	$ 23
Non-Interest Income	10,617	5,977	1,553	1,507	1,966	21,620
Total Revenues	**$ 10,634**	**$ 5,977**	**$ 1,555**	**$ 1,508**	**$ 1,969**	**$ 21,643**
Non-Interest Expense and Minority Interest	6,165	4,653	1,431	1,195	1,622	15,066
Income Taxes	1,869	535	50	152	145	2,751
Segment Profit	**$ 2,600**	**$ 789**	**$ 74**	**$ 161**	**$ 202**	**$ 3,826**
Segment Assets	**$ 26,524**	**$ 104,485**	**$ 16,385**	**$ 4,721**	**$ 3,968**	**$ 156,083**
(In millions)						
Assets under management and advisory	**$ 6,960**	**$ 3,061**	**$ 990**	**$ 785**	**$ 978**	**$ 12,774**

(In thousands)	Boston Private Bank	Borel	FPB	Total Banks	Total Registered Investment Advisers	BPFH	Inter-Segment	Consolidated Total
Income statement data:								
Revenue								
Net interest income	$ 13,066	$ 7,403	$ 2,573	$ 23,042	$ 23	$ (59)	$ 3	$ 23,009
Non-interest income	3,815	950	378	5,143	21,620	216	(116)	26,863
Total revenue	**$ 16,881**	**$ 8,353**	**$ 2,951**	**$ 28,185**	**$ 21,643**	**$ 157**	**$ (113)**	**$ 49,872**
Provision for loan losses	$ 456	$ 303	$ 36	$ 795	$	$	$	$ 795
Non-interest expense and minority interest	11,024	4,369	1,603	16,996	15,066	3,548	(113)	35,497
Income taxes	1,343	1,503	552	3,398	2,751	(1,349)		4,800
Segment profit	**$ 4,058**	**$ 2,178**	**$ 760**	**$ 6,996**	**$ 3,826**	**$ (2,042)**	**$**	**$ 8,780**
Segment assets	**$ 1,806,721**	**$ 719,196**	**$ 222,782**	**$ 2,748,699**	**$ 156,083**	**$ 17,340**	**$ (15,045)**	**$ 2,907,077**
(In millions)								
Assets under management and advisory	**$ 1,910**	**$ 591**	**$**	**$ 2,501**	**$ 12,774**	**$**	**$ (156)**	**$ 15,119**

At and for the nine months ended

September 30, 2005

Total Registered Investment

(In thousands)	Westfield	DGHM	Sand Hill	BPVI	KLS	RINET	Advisers
Income statement data:							
Revenue							
Net interest income	$ 46	$ 50	$ 15	$ 6	$ 69	$ 17	$ 203
Non-interest income	36,670	20,231	4,981	4,766	7,934	6,071	80,653
Total revenue	**$ 36,716**	**$ 20,281**	**$ 4,996**	**$ 4,772**	**$ 8,003**	**$ 6,088**	**$ 80,856**
Non-interest expense and minority interest	21,536	14,776	4,401	3,743	6,487	5,340	56,283
Income taxes	6,349	2,548	239	448	692	313	10,589
Segment profit	**$ 8,831**	**$ 2,957**	**$ 356**	**$ 581**	**$ 824**	**$ 435**	**$ 13,984**
Segment assets	**$ 41,395**	**$ 103,518**	**$ 16,734**	**$ 5,169**	**$ 36,286**	**$ 4,985**	**$ 208,087**

(In millions)							
Assets under management and advisory	**$ 8,374**	**$ 3,384**	**$ 1,087**	**$ 849**	**$ 3,030**	**$ 1,092**	**$ 17,816**

(In thousands)	Boston Private Bank	Borel	FPB	Total Banks	Total Registered Investment Advisers	BPFH	Inter-Segment	Consolidated Total
Income statement data:								
Revenue								
Net interest income	$ 45,594	$ 27,522	$ 15,467	$ 88,583	$ 203	$ (3,963)	$	$ 84,823
Non-interest income	12,763	3,365	1,722	17,850	80,653	918	(416)	99,005
Total revenue	**$ 58,357**	**$ 30,887**	**$ 17,189**	**$ 106,433**	**$ 80,856**	**$ (3,045)**	**$ (416)**	**$ 183,828**
Provision for loan losses	$ 1,539	$ 1,338	$ 491	$ 3,368	$	$	$	$ 3,368
Non-interest expense and minority interest	36,383	14,140	9,401	59,924	56,283	13,132	(416)	128,923
Income taxes	5,570	6,429	3,023	15,022	10,589	(6,400)		19,211
Segment profit	**$ 14,865**	**$ 8,980**	**$ 4,274**	**$ 28,119**	**$ 13,984**	**$ (9,777)**	**$**	**$ 32,326**
Segment assets	**$ 2,163,786**	**$ 827,235**	**$ 463,112**	**$ 3,454,133**	**$ 208,087**	**$ 187,002**	**$ (59,639)**	**$ 3,789,583**

(In millions)								
Assets under management and advisory	**$ 2,312**	**$ 653**	**$**	**$ 2,965**	**$ 17,816**	**$**	**$ (216)**	**$ 20,565**

At and for the nine months ended

September 30, 2004

(In thousands)	Westfield	DGHM	Sand Hill	BPVI	RINET	Total Registered Investment Advisers
Income statement data:						
Revenue						
Net Interest Income	$ 35	$	$ (1)	$ 7	$ 6	$ 47
Non-Interest Income	32,094	15,544	4,436	4,461	5,892	62,427
Total Revenues	**$ 32,129**	**$ 15,544**	**$ 4,435**	**$ 4,468**	**$ 5,898**	**$ 62,474**
Non-Interest Expense and Minority Interest	18,840	12,005	3,981	3,709	5,010	43,545
Income Taxes	5,558	1,486	183	335	372	7,934
Segment Profit	**$ 7,731**	**$ 2,053**	**$ 271**	**$ 424**	**$ 516**	**$ 10,995**
Segment Assets	**$ 26,524**	**$ 104,485**	**$ 16,385**	**$ 4,721**	**$ 3,968**	**$ 156,083**

(In millions)						
Assets under management and advisory	**$ 6,960**	**$ 3,061**	**$ 990**	**$ 785**	**$ 978**	**$ 12,774**

(In thousands)	Boston Private Bank	Borel	FPB	Total Banks	Total Registered Investment Advisers	BPFH	Inter-Segment	Consolidated Total
Income statement data:								
Revenue								
Net interest income	$ 36,693	$ 20,427	$ 6,031	$ 63,151	$ 47	$ (95)	$ 10	$ 63,113
	11,100	2,998	990	15,088	62,427	542	(321)	77,736

Non-interest income								
Total revenue	**$ 47,793**	**$ 23,425**	**$ 7,021**	**$ 78,239**	**$ 62,474**	**$ 447**	**$ (311)**	**$ 140,849**
Provision for loan losses	$ 1,286	$ 1,109	$ 131	$ 2,526	$	$	$	$ 2,526
Non-interest expense and minority interest	31,674	12,270	3,665	47,609	43,545	10,351	(311)	101,194
Income taxes	3,545	4,060	1,356	8,961	7,934	(3,934)		12,961
Segment profit	**$ 11,288**	**$ 5,986**	**$ 1,869**	**$ 19,143**	**$ 10,995**	**$ (5,970)**	**$**	**$ 24,168**
Segment assets	**$ 1,806,721**	**$ 719,196**	**$ 222,782**	**$ 2,748,699**	**$ 156,083**	**$ 17,340**	**$ (15,045)**	**$ 2,907,077**

(In millions)								
Assets under management and advisory	**$ 1,910**	**$ 591**	**$**	**$ 2,501**	**$ 12,774**	**$**	**$ (156)**	**$ 15,119**

Both Boston Private Bank and Borel provide investment advisory and trust services which are included in Bank Segment Profit and are not included with the Segment Profit of the Registered Investment Advisers. The segment profits for DGHM, FPB, and KLS only includes results from the date of acquisition.

(4) Goodwill and Intangible Assets

The following is an analysis of the activity in goodwill and intangible assets:

Intangibles (In thousands)	**Balance at December 31, 2004**	**Acquisitions, additions, reclassifications, and adjustments**	**Amortization**	**Balance at September 30, 2005**
Sand Hill Advisory Contracts	$ 870	$	$ (76)	$ 794
BPVI Advisory Contracts	1,878		(179)	1,699
DGHM Advisory Contracts	34,506		(2,847)	31,659
DGHM Non-Compete Agreements	984		(121)	863
FPB Core Deposit Intangibles	7,251		(533)	6,718
FPB Non-Compete Agreements	245		(85)	160
KLS Non-Compete Agreements	478	(81)	(50)	347
KLS Advisory Contracts	10,465	(3,556)	(725)	6,184
Total	**$ 56,677**	**$ (3,637)**	**$ (4,616)**	**$ 48,424**

Intangibles (In thousands)	**Balance at December 31, 2003**	**Acquisitions, additions, reclassifications, and adjustments**	**Amortization**	**Balance at September 30, 2004**
Boston Private Bank Other Intangibles	$ 122	$ (117)	$ (5)	$
Sand Hill Advisory Contracts	899	75	(78)	896
BPVI Advisory Contracts	2,116		(179)	1,937
DGHM Advisory Contracts		38,300	(2,737)	35,563
DGHM Non-Compete Agreements		1,130	(106)	1,024
FPB Core Deposit Intangibles		4,100	(172)	3,928
Total	**$ 3,137**	**$ 43,488**	**$ (3,277)**	**$ 43,348**

Goodwill (In thousands)	**Balance at December 31, 2004**	**Acquisitions, additions, reclassifications, and adjustments**	**Balance at September 30, 2005**
Boston Private Bank	$ 2,403	$	$ 2,403
Sand Hill	13,417		13,417
BPVI	1,204		1,204
DGHM	57,106	654	57,760
FPB	37,240	(2,607)	34,633
KLS	19,116	3,713	22,829
Total	**$ 130,486**	**$ 1,760**	**$ 132,246**

Goodwill (In thousands)	**Balance at December 31, 2003**	**Acquisitions, additions, reclassifications, and adjustments**	**Balance at September 30, 2004**
Boston Private Bank	$ 2,286	$ 117	$ 2,403
Sand Hill	13,561	32	13,593
BPVI	1,334	(134)	1,200
DGHM		56,937	56,937
FPB		13,745	13,745
Total	**$ 17,181**	**$ 70,697**	**$ 87,878**

The value attributed to the advisory contracts was based on the time period over which the advisory contracts are expected to generate economic benefits. The intangible values of advisory contracts are being amortized over their estimated useful life of ten years on the straight-line method except for the DGHM and KLS advisory contracts, which are being amortized on the constant attrition method. Under the constant attrition method for DGHM, approximately 11% of the net advisory contracts will be amortized each year for seven years. The Company expects to amortize the remaining unamortized cost over an eight-year life using the straight-line method. Under the constant attrition method for KLS, approximately 14% of the net advisory contracts will be amortized each year for five years. The Company expects to amortize the remaining unamortized cost over a seven-year life using the straight-line method.

The value attributable to the core deposit intangibles (CDI) is a function of the expected longevity of the core deposit accounts, and the expected cost savings associated with the use of the existing core deposit base rather than alternative funding sources. The intangible value of CDI is being amortized over fifteen years for FPB and eight years for Encino, included with FPB, on a straight-line basis.

The value attributable to the non-compete agreements was based on the expected receipt of future economic benefits related to provisions in the non-compete agreements that restrict competitive behavior. The intangible value of non-compete agreements is being amortized on a straight-line basis which approximates the contractual lives of the agreements, which range from two to seven years.

The annual amortization expense for the intangibles above is estimated to be $6.2 million for 2005, $5.6 million, $5.0 million, $4.6 million, and $4.2 million per year for an aggregate of $25.6 million over the next five years. Goodwill, other than that related to FPB, is expected to be deductible for tax purposes.

(5) New Junior Subordinated Debentures

On September 27, 2005 the Company raised $100 million by issuing Trust Preferred debt securities. The proceeds from the securities were used to fund a portion of the Gibraltar Financial acquisition. The securities mature in 2035. Until December 30, 2010, the securities will have a fixed annual distribution rate of 6.25%, thereafter converting into a floating rate of three-month LIBOR plus 1.68%.

(6) Recent Accounting Developments

On December 16, 2004, the FASB issued FASB Statement No. 123 (Revised 2004), Share-Based Payment (FAS 123(R)). FAS 123(R) revises FASB Statement No. 123, Accounting for Stock-Based Compensation (FAS 123) and requires companies to expense the fair value of employee stock options, employee stock purchase plans and other forms of stock-based compensation. FAS 123(R) is effective for the Company beginning on January 1, 2006.

Under FAS 123(R), companies must choose either the modified prospective application (MPA) transition method or the modified retrospective application (MRA) transition method.

Under the MPA method, public companies must apply FAS 123(R) when recognizing compensation cost for (1) awards that were granted or modified after the fiscal year beginning after December 15, 1994, (2) any portion of awards that have not been vested by the date FAS 123(R) is adopted, and (3) any outstanding liability awards. Under the MRA method, companies are required to restate their prior financial statements so that they include the same amounts that were previously reported as pro forma disclosures under FAS 123 s original provisions.

The adoption of FAS 123(R) will decrease Net Income and EPS for the Company. The Company is continuing to analyze the impact of this new pronouncement and has not determined which transition method will be used.

In May 2005, the FASB issued FASB Statement No. 154, Accounting for Changes and Error Corrections: a replacement of APB Opinion No. 20 and FASB No. 3 (FAS 154). This statement requires retrospective application for voluntary changes in accounting principle unless it is impracticable to do so. FAS 154 s retrospective-application requirement replaces a previous requirement to recognize most voluntary changes in accounting principle by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. FAS 154 also distinguishes between retrospective application for changes in accounting principle and restatement for correction of an error. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted. The Company plans to adopt FAS 154 on January 1, 2006, and does not anticipate the adoption of this standard to have a material impact on the Company s financial conditions or results of operations.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), and in December 2003, issued Revised Interpretation No. 46 Consolidation of Variable Interest Entities (FIN 46R), which replaced FIN 46. FIN 46 addressed the consolidation rules to be applied to certain variable interest entities, as defined within the Interpretation, as of February 1, 2003, and FIN 46R addresses the consolidation rules to be applied to all variable interest entities as of December 31, 2003. The guidance required the Company to deconsolidate its investment in the capital trust acquired through the FPB acquisition as of March 31, 2004. FIN 46R also required the Company to deconsolidate the Boston Private Capital Trust I, and most recently, Boston Private Capital Trust II, which was funded at the end of September 2005. See Note 14 in the Company s Annual Report on Form 10-K for the year ended December 31, 2004 filed with the SEC.

Trust preferred securities have historically been eligible for Tier 1 capital treatment by bank holding companies under Federal Reserve rules and regulations relating to minority interests in equity accounts of consolidated subsidiaries. Following the issuance of FIN 46, including the consolidation rules with respect to variable interest entities, the Federal Reserve requested public comment on a proposed rule that would limit trust preferred securities in the Tier 1 capital of bank holding companies, but with stricter limits and clearer qualitative standards. After considering the public comments, the Federal Reserve issued a final rule on March 1, 2005 which provides that after a five-year transition period the aggregate amount of the trust preferred securities and certain other capital elements would be limited to 25% of Tier 1 capital elements, net of goodwill and intangibles. The adoption of FIN 46 did not have a material effect on the Company s financial condition, results of operations, EPS or cash flows. The Company adopted FIN 46R effective March 31, 2004. In conjunction with the adoption of FIN 46R, the Company determined that certain investment partnerships, for which the Company holds a general partnership interest in and acts as the asset manager of the investment partnership, meet the definition of a voting interest entity as defined in FIN 46R. In addition, the SEC staff provided interpretative guidance on what may constitute an important right, held by the limited partners, under American Institute of Certified Public Accountants (AICPA) Statement of Position No. 78-9, *Accounting for Investments in Real Estate Ventures* that may affect the Company s consolidation policies with regard to its investment partnerships. The Company amended ten investment partnership agreements during the quarter ended June 30, 2004, to incorporate important rights as contemplated in the recent SEC staff s interpretative guidance. These amendments allow the Company to continue to account for its general partnership interests in these limited partnerships on the equity method of accounting.

On July 14, 2005, FASB Staff Position No. SOP 78-9-1, Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5 , was released. This Board-directed FASB Staff Position (FSP) amends AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures.* This new guidance provides a framework for addressing when a general partner, or general partners as a group, controls a limited partnership or similar entity. This FSP eliminates the concept of important rights in SOP 78-9 and replaces it with the concepts of kickout-rights and substantive participating rights as defined in Issue 04-5. For general partners of all new partnerships formed and for existing partnerships for which the partnership agreements are modified, the guidance in this FSP was effective after June 29, 2005. For general partners in all other partnerships, the guidance in this FSP is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The adoption of this standard did not have a material impact on the Company s financial condition or results of operations.

At September 30, 2005, the investment partnerships, for which either DGHM or Westfield hold a general partnership interest and act as the asset manager, have $543.6 million of assets, $116.9 million of liabilities, and $425.8 million of limited partnership interests. DGHM and Westfield s equity interest in the investment partnerships was $586,000 at September 30, 2005, and $1.4 million at December 31, 2004.

On March 31, 2004, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on Issue 03-6 Participating Securities and the Two-Class Method under Statement of Financial Accounting Standards No. 128, Earnings Per Share , affecting the calculation of EPS for variable priced contracts. This interpretation applied to the Company s Forward Stock Sale Agreement (the Forward Agreement) dated December 11, 2003, with an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated and to restricted shares issued in conjunction with the KLS acquisition. The Forward Agreement is described in Note 25 of the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2004. While this interpretation has no impact upon the Company s revenues, operating expenses or net income as previously reported or to be reported for the term of the Forward Agreement, it did require the Company to account for the original Forward Agreement differently by including all unissued shares in the calculation of basic and diluted EPS for the fourth quarter of 2003 and the first quarter of 2004. The effect of this interpretation on the calculation of diluted EPS for the nine-month period ended September 30, 2004 was a decrease of approximately $0.02 per basic and diluted EPS. The Company amended the Forward Agreement effective April 1, 2004, such that this new accounting interpretation will no longer affect the calculation of basic earnings per share as it relates to the Forward Agreement. The Forward Agreement was subsequently exercised in its entirety on September 29, 2005.

In September 2004, the FASB approved the final release of FASB Staff Position (FSP) EITF 03-1-1, Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments. FSP 03-1-1 delays the effective date for the measurement and recognition guidance included in paragraphs 10 through 20 of EITF 03-1. Disclosures required by EITF 03-1, paragraphs 21 and 22, have not been deferred. The FASB noted that this delay does not suspend existing accounting requirements for assessing whether impairments of held-to-maturity and available-for-sale securities are other-than-temporary, including current guidance for cost method investments. The FASB had indicated that it would delay the finalization of the proposed FSP to take a fresh look at accounting for marketable securities and the meaning of other-than-temporary impairment, and thus will reconsider EITF 03-1 in its entirety.

On June 29, 2005, the FASB met and decided not to provide additional guidance on the meaning of other-than-temporary impairment. The FASB will issue the proposed FSP EITF 03-1-a as final and the final FSP will supersede EITF Issue No. 03-1 and EITF Topic No. D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value, and will replace guidance set forth in paragraphs 10-18 of EITF Issue No. 03-1 with references to existing other-than-temporary impairment guidance. When issued, the final FSP will be titled, FSP FAS 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The new FSP will be effective for other-than-temporary impairment analysis conducted in periods beginning after December 15, 2005 and should be applied prospectively. At its September 14, 2005 Board meeting, the FASB decided that the final FSP will contain guidance regarding the accounting for debt securities subsequent to an other-than-temporary impairment. The adoption of the original EITF 03-1 (excluding paragraphs 10-20) did not have a material impact on the Company s financial position or results of operations nor does the Company believe that the adoption of FSP FAS 115-1 will have a material impact on the Company s financial position or results of operations.

(7) Subsequent Event

On October 1, 2005, Boston Private completed the acquisition of Gibraltar Financial Corporation (Gibraltar Financial), the holding company of Gibraltar Bank, FSB (Gibraltar Bank) pursuant to the terms of the Agreement and Plan of Merger entered into between Boston Private and Gibraltar Financial, dated as of April 18, 2005. On October 1, 2005, Boston Private paid approximately $112.2 million and issued 4,310,643 shares to the shareholders of Gibraltar Financial as consideration for their ownership interest in Gibraltar Financial for an aggregate transaction value of approximately $258 million. On that date, Gibraltar Financial merged into Boston Private and Gibraltar Bank became a wholly owned subsidiary of Boston Private.

MANAGEMENT S DISCUSSION AND ANALYSIS

RESULTS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the Quarter Ended September 30, 2005

The discussions set forth below and elsewhere herein contain certain statements that may be considered 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. All statements, other than statements of historical facts, including statements regarding our strategy, effectiveness of investment programs, evaluations of future interest rate trends and liquidity, expectations as to growth in assets, deposits and results of operations, success of acquisitions, future operations, market position, financial position, and prospects, plans and objectives of management are forward-looking statements. These forward-looking statements are based on the current assumptions and beliefs of management and are only expectations of future results. Our actual results could differ materially from those projected in the forward-looking statements as the result of, among other factors, changes in interest rates, changes in the securities or financial markets, a deterioration in general economic conditions on a national basis or in the local markets in which we operate, including changes which adversely affect borrowers ability to service and repay our loans, changes in loan defaults and charge-off rates, reduction in deposit levels necessitating increased borrowing to fund loans and investments, the risk that difficulties

will arise in connection with the integration of the operations of acquired businesses with the operations of our banking or investment management businesses, the passing of adverse government regulation, changes in assumptions used in making such forward looking statements, as well as those factors set forth below under the heading Risk Factors and Factors Affecting Forward-Looking Statements. These forward-looking statements are made as of the date of this report and we do not intend or undertake to update any such forward-looking statement

Critical Accounting Policies

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

Allowance for Loan Losses. The allowance for loan losses is established through a charge to operations. When management believes that the collection of a loan's principal balance is unlikely, the principal amount is charged against the allowance. Recoveries on loans that have been previously charged-off are credited to the allowance as amounts are received.

The allowance for loan losses is determined using a systematic analysis and procedural discipline based on historical experience, product types, and industry benchmarks. The allowance is segregated into three components: "general," "specific" and "unallocated." The general component is determined by applying coverage percentages to groups of loans based on risk. A system of periodic loan reviews is performed to assess the inherent risk and assign risk ratings to each loan individually. Coverage percentages applied are determined based on industry practice and management's judgment. The specific component is established by allocating a portion of the allowance for loan losses to individual classified loans on the basis of specific circumstances and assessments. The unallocated component supplements the first two components based on management's judgment of the effect of current and forecasted economic conditions on borrowers' abilities to repay, an evaluation of the allowance for loan losses in relation to the size of the overall loan portfolio, and consideration of the relationship of the allowance for loan losses to nonperforming loans, net charge-off trends, and other factors. While this evaluation process utilizes historical and other objective information, the classification of loans and the establishment of the allowance for loan losses rely to a great extent on the judgment and experience of management.

While management evaluates currently available information in establishing the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluations. In addition, various regulatory agencies, as an integral part of their examination process, periodically review a financial institution's allowance for loan losses. Such agencies may require the financial institution to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Valuation of Goodwill/Intangible Assets and Analysis for Impairment. For acquisitions accounted for under the purchase method, the Company is required to record assets acquired and liabilities assumed at their fair value, which is an estimate determined by the use of internal or other valuation techniques. These valuation estimates are used to determine the amounts of goodwill and intangible assets to be recognized. Goodwill is subject to ongoing periodic impairment tests and is evaluated using various fair value techniques. In evaluating the recorded goodwill for impairment testing, management must estimate the fair value of the business segments that have goodwill. Management performs a preliminary evaluation at least annually to determine if the possibility of a significant impairment charge for a business segment is more than remote. A discounted cash flow analysis is prepared for any business segment where management believes a more detailed review is appropriate. This detailed analysis is based on the projected receipt of future net cash flows discounted at a rate that reflects both the current return requirements of the market in general, and the risks inherent in the specific entity that is being valued. This analysis is reviewed with valuation consultants and compared to other valuations to confirm the results if deemed necessary.

The valuation techniques used to determine the carrying value of goodwill acquired in acquisitions and the estimated lives of identifiable intangible assets involve estimates for discount rates, projected future cash flows and time period calculations, all of which are susceptible to change based on changes in economic conditions and other factors. Any change in the estimates which the Company uses to determine the carrying value of the Company s goodwill and identifiable intangible assets, or which otherwise adversely affects their value or estimated lives may adversely affect our results of operations.

Goodwill is tested for impairment at least annually. Goodwill would also be reviewed for impairment if there is a significant adverse event such as the loss of key clients or key management. Impairment is tested for the first several years after acquisition by comparing operating earnings to those assumed when the affiliate was acquired. The implied earnings multiple derived by dividing the carrying value over the earnings is reviewed and compared to multiples for similar businesses. The ratio of assets under management to carrying value is also reviewed for registered investment advisor affiliates. The future prospects of the business unit are also considered. If this analysis indicates cause for concern, a more detailed review will be performed. This would typically include preparation of a discounted cash flow model for the business unit and perhaps, an analysis of values received when similar businesses were sold. Valuation consultants may also be employed to assist the review.

Tax estimates. The Company accounts for income taxes by deferring income taxes based on estimated future tax effects of differences between the tax and book basis of assets and liabilities in accordance with applicable tax laws. These differences result in deferred tax assets and liabilities, which are included in the Company s consolidated balance sheets. The Company must also assess the likelihood that any deferred tax assets will be recovered from future taxable income and establish a valuation allowance for those assets determined to not likely be recoverable. Management judgment is required in determining the amount and timing of recognition of the resulting deferred tax assets and liabilities, including projections of future taxable income. Although the Company has determined a valuation allowance is not required for the deferred tax assets at September 30, 2005, there is no guarantee that these assets are realizable.

Due to the continued historical ability of the Company to generate taxable income, management believes it is more likely than not, that the balance of deferred tax assets at September 30, 2005 is realizable and no valuation allowance is needed.

Executive Summary

The Company is a wealth management company that offers comprehensive financial services to high net worth individuals, families, businesses, and select institutions. This Executive Summary provides an overview of the most significant aspects of our operating subsidiaries and the Company s operations in the third quarter of 2005. Details of the matters addressed in this summary are provided elsewhere in this document and, in particular, in the sections immediately following.

In 2004, the Company acquired several entities. The financial results of these recently acquired entities have had a significant impact on our results of operations for the three months and nine months ended September 30, 2005 and should be considered in comparing the Company s results of operations. The following table provides additional detail for these acquisitions. The assets, revenues, expenses and assets under management and advisory (AUM) of the entities acquired, if applicable, are disclosed in Note 3 - Business Segments.

Name of Acquisition	Acquisition Date		Total Assets at acquisition(1)		Assets under Management and Advisory at acquisition
DGHM	February 6, 2004	$	6 Million	$	3.0 Billion
FPB	February 17, 2004	$	188 Million		N/A
Encino	October 1, 2004	$	189 Million		N/A
KLS	December 31, 2004	$	3 Million	$	2.9 Billion

(1) Excludes the effects of purchase accounting.

The Company through its nine wholly-owned or majority-owned operating subsidiaries offers a full range of financial services through its three core business divisions, private banking, wealth advisory, and investment management. Our private banking operating subsidiaries were Boston Private Bank, Borel, and FPB. Our wealth advisory operating subsidiaries were KLS and Rinet. Our investment management operating subsidiaries were Westfield, DGHM, Sand Hill and BPVI. The Company also holds a minority interest in BOS and Coldstream Holdings. At September 30, 2005, Boston Private s consolidated subsidiaries managed or advised approximately $20.6 billion in client investment assets. The Company had balance sheet assets of approximately $3.8 billion at September 30, 2005.

During the third quarter of 2005, through increased net interest margins and growth in its organic business efforts, the Company earned operating revenues of $64.8 million, an increase of 29.9% over revenues of $49.9 million for the same period in 2004. Total expenses, including minority interest, were $43.6 million for the third quarter of 2005, a 22.9% increase over total expenses of $35.5 million for the same period in 2004. The increase is primarily the result of growth in business and acquisitions. Net income for the third quarter of 2005 was $12.0 million, or $0.40 per diluted share. Net income for the third quarter of 2004 was $8.8 million, or $0.31 per diluted share.

Several factors contributed to the earnings growth in the third quarter of 2005 as compared to the third quarter of 2004. The Company s business mix, between private banking, wealth advisory, and investment management, continues to benefit from diversification. In the third quarter of

2005, the Company realized approximately 46.4% of its total revenues from net interest income versus 46.1% in the third quarter of 2004. Investment management and trust fees as a percentage of overall total revenues were 42.3% in the third quarter of 2005 compared to 46.6% in the third quarter of 2004. Wealth advisory and other fees, while small relative to private banking and investment management, represented 7.4% of total revenues in the third quarter of 2005 versus 4.0% in the third quarter of 2004. In addition, the Company experienced strong growth in each of its main business lines. Net interest income grew $7.0 million, or 30.6%, in the third quarter of 2005 as compared to the same period in 2004. Wealth advisory and investment management and trust fees grew $4.2 million, or 17.9% and $2.8 million or 142.0%, respectively.

The private banking segment has benefited from an increase in net interest margin, on a fully taxable equivalent (FTE) basis, from 3.68% in the third quarter of 2004 to 3.88% in the third quarter of 2005. With the recent increases in short-term interest rates, the Company has seen a steady reversal in the net interest margin compression experienced throughout most of 2004. The rise in short-term interest rates has increased the yields earned on certain loans and investments. The Banks have been able to increase rates paid on deposits, but in amounts lower than the increase in short-term interest rates. Future short-term interest rate increases will likely result in more directly related increases in deposit rates. An increase in rates paid on deposits will put pressure on the Company s net interest margins which could negatively impact the amount of net interest income earned by the Company. Management tracks net interest margin, deposit growth, loan growth and loan quality as important business metrics in evaluating the condition of its private banking business.

Consolidated assets under management and advisory increased $544 million to $20.6 billion at September 30, 2005 from $20.0 billion at June 30, 2005. During the third quarter of 2005, market value appreciation added $930 million of assets, which was partially offset by net outflows of $386 million.

The effective tax rate for the third quarter of 2005 was 38.2% and the related income tax expense was $7.4 million. The effective tax rate for the same period in 2004 was 35.3% and the related income tax expense was $4.8 million. The increase in the effective tax rate in the third quarter of 2005 is mostly the result of acquisitions in 2004 in states and localities with higher tax rates. In addition the relative tax benefit from tax-exempt securities has been reduced as tax-exempt interest earnings are not growing as fast as the increase in pre-tax earnings.

The return on average assets increased 13 basis points to 1.35% for the quarter ended September 30, 2005 compared to 1.22% during the same period in 2004. Average assets increased $696 million, or 24.3%, from $2.9 billion in the third quarter of 2004 to $3.6 billion in the third quarter of 2005. The return on average assets increased seven basis points to 1.25% for the nine months ended September 30, 2005, compared to 1.18% for the nine months ended September 30, 2004.

The return on average equity increased 189 basis points to 13.48% for the quarter ended September 30, 2005 compared to 11.59% during the same period in 2004. Average equity increased $53.5 million, or 17.7%, from $303 million in the third quarter of 2004 to $356 million in the third quarter of 2005.

Management will continue to focus on identifying attractive acquisition candidates in areas where the Company can build regional platforms to best serve the targeted client base. On October 1, 2005 the Company completed its acquisition of Gibraltar Financial. Total assets at acquisition were approximately $1.1 billion. The Company will continue to look at acquisition targets with an eye towards further business line diversification among its existing business lines. By diversifying geographically, the Company mitigates the impact of regional economic risks. By diversifying revenue streams between the three distinct lines of business, the Company can ensure more stable revenues and earnings as capital and interest markets remain volatile. And lastly, with any acquisition, management will consider the types of assets under management or advisory and the diversification impact on our existing investment management concentrations. As in 2004, the Company will continue to focus on further developing and refining its overall risk management discipline and compliance practices.

Financial Condition

Total Assets. Total assets increased $516.4 million, or 15.8%, to $3.8 billion at September 30, 2005 from $3.3 billion at December 31, 2004. This increase was primarily driven by organic growth of loans, increase in federal funds sold and restricted cash. The asset growth was funded by deposit growth, increased capital and additional Junior Subordinated Debentures.

Investments. Total investments (consisting of cash and cash equivalents, short-term investments, investment securities, and stock in Federal Home Loan Banks) increased $112.9 million or 16.4% to $801.0 million, or 21.1% of total assets, at September 30, 2005, from $688.1 million, or 21.0% of total assets, at December 31, 2004. The Banks acquire securities for various purposes such as providing a source of income through interest income, or subsequent sale of the securities, liquidity, and to manage interest rate and liquidity risk.

The following table is a summary of investment and mortgage-backed securities available for sale as of September 30, 2005 and December 31, 2004:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
		(In thousands)		
At September 30, 2005				
U.S. Agencies	$ 188,423	$ 21	$ (1,929)	$ 186,515
U.S. Government	25,096	1	(181)	24,916
Corporate bonds	30,255	7	(472)	29,790
Municipal bonds	238,490	526	(1,841)	237,175
Mortgage-backed securities	36,292	2	(658)	35,636
Other	2,250	7		2,257
Total investments	$ 520,806	$ 564	$ (5,081)	$ 516,289
At December 31, 2004				
U.S. Agencies	$ 166,926	$ 198	$ (950)	$ 166,174
U.S. Government	32,971	2	(161)	32,812
Corporate bonds	35,222	19	(278)	34,963
Municipal bonds	228,629	1,642	(903)	229,368
Mortgage-backed securities	46,025	10	(533)	45,502
Other	11,250	15		11,265
Total investments	$ 521,023	$ 1,886	$ (2,825)	$ 520,084

Loans held for sale. Loans held for sale decreased $34.2 million, or 80.6% during the first nine months of 2005 to $8.2

million from $42.4 million at December 31, 2004. The decrease is due to factors such as demand for fixed rate loans, timing of loan sales, and liquidity. In the first nine months of 2005, there were $473.1 million of mortgage loans originated for sale offset by $508.1 million of loans sold, Compared to $165.9 million of mortgage loans originated for sale offset by $165.4 million of loans sold for the same period in 2004.

Loans. Total portfolio loans increased $309.4 million, or 13.8%, during the first nine months of 2005 to $2.6 billion, or 67.5% of total assets, at September 30, 2005, from $2.2 billion, or 68.7% of total assets, at December 31, 2004. This increase was primarily driven by organic growth of commercial (including construction) and residential mortgage loans which increased $229.8 million, or 16.9%, and $83.1 million, or 10.4%, respectively.

Risk Elements. Total non-performing assets, which consist of non-accrual loans and other real estate owned (OREO), increased by $4.1 million during the first nine months of 2005 to $5.7 million, or 0.15% of total assets, at September 30, 2005, from $1.5 million, or 0.05% of total assets, at December 31, 2004. There was no OREO at September 30, 2005.

At September 30, 2005, loans with an aggregate balance of $2.0 million, or 0.08% of total loans, were 30-89 days past due, a decrease of $2.0 million, as compared to $4.0 million at December 31, 2004. The Company believes most of these loans are adequately secured.

Non-performing assets and delinquent loans are impacted by factors such as the economic conditions in our banking regions, interest rates, and seasonality. These factors are generally not within the Company s control.

We discontinue the accrual of interest on a loan when the collectibility of principal or interest is in doubt. In certain instances, loans that have become 90 days past due may remain on accrual status if we believe that full principal and interest due on the loan is collectible.

Allowance for Credit Losses. The allowance for loan losses and the reserve for unfunded loan commitments when combined are referred to as the allowance for credit losses. The allowance for loan losses is reported as a reduction of outstanding loan balances and the reserve for unfunded loan commitments is included within other liabilities. At September 30, 2005, the allowance for credit losses totaled $31.8 million and was comprised of the allowance for loan losses of $28.3 million and the reserve for unfunded loan commitments of $3.5 million.

The following table is an analysis of our allowance for loan losses for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(In thousands)			
Ending gross loans	$ 2,557,987	$ 2,048,907	$ 2,557,987	$ 2,048,907

Allowance for loan losses, beginning of period (1)	26,584	21,401	25,021	17,761
Provision for loan losses	1,728	795	3,368	2,526
Charge-offs	(28)	(49)	(152)	(61)
Recoveries	18	5	65	5
Addition due to acquisition				1,921
Allowance for loan losses, end of period	$ 28,302	$ 22,152	$ 28,302	$ 22,152
Allowance for loan losses to ending gross loans	1.11%	1.08%	1.11%	1.08%

(1) In the first quarter of 2005, the Company reclassified the portion of the allowance for loan losses related to off-balance sheet credit risk to other liabilities. Prior allowance for loan loss balances have been reclassified to facilitate comparison with the current year.

The following table is an analysis of our reserve for unfunded loan commitments for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(In thousands)			
Reserve for unfunded loan commitments, beginning of period	$ 3,621	$ 2,810	$ 2,916	$ 2,411
Provision for unfunded loan commitments (2)	(128)	335	577	630
Addition due to acquisition				104
Reserve for unfunded loan commitments, at end of period	$ 3,493	$ 3,145	$ 3,493	$ 3,145

(2) Expenses related to off-balance sheet credit risk are included in other expenses.

The following table is an analysis of our allowance for credit losses for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(In thousands)			
Ending gross loans	$ 2,557,987	$ 2,048,907	$ 2,557,987	$ 2,048,907
Allowance for credit losses, beginning of period	30,205	24,211	27,937	20,172
Provision for credit losses	1,600	1,130	3,945	3,156
Charge-offs	(28)	(49)	(152)	(61)
Recoveries	18	5	65	5
Addition due to acquisition				2,025
Allowance for credit losses, end of period	$ 31,795	$ 25,297	$ 31,795	$ 25,297
Allowance for credit losses to ending gross loans	1.24%	1.23%	1.24%	1.23%

While management evaluates currently available information in establishing the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluations. In addition, various regulatory agencies, as an integral part of their examination process, periodically review a financial institution s allowance for loan losses and carrying amounts of OREO. Such agencies may require the financial institution to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Goodwill. Goodwill increased $1.8 million during the first nine months of 2005 to $132.2 million at September 30, 2005 from $130.5 million at December 31, 2004. The increase was due to the adjustments made to the KLS intangible assets as discussed below and to DGHM for the annual deferred payment. The increase was partially offset by a reduction in goodwill related to an adjustment for deferred taxes for FPB.

Intangible Assets. Intangible assets decreased $8.3 million during the first nine months of 2005 to $48.4 million from $56.7 million at December 31, 2004. Approximately $3.6 million of the decrease was due to adjusting the preliminary estimates that were recorded for non-compete agreements and advisory contracts related to the KLS acquisition which occurred on December 31, 2004. The remaining $4.6 million decrease was due to the amortization recorded in the first nine months of 2005.

Other Assets. Other assets increased $18.0 million during the first nine months of 2005. The increase is primarily due a an increase in deferred taxes of $7.2 million and a $4.7 million increase in mutual fund securities which are held within a Rabbi Trust to fund the Company s deferred compensation plan liability.

Deposits. The Company experienced an increase in total deposits of $294.9 million, or 12.4%, during the first nine months of 2005, to $2.7 billion, or 70.8% of total assets, at September 30, 2005, from $2.4 billion, or 72.9% of total assets, at December 31, 2004. This increase was due to organic growth and the effects of seasonal variations on existing client accounts. The following table shows the composition of our deposits at September 30, 2005 and December 31, 2004:

	September 30, 2005	December 31, 2004

	Balance	As a % of Total	Balance	As a % of Total
		(In thousands)		
Demand deposits (non-interest bearing)	$ 539,957	20.1%	$ 463,008	19.4%
NOW	230,317	8.6%	229,461	9.6%
Savings	68,848	2.6%	37,686	1.6%
Money market	1,275,991	47.6%	1,134,218	47.5%
Certificates of deposit under $100,000	128,015	4.8%	106,486	4.5%
Certificates of deposit $100,000 or greater	438,144	16.3%	415,509	17.4%
Total	$ 2,681,272	100.0%	$ 2,386,368	100.0%

Borrowings. Total borrowings (consisting of Federal Home Loan Bank (FHLB) borrowings, securities sold under agreements to repurchase (repurchase agreements) and junior subordinated debentures) increased $133.8 million, or 28.2%, during the first nine months of 2005 to $607.9 million from $474.2 million at December 31, 2004. Junior Subordinated Debentures increased $100.0 million, or 87.4%. On September 27, 2005 the Company and Boston Private Capital Trust II, a Delaware statutory business trust (the Trust), entered into a Purchase Agreement for the sale of $100 million of trust preferred capital securities to be issued by the Trust and guaranteed by the Company on a subordinated basis. The securities mature in 2035. Until December 30, 2010, the securities will have a fixed annual distribution rate of 6.25%, thereafter converting into a floating rate of three-month LIBOR plus 1.68%. The Company used the proceeds from the security issuance to fund a portion of the acquisition of Gibraltar Financial. Repurchase Agreements increased $14.5 million, or 17.1%, as a result of increased client demand for this product. FHLB Borrowings increased $19.3 million, or 7.0%. To better manage interest rate risk and to help protect the Company s net interest margin, the Company utilizes FHLB fixed rate borrowings to fund a portion of its loans.

Deferred Acquisition Obligations. A portion of the purchase price for business acquisitions is often deferred and the deferred payments are contingent upon future performance of the entity being acquired. The obligations, which are recorded at the acquisition date for contingencies that are determinable beyond a reasonable doubt, are recorded at their estimated present value and the imputed interest accrued is included in Other Operating Expenses. A portion of this obligation will be settled by the issuance of the Company s common shares. Deferred acquisition obligations were $17.8 million at September 30, 2005, a decrease of $5.6 million, or 23.9%, from December 31, 2004. This decrease was primarily due to a payment to DGHM in the first quarter of 2005, in connection with the terms of the acquisition.

Liquidity. Liquidity is defined as the ability to meet current and future financial obligations of a short-term nature. The Company further defines liquidity as the ability to respond to the needs of depositors and borrowers as well as to earnings enhancement opportunities in a changing marketplace. Primary sources of liquidity consist of investment management fees, wealth advisory fees, deposit inflows, loan repayments, borrowed funds, and cash flows from investment securities. These sources fund our lending and investment activities.

Management is responsible for establishing and monitoring liquidity targets as well as strategies to meet these targets. In general, the Company believes that it maintains a relatively high degree of liquidity. At September 30, 2005, liquid assets consisting of cash and cash equivalents, short-term investments and investment securities available for sale amounted to $778.6 million, or 20.5% of total assets of the Company. This compares to $668.0 million, or 20.4% of total assets, at December 31, 2004.

Liquidity of the Company on an unconsolidated basis (which the Company refers to as the Holding Company) should also be considered separately from the consolidated liquidity since there are restrictions on the ability of the banking affiliates to distribute funds to the Holding Company. The Holding Company s primary sources of funds are dividends and distributions from its subsidiaries, proceeds from the issuance of its common stock, a committed line of credit, and access to the capital markets. The purpose of the line of credit is to provide short-term working capital to the Holding Company and its subsidiaries, if necessary.

This line of credit agreement expired September 28, 2005 as the Holding Company is working with the lead bank on a new $75 million line of credit. The Holding Company has a commitment letter from the lead bank to fund $30 million of a credit facility of up to $75 million. The commitment letter expires November 30, 2005. The proposed line of credit will have a variable rate of interest and a two-year maturity. Under the terms of the commitment, the Company will be required to meet various financial covenants. These financial covenants include but are not limited to: minimum net worth requirements, a ratio of non-performing assets to total loans, and certain minimum capital ratios for the bank affiliates and for the consolidated group. Management expects to close on this new credit facility in November, 2005.

At September 30, 2005, the estimated cash portion related to the Company s $17.8 million deferred purchase obligations was approximately $14.1 million. The timing of these payments varies depending on the specific terms of each business acquisition agreement. Variability exists in these estimated cash flows because certain payments may be based on amounts yet to be determined, such as earn out agreements that may be based on adjusted earnings, revenues or selected AUM. These contingent deferred purchase payments are typically spread out over three to five years. Additionally, the Company along with DGHM and KLS have put and call options that would require the Company to purchase (and the principals of DGHM and KLS to sell) the remaining minority ownership interests in these two companies within the next six years at fair market value. The future fair market value of the remaining ownership interests in DGHM and KLS cannot be reasonably estimated at this time.

On September 29, 2005 the Company settled the Amended and Restated Forward Agreement (the Agreement) with an affiliate of Merrill, Lynch, Pierce, Fenner & Smith (the Merrill Lynch Affiliate) entered into on November 1, 2004. Under the settlement terms of the Agreement, the Company received approximately $36.4 million in net proceeds for the issuance of 1.6 million shares of the Company s common stock, at a price of $22.526 per share. The net proceeds were used to assist in funding the Gibraltar Financial acquisition. The Company funded the remainder of the Gibraltar Financial acquisition with the $100 million issuance of Trust Preferred Securities (noted in Borrowings above) and issued approximately 4.3 million shares of the Company s common stock to Gibraltar Financial shareholders. Total consideration for the Gibraltar Financial transaction was approximately $258 million.

At September 30, 2005 the Company had $113.0 million in Restricted Cash. The Restricted Cash was held on deposit in escrow with U.S. Stock Transfer Corporation which was used for the acquisition of Gibraltar Financial. U.S. Stock Transfer Corporation paid the Gibraltar Financial shareholders, in accordance with the Gibraltar Financial acquisition agreement, on October 3, 2005.

The Company believes that the Holding Company has adequate liquidity to meet its commitments for the foreseeable future. Liquidity at the Holding Company is dependent upon the liquidity of its subsidiaries. The Company believes that the non-bank subsidiaries are well capitalized, and Boston Private Bank, Borel and FPB have access to borrowings from the Federal Reserve Bank and other sources as more fully described in the Company s Annual Report on Form 10-K for the year ended December 31, 2004.

Capital Resources

The Company s stockholders equity at September 30, 2005 was $397.4 million, or 10.5% of total assets, compared to $321.2 million, or 9.8% of total assets at December 31, 2004. The increase was primarily the result of the Company s current year earnings, the settlement of the Company's Amended Forward Agreement, proceeds from options exercised, including tax benefits, and common stock issued in connection with stock compensation, and deferred acquisition payments. These increases were offset by dividends paid to stockholders and the change in accumulated other comprehensive loss.

As a bank holding company, the Company is subject to various regulatory capital requirements administered by federal agencies. Failure to meet minimum capital requirements can result in certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on our financial statements. For example, under capital adequacy guidelines and the regulatory framework for prompt corrective action, Boston Private Bank, Borel, and FPB must each meet specific capital guidelines that involve quantitative measures of each of their respective assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Boston Private Bank s, Borel s, and FPB s respective capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Similarly, the Company is also subject to capital requirements administered by the Federal Reserve Bank with respect to certain non-banking activities, including adjustments in connection with off-balance sheet items.

The following table presents actual capital amounts and regulatory capital requirements as of September 30, 2005 and December 31, 2004:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(In thousands)			
As of September 30, 2005:						
Total risk-based capital						
Company	$ 462,967	17.60%	$ 210,396	> 8.0%	$ 262,995	> 10.0%
Boston Private Bank	149,065	10.95	108,866	8.0	136,083	10.0
Borel	80,975	10.98	59,004	8.0	73,756	10.0
FPB	41,607	12.11	27,490	8.0	34,363	10.0
Tier I risk-based						
Company	353,786	13.45	105,198	4.0	157,797	6.0
Boston Private Bank	132,038	9.70	54,433	4.0	81,650	6.0
Borel	71,754	9.73	29,502	4.0	44,253	6.0
FPB	37,520	10.92	13,745	4.0	20,618	6.0
Tier I leverage capital						
Company	353,786	10.46	135,280	4.0	169,100	5.0
Boston Private Bank	132,038	6.41	82,393	4.0	102,991	5.0
Borel	71,754	8.86	32,388	4.0	40,485	5.0
FPB	37,520	9.12	16,461	4.0	20,576	5.0
As of December 31, 2004:						
Total risk-based capital						
Company	$ 270,740	12.17%	$ 177,955	>8.0%	$ 222,444	>10.0%
Boston Private Bank	131,550	10.77	97,719	8.0	122,149	10.0
Borel	67,471	10.41	51,846	8.0	64,808	10.0
FPB	33,456	11.41	23,455	8.0	29,319	10.0
Tier I risk-based						
Company	242,933	10.92	88,978	4.0	133,466	6.0
Boston Private Bank	116,266	9.52	48,860	4.0	73,289	6.0
Borel	59,524	9.18	25,923	4.0	38,885	6.0
FPB	29,981	10.23	11,727	4.0	17,591	6.0
Tier I leverage capital						
Company	242,933	7.88	123,245	4.0	154,056	5.0
Boston Private Bank	116,266	6.20	74,979	4.0	93,723	5.0
Borel	59,524	7.95	29,952	4.0	37,440	5.0
FPB	29,981	7.64	15,695	4.0	19,619	5.0

Total risk-based capital at September 30, 2005 includes $211.0 million of Trust Preferred debt which qualifies for inclusion in regulatory capital. $133.6 million of Trust Preferred debt qualifies for inclusion in Tier I risk-based capital at September 30, 2005.

The Company's capital ratios at September 30, 2005 increased from June 30, 2005 due to the issuance of $100 million of new Junior Subordinated debt and the exercising of the Forward Stock Agreement. The Company expects the capital ratios to decrease at December 31, 2005 from September 30, 2005 due to the acquisition of Gibraltar Financial and the related Goodwill and Intangibles to be recorded.

Results of Operations for the Three Months Ended September 30, 2005

Net Income. The Company recorded net income of $12.0 million, or $0.40 per diluted share for the quarter ended September 30, 2005 compared to net income of $8.8 million, or $0.31 per diluted share, for the quarter ended September 30, 2004.

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 of the average rate earned on total interest earning assets and the average rate paid on total interest-bearing liabilities. Net interest margin is the amount of net interest income, on a fully taxable equivalent basis, expressed as a percentage of average interest-earning assets. The average rate earned on earning assets is the amount of annualized taxable equivalent interest income expressed as a percentage of average earnings assets. The average rate paid on interest bearing liabilities is equal to annualized interest expense as a percentage of average interest-bearing liabilities. For the third quarter of 2005, net interest income was $30.1 million, an increase of $7.0 million, or 30.6%, over the same period of 2004. This change was due to the increase in the average balance and rate on earning assets, partially offset by an increase in the average balance and rate on interest-bearing liabilities. The Company s net interest margin was 3.88% for the third quarter of 2005, an increase of 20 basis points compared to the same period of 2004.

The following table sets forth the composition of the Company s net interest margin on a FTE basis for the three months ended September 30, 2005 and September 30, 2004.

	Three Months Ended September 30, 2005			Three Months Ended September 30, 2004		
	Average Balance	**Interest Earned/ Paid(1)**	**Average Rate**	**Average Balance**	**Interest Earned/ Paid(1)**	**Average Rate**
			(In thousands)			
Earning assets:						
Cash and investments	$ 663,918	$ 5,909	3.54%	$ 578,465	$ 4,425	3.05%
Loans(2)						
Commercial and construction	1,516,775	27,411	7.12%	1,166,834	17,437	5.89%
Residential mortgage	906,860	10,969	4.84%	761,051	8,904	4.72%
Home equity and other consumer	92,515	1,525	6.45%	81,369	1,056	5.13%
Total loans	2,516,150	39,905	6.27%	2,009,254	27,397	5.40%
Total earning assets	3,180,068	45,814	5.70%	2,587,719	31,822	4.87%
Interest-bearing liabilities:						
Deposits	$ 2,051,452	$ 9,667	1.87%	$ 1,762,832	$ 4,868	1.10%
Borrowed funds	521,870	4,928	3.73%	334,557	2,889	3.43%
Total interest-bearing liabilities	2,573,322	14,595	2.25%	2,097,389	7,757	1.47%
Net interest income		$ 31,219			$ 24,065	
Interest rate spread			3.45%			3.40%
Net interest margin			3.88%			3.68%

(1) Interest income on non-taxable investments and loans is presented on a FTE basis using the federal statutory rate. These adjustments were $1.2 million and $1.1 million for 2005 and 2004, respectively.

(2) Includes loans held for sale.

*Interest Income***.** Interest and dividend income increased $13.9 million, or 45.1%, in the third quarter of 2005 as a result of increases in interest income on loans and investments (taxable investment securities, non-taxable investment securities, mortgage backed securities, federal funds sold, FHLB dividends, and other).

Interest income on commercial and construction loans increased $9.9 million, or 57.5%, in the third quarter of 2005 as a result of a 30.0% increase in average balances and a 20.9% increase in the average yield to 7.12% on an FTE basis. The increase in the average balance of commercial and construction loans of $350.0 million was due to the Encino acquisition in 2004 as well as organic growth of the loan portfolios at the Banks. Interest income from residential mortgage loans increased $2.1 million, or 23.2%, in the third quarter of 2005 as a result of a 19.2% increase in average balances and a 12 basis point increase in the average rate earned.

Investment income increased $1.5 million, or 40.4%, as a result of a 49 basis point increase, or 16.1%, in average yield to 3.54% on an FTE basis, and an $85.5 million increase in the average balance. The increase in the average balance was due to increased liquidity and the corresponding investment or lending alternatives made by the Banks. Investment decisions are made based on anticipated liquidity, loan demand, and asset liability management decisions.

Interest Expense. Interest paid on deposits and borrowings increased $6.8 million, or 88.2%, for the third quarter of 2005 from $7.8 million for the third quarter of 2004 to $14.6 million for the third quarter of 2005. Interest paid on deposits increased $4.8 million for the quarter ended September 30, 2005 compared to the same period in 2004 as a result of a $288.6 million, or 16.4%, increase in the average balance, and a 77 basis point, or 70.0%, increase in the average rate paid. Interest paid on borrowings increased $2.0 million, or 70.6%, as a result of a $187.3 million, or 56.0%, increase in average balance, and a 30 basis point, or 8.7%, increase in the average rate paid. The increase in the average balance of borrowings was due to the additional FHLB borrowings, repurchase agreements, and the issuance of the junior subordinated debentures that took place in the fourth quarter of 2004.

Provision for Loan Losses. The provision for loan losses increased $933,000, or 117.4%, to $1.7 million for the third quarter of 2005, compared to $795,000 for the same period in 2004. The level of provisions recorded during the quarter is impacted by the amount of loan growth and the mix of loans during the quarter. Management evaluates several factors including new loan originations, estimated charge-offs, and risk characteristics of the loan portfolio when determining the provision for loan losses. These factors include the level and mix of loan growth, the level of non-accrual and delinquent loans, and the level of charge-offs and recoveries. See *Financial Condition Allowance for Loan Losses*. Charge-offs, net of recoveries, were $10,000 during the third quarter of 2005 versus $44,000 for the same period in 2004.

Fees and Other Income. Fees and other income increased $7.9 million, or 29.2 %, in the third quarter of 2005 compared to the third quarter of 2004. This increase is primarily attributable to the 17.9% increase in investment management and trust fees and the 142.0% increase in wealth advisory fees.

Investment management and trust fees increased $4.2 million, or 17.9%, for the quarter ended September 30, 2005. This increase was due to the increase in the average yield/fees earned on the managed assets and an increase in the performance fee income. Assets under management, excluding the assets from the unconsolidated affiliates and wealth advisors, increased $2.3 billion, or 16.3%, from $14.1 billion to $16.4 billion at September 30, 2005. The increase is primarily the result of market factors, primarily the general appreciation in the market prices of securities.

Wealth advisory fees increased $2.8 million, or 142.0%, in the third quarter of 2005 compared to the third quarter of 2004. This increase is primarily the result of the KLS acquisition that took place on December 31, 2004.

Earnings in equity investments increased $364,000, or 197.8%, in the third quarter 2005 compared to the third quarter 2004. This increase is primarily the result of the Company s purchase of an additional equity interest in BOS. In July 2005 the Company increased its investment in BOS to approximately a 39.9% interest from a 29.9% interest. Over the next three years the Company has the right to acquire up to a 70% interest in the firm.

Other income (consisting of cash management fees, loan fees, and other fees) increased $354,000, or 45.2%, in the third quarter of 2005 compared to the third quarter of 2004. This increase is primarily due to investment gains recognized on the Company s Rabbi Trust investment.

Operating Expenses and Minority Interest. Total operating expenses and minority interest for the third quarter of 2005 were $43.6 million, compared to $35.5 million for the same period of 2004, an increase of $8.1 million, or 22.9%. $2.2 million or 27.7% of the increase is attributable to the KLS acquisition. Excluding the effect of the KLS acquisition, operating expenses and minority interest increased $5.9 million, or 16.6%. The increase is primarily attributable to salaries and benefits as well as other operating expenses resulting from the Company s growth and acquisitions.

Salaries and benefits, the largest component of operating expense, increased $6.3 million, or 27.2%, to $29.3 million for the third quarter of 2005, from $23.0 million for the same period in 2004. This increase was due to an increase in the number of employees due to acquisitions and growth, normal salary increases, and the related taxes and benefits thereon. The increase reflects additional variable compensation related to the acquisitions in 2004 and the increased profits that come from those businesses.

Occupancy and equipment expense was $5.1 million for the third quarter of 2005 compared to $4.0 million for the same period of 2004. The $1.1 million, or 26.7% increase over the third quarter of 2004, is primarily due to acquisitions, increases in technology hardware and software costs, and an increase in rent expense as a result of growth and expansion.

Professional services include legal fees, consulting fees, and other professional services such as audit and tax preparation. These expenses decreased $290,000, or 12.5%, to $2.0 million for the third quarter of 2005, from $2.3 million for the same period of 2004. The decrease is primarily due to decreased consulting expenses. Third quarter 2004 consulting expense included consulting costs associated with the Company s preparation for compliance with Sarbanes-Oxley regulations.

Marketing and business development increased $277,000, or 24.0%, from the same period in 2004. This increase was primarily due to increased marketing efforts to continue to grow the business.

Contract services and processing, which are primarily costs associated with custody and data processing, increased $209,000, or 27.8%, for the third quarter of 2005 as compared with the same period in 2004. This increase was due primarily to continued investments in our data processing systems as well as higher business volumes.

Amortization of intangibles was $1.5 million for the third quarter of 2005, an increase of $295,000 from the third quarter of 2004. This increase was attributable to the investment advisory contracts from the KLS acquisition, the CDI from the Encino acquisition, and the non-compete agreements from the Encino and KLS acquisitions.

Other expenses include insurance, supplies, telephone, mailing expense, publications and subscriptions, employee training, interest on deferred acquisition payments, and provision for off-balance sheet credit risk, and other miscellaneous business expenses. Other expenses increased $134,000, or 5.1%, to $2.8 million for the third quarter of 2005 compared to $2.7 million for the same period in 2004. The increase is primarily the result of growth in business and acquisitions.

Income Tax Expense. The Company recorded income tax expense of $7.4 million for the third quarter of 2005 as compared to $4.8 million for the same period of 2004. The effective tax rate for the third quarter of 2005 was 38.2% compared to 35.3% for the third quarter of 2004. The increase in the Company s effective tax rate in 2005 was due to the decreased proportion of non-taxable investments relative to income earning assets due to growth, and the acquisitions in 2004 in states and localities with higher tax rates. The Company s effective tax rate for the remainder of 2005 will be affected by the income in various states and localities as well as the level of tax-free investments.

Results of Operations for the Nine Months Ended September 30, 2005

Net Income. The Company recorded net income of $32.3 million, or $1.09 per diluted share, for the nine months ended September 30, 2005, compared to net income of $24.2 million, or $0.84 per diluted share, for the nine months ended September 30, 2004.

Net Interest Income. For the nine months ended September 30, 2005, net interest income was $84.8 million, an increase of $21.7 million, or 34.4%, over the same period in 2004. This change was due to the increase in the average balance and average rate on earning assets, and partially offset by an increase in the average balance and rate on interest-bearing liabilities. The Company s net interest margin was 3.78% for the nine months ended September 30, 2005, an increase of 20 basis points compared to the same period last year.

The following table sets forth the composition of the Company s net interest margin on a FTE basis for the nine months ended September 30, 2005 and September 30, 2004.

	Nine Months Ended September 30, 2005			Nine Months Ended September 30, 2004		
	Average Balance	Interest Earned/ Paid(1)	Average Rate	Average Balance	Interest Earned/ Paid(1)	Average Rate
			(In thousands)			
Earning assets:						
Cash and investments	$ 685,398	$ 17,285	3.35%	$ 614,953	$ 13,034	2.84%
Loans(2)						
Commercial and construction	1,437,989	74,376	6.84%	1,062,468	46,869	5.87%
Residential mortgage	870,961	31,126	4.77%	707,030	25,082	4.70%
Home equity and other consumer	92,203	4,298	6.15%	79,381	3,037	5.02%
Total loans	2,401,153	109,800	6.06%	1,848,879	74,988	5.39%
Total earning assets	3,086,551	127,085	5.46%	2,463,832	88,022	4.76%
Interest-bearing liabilities:						
Deposits	$ 1,996,927	$ 24,407	1.63%	$ 1,680,717	$ 13,521	1.07%
Borrowed funds	513,011	14,364	3.73%	321,663	8,360	3.43%
Total interest-bearing liabilities	2,509,938	38,771	2.06%	2,002,380	21,881	1.45%
Net interest income		$ 88,314			$ 66,141	
Interest rate spread			3.40%			3.31%
Net interest margin			3.78%			3.58%

(1) Interest income on non-taxable investments and loans is presented on a FTE basis using the federal statutory rate. These adjustments were $3.5 million and $3.0 million for 2005 and 2004, respectively.

(2) Includes loans held for sale.

Interest Income. Interest and dividend income increased $38.6 million, or 45.4%, for the nine months ended September 30, 2005 as a result of increases in interest income on loans and investments.

Interest income on commercial and construction loans increased 58.7% to $73.4 million for the nine months ended September 30, 2005, compared to $46.2 million for the same period in 2004. Interest income from residential mortgage loans increased 24.1% to $31.1 million for the nine months ended September 30, 2005, compared to $25.1 million for the same period in 2004, and interest on home equity and other loans increased 41.5% to $4.3 million for the first nine months of 2005, compared to $3.0 million, for the same period in 2004. The average balance of commercial and construction loans increased 35.3% and the average rate increased 16.5%, or 97 basis points, to 6.84%, on an FTE basis, for the nine months ended September 30, 2005. The average balance of residential mortgage loans increased 23.2%, and the average rate increased 1.5%, or seven basis points, to 4.77% for the same period. The average balance of home equity and other loans increased 16.2% and the average rate increased 22.5%, or 113 basis points, to 6.15%. The increase in the average balance of loans was due to the Encino acquisition in 2004 as well as organic growth of the loan portfolio at the Banks.

Investment income increased $4.2 million, or 39.0%, to $14.8 million for the nine months ended September 30, 2005, compared to $10.7 million for the same period in 2004. This increase was primarily attributable to an increase in the average balance of $70.4 million, or 11.5%, for the nine months ended September 2005 and by an increase in the average rate earned of 51 basis points, or 18.0% to 3.35% on an FTE basis. The increase in the average balance was due to the increased liquidity and the corresponding investment on lending alternatives made by the Banks. Investment decisions are made based on anticipated liquidity, loan demand, and asset liability management decisions.

Interest Expense. Interest paid on deposits and borrowings increased $16.9 million, or 77.2%, for the nine months ended September 30, 2005 from $21.9 million to $38.8 million. Interest paid on deposits increased $10.9 million for the nine months ended September 30, 2005 compared to the same period in 2004 as a result of a $316.2 million, or 18.8%, increase in the average balance and a 56 basis point, or 52.3%, increase in the average rate paid. Interest paid on borrowings increased $6.0 million, or 71.8%, as a result of a $191.3 million, or 59.5%, increase in average balance, and a 30 basis point, or 8.7%, increase in the average rate paid. The increase in the average balance of borrowings was due to the additional FHLB borrowings, repurchase agreements, and the issuance of the junior subordinated debentures that took place in the fourth quarter of 2004.

Provision for Loan Losses. The provision for loan losses increased $842,000, or 33.3%, to $3.4 million for the nine months ended September 30, 2005, compared to $2.5 million for the same period in 2004. The level of provision amounts recorded during the nine months ended September 30, 2005 were impacted by the amount of loan growth and the mix of loans during the year.

Management evaluates several factors including new loan originations, estimated charge-offs, and risk characteristics of the loan portfolio when determining the provision for loan losses. These factors include the level and mix of loan growth, the level of non-accrual and delinquent loans, and the level of charge-offs and recoveries. See *Financial Condition Allowance for Loan Losses*. Charge-offs net of recoveries were $87,000 during the first nine months of 2005 compared to $56,000 for the same period in 2004.

Fees and Other Income. Fees and other income increased $21.3 million, or 27.4%, to $99.0 million for the nine months ended September 30, 2005, compared to $77.7 million for the same period in 2004. This increase is primarily attributable to the 16.2% increase in investment management and trust fees and the 135.8% increase in the wealth advisory fees.

Investment management and trust fees increased $10.9 million, or 16.2%, for the nine months ended September 30, 2005. This increase was due to the increase in the average yield/fees earned on the managed assets and an increase in the performance fee income. Assets under management, excluding the assets from the unconsolidated affiliates and wealth advisors, increased $2.3 billion, or 16.3%, from $14.1 billion to $16.4 billion at September 30, 2005. The increase is primarily the result of market factors, primarily the general appreciation in the market prices of securities.

Wealth advisory fees increased $8.1 million, or 135.8%, to $14.1 million for the first nine months of 2005, as compared to $6.0 million for the same period in 2004. Assets under advisory, excluding the assets from the unconsolidated affiliates, increased $3.1 billion. These increases, both in fees and advised assets, are primarily the result of the KLS acquisition.

Other income (consisting of cash management fees, loan fees, and other fees) increased $1.4 million, or 46.5%. This increase is primarily due to loan prepayment fees, increased volume and investment gains recognized on the Company s Rabbi Trust investments which are used to fund the deferred compensation liability.

Operating Expenses and Minority Interest. Total operating expenses and minority interest for the nine months ended September 30, 2005 were $128.9 million compared to $101.2 million for the same period in 2004. Operating expenses increased $27.7 million, a 27.4% increase over the first nine months of 2004. $6.5 million or 23.4% of the increase is attributable to the KLS acquisition. Excluding the effect of KLS, operating expenses and minority interest increased $21.2 million, or 21.0%. The increase is primarily attributable to salaries and benefits as well as other operating expenses resulting from the Company s growth and acquisitions.

Salaries and benefits, the largest component of operating expense, increased $17.4 million, or 26.0%, to $84.3 million for the first nine months of 2005, from $66.9 million for the same period in 2004. This increase was due to an increase in the number of employees due to acquisitions and growth, normal salary increases, and the related taxes and benefits thereon. The increase reflects additional variable compensation related to the acquisitions in 2004 and on the increased profits that come from those businesses.

Occupancy and equipment expense was $14.6 million for the first nine months of 2005 compared to $11.2 million for the same period last year. The $3.4 million, or 30.6% increase over the same period in 2004, is primarily due to acquisitions, increases in technology hardware and software costs, and an increase in rent expense as a result of growth and expansion.

Professional services include legal fees, consulting fees, and other professional services such as audit, tax preparation, and compliance. These expenses increased $1.9 million, or 35.5%. This increase is due to additional services for audit, legal, and consulting related to compliance with regulatory standards such as the Sarbanes-Oxley Act.

Marketing and business development increased $900,000, or 23.4%, from the same period in 2004. This increase was primarily due to increased marketing efforts to continue to grow the business.

Contract services and processing, which are primarily costs associated with custody and data processing, increased $740,000, or 35.1%, for the first nine months of 2005 as compared with the same period in 2004. This increase was due primarily to continued investments in our data processing systems as well as higher business volumes.

Amortization of intangibles was $4.6 million for the first nine months of 2005, an increase of $1.3 million from the same period of 2004. This increase was attributable to the investment advisory contracts from the KLS acquisition, the CDI from the Encino acquisition, and the non-compete agreements from the Encino and KLS acquisitions.

Other expenses include insurance, supplies, telephone, mailing expense, publications and subscriptions, employee training, interest on deferred acquisition payments, and provision for off-balance sheet credit risk, and other miscellaneous business expenses. Other expenses increased $1.5 million, or 20.0%, to $9.2 million for the first nine months of 2005 compared to $7.6 million for the same period in 2004. The increase is primarily the result of growth in business and acquisitions.

Income Tax Expense. The Company recorded income tax expense of $19.2 million for the first nine months of 2005 as compared to $13.0 million for the same period of 2004. The effective tax rate for the first nine months of 2005 was 37.3% compared to 34.9% for the first nine months of 2004. The increase in the Company s effective tax rate in 2005 was due to the decreased proportion of non-taxable investments relative to income earning assets due to growth, and the acquisitions in 2004 in states and localities with higher tax rates. The Company s effective tax rate for the remainder of 2005 will be affected by the income in various states and localities as well as the level of tax-free investments.

Risk Factors

Risks Relating to Our Business

Our business strategy contemplates significant growth and there are challenges and risks inherent in such a growth strategy.

In recent years, the Company experienced rapid growth, both due to the expansion of the Company s existing businesses as well as acquisitions. Among the challenges facing the Company is the ongoing need to continue to maintain and develop an infrastructure appropriate to support such growth, including in the areas of management personnel, systems, compliance, and risk management, while taking steps to ensure that the related expense incurred is commensurate with the growth in revenues. Accordingly, there is risk inherent in the Company s pursuit of a growth strategy that revenue will not be sufficient to support such expense and generate profitability at the levels the Company historically achieved. A significant decrease in revenues or increases in costs may adversely affect the Company s results of operations or financial condition.

In connection with our recent acquisitions and to the extent that we acquire other companies in the future, our business may be negatively impacted by certain risks inherent in such acquisitions.

We have in the past considered, and will in the future continue to consider, the acquisition of other banking, investment management, and wealth advisory companies. To the extent that we acquire other companies in the future, our business may be negatively impacted by certain risks inherent in such acquisitions. These risks include, but are not limited to the following:

the risk that we will incur substantial expenses in pursuing potential acquisitions without completing such acquisitions;

the risk that we may lose key clients of the acquired business as a result of the change of ownership to us;

the risk that the acquired business will not perform in accordance with our expectations;

the risk that difficulties will arise in connection with the integration of the operations of the acquired business with the operations of our private banking, investment management, or wealth advisory businesses, particularly to the extent we are entering new geographic markets;

the risk that we will need to make significant investments in infrastructure, controls, staff, emergency backup facilities or other critical business functions that become strained by our growth;

the risk that management will divert its attention from other aspects of our business;

the risk that we may lose key employees of the acquired business;

the risk that unanticipated costs relating to potential acquisitions could reduce our EPS;

the risk associated with entering into geographic and product markets in which we have limited or no direct prior experience;

the risk that we may assume potential liabilities of the acquired company as a result of the acquisition; and

the risk that an acquisition will dilute our EPS, in both the short and long term, or that it will reduce our tangible capital ratios.

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

Attractive acquisition opportunities may not be available to us in the future.

We will continue to consider the acquisition of other businesses. However, we may not have the opportunity to make suitable acquisitions on favorable terms in the future, which could negatively impact the growth of our business. We expect that other banking and financial companies, many of which have significantly greater resources than we do, will compete with us to acquire compatible businesses. This competition could increase prices for acquisitions that we would likely pursue. Also, acquisitions of regulated businesses such as banks are subject to various regulatory approvals. If we fail to receive the appropriate regulatory approvals, we will not be able to consummate an acquisition that we believe is in our best interests.

If we are required to write down goodwill and other intangible assets, our financial condition and results of operations would be negatively affected.

When we acquire a business, a substantial portion of the purchase price of the acquisition is allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill is determined by the excess of the purchase price over the net identifiable assets acquired. At September 30, 2005, our goodwill and other identifiable intangible assets were approximately $180.7 million. Under current accounting standards, if we determine goodwill or intangible assets are impaired, we will be required to write down the value of these assets. We conduct an annual review to determine whether goodwill and other identifiable intangible assets are impaired. We cannot assure you that we will not be required to take an impairment charge in the future. Any impairment charge would have a negative effect on our stockholders equity and financial results.

We may not be able to attract and retain banking customers at current levels.

Competition in the local banking industry coupled with our relatively small size may limit the ability of our banking subsidiaries to attract and retain banking customers.

In particular, the Banks competitors include several major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the credit and investment needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain deposits and range and quality of services provided. Our Banks also face competition from out-of-state financial intermediaries which have opened low-end production offices or which solicit deposits in their respective market areas.

Because our Banks maintain smaller staffs and have fewer financial and other resources than larger institutions with which they compete, they may be limited in their ability to attract customers. In addition, some of the Banks current commercial banking customers may seek alternative banking sources as they develop needs for credit facilities larger than our Banks can accommodate.

If our Banks are unable to attract and retain banking customers, they may be unable to continue their loan growth and their results of operations and financial condition may otherwise be negatively impacted.

We may not be able to attract and retain investment management clients at current levels.

Due to the intense competition in the investment management business, our investment management subsidiaries may not be able to attract and retain investment management clients at current levels. Competition is especially strong in our geographic market area, because there are numerous well-established and successful investment management firms in Boston, New York and northern California. Many of our competitors have greater resources than we have.

Our ability to successfully attract and retain investment management and wealth advisory clients is dependent upon our ability to compete with competitors investment products, level of investment performance, client services and marketing and distribution capabilities. If we are not successful, our results of operations and financial condition may be negatively impacted.

For the quarter ended September 30, 2005, approximately 42.3% of our revenues were derived from investment management contracts which are typically terminable upon less than 30 days notice. Most of our clients may withdraw funds from accounts under management generally in their sole discretion. The combined financial performance of our major investment management subsidiaries is a significant factor in our overall results of operations and financial condition.

Moreover, Westfield and DGHM receive some performance-based fees. The amount of these fees depends on the investment performance of Westfield and DGHM. As a result, the future revenues and earnings from such fees may fluctuate and may be affected by conditions in the capital markets and other general economic conditions.

Our investment management business is highly dependent on people to produce investment returns and to solicit and retain clients.

We rely on our investment managers to produce investment returns. We believe that investment performance is one of the most important factors for the growth of our assets under management. Poor investment performance could impair our revenues and growth because:

- existing clients might withdraw funds in favor of better performing products, which would result in lower investment management fees; or

- our ability to attract funds from existing and new clients might diminish.

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

In addition to the loss of key investment managers, our investment management business is dependent on the integrity of our asset managers and our employees. If an asset manager or employee were to misappropriate any client funds, the reputation of our asset management business could be negatively affected, which may result in the loss of accounts and have a material adverse effect on our results of operations and financial condition.

We may not be able to attract and retain wealth advisory clients at current levels.

Like our investment management business, our wealth advisory business is subject to intense competition, and our ability to attract and retain wealth advisory clients is dependent upon the delivery of planning and related services which are favorably perceived in the marketplace. Client contracts must typically be renewed on an annual basis and are terminable upon relatively short notice. If we are not successful in attracting or retaining our wealth advisory clients, our results of operations and financial condition may be negatively impacted.

Defaults in the repayment of loans may negatively impact our business.

A borrower s default on its obligations under one or more of the Banks loans may result in lost principal and interest income and increased operating expenses as a result of the allocation of management time and resources to the collection and work-out of the loan.

In certain situations, where collection efforts are unsuccessful or acceptable work-out arrangements cannot be reached, our Banks may have to write-off the loan in whole or in part. In such situations, the Banks may acquire real estate or other assets, if any, which secure the loan through foreclosure or other similar available remedies. In such cases, the amount owed under the defaulted loan often exceeds the value of the assets acquired.

Our Banks management periodically makes a determination of an allowance for loan losses based on available information, including the quality of their loan portfolio, certain economic conditions, and the value of the underlying collateral and the level of its non-accruing loans. Provisions to this allowance result in an expense for the period. If, as a result of general economic conditions or an increase in defaulted loans, management determines that additional increases in the allowance for loan losses are necessary, the Banks will incur additional expenses.

In addition, bank regulatory agencies periodically review our Banks allowances for loan losses and the values they attribute to real estate acquired through foreclosure or other similar remedies. Such regulatory agencies may require the Banks to adjust their determination of the value for these items. These adjustments could negatively impact our results of operations or financial condition.

A downturn in local economies or real estate markets could negatively impact our banking business.

A downturn in the local economies or real estate markets could negatively impact our banking business. Primarily, our Banks serve individuals and smaller businesses located in eastern Massachusetts and adjoining areas, with a particular concentration in the Greater Boston Metropolitan Area, as well as clients located in northern and southern California. The ability of the Banks customers to repay their loans is impacted by the economic conditions in these areas.

The Banks commercial loans are generally concentrated in the following customer groups:

- real estate developers and investors;
- financial service providers;
- technology companies;
- manufacturing and communications companies;
- professional service providers;
- general commercial and industrial companies; and
- individuals.

Our Banks commercial loans, with limited exceptions, are secured by real estate (usually income producing residential and commercial properties), marketable securities or corporate assets (usually accounts receivable, equipment or inventory). Substantially all of our Banks residential mortgage and home equity loans are secured by residential property in eastern Massachusetts, and northern and southern California. Consequently, our Banks ability to continue to originate real estate loans may be impaired by adverse changes in local and regional economic conditions in the real estate markets, or by acts of nature, including earthquakes, hurricanes and flooding. Due to the concentration of real estate collateral, these events could have a material adverse impact on the ability of our Banks borrowers to repay their loans and affect the value of the collateral securing these loans.

Environmental liability associated with commercial lending could result in losses.

In the course of business, our Banks may acquire, through foreclosure, properties securing loans they have originated or purchased which are in default. Particularly in commercial real estate lending, there is a risk that hazardous substances could be discovered on these properties. In this event, we, or our Banks, might be required to remove these substances from the affected properties at our sole cost and expense. The cost of this removal could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have a material adverse effect on our business, results of operations and financial condition.

Fluctuations in interest rates may negatively impact our banking business.

Fluctuations in interest rates may negatively impact the business of our Banks. Our Banks main source of income from operations is net interest income, which is equal to the difference between the interest income received on interest-bearing assets (usually loans and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (usually deposits and borrowings). These rates are highly sensitive to many factors beyond our control, including general economic conditions, both domestic and foreign, and the monetary and fiscal policies of various governmental and regulatory authorities. Our Banks net interest income can be affected significantly by changes in market interest rates. Changes in relative interest rates may reduce our Banks net interest income as the difference between interest income and interest expense decreases. As a result, our Banks have adopted asset and liability management policies to minimize the potential adverse effects of changes in interest rates on net interest income, primarily by altering the mix and maturity of loans, investments and funding sources. However, even with these policies in place, a decrease in interest rates can impact our results of operations or financial condition.

An increase in interest rates could also have a negative impact on our Banks results of operations by reducing the ability of borrowers to repay their current loan obligations, which could not only result in increased loan defaults, foreclosures and write-offs, but also necessitate further increases to the Banks allowances for loan losses. Increases in interest rates, in certain circumstances, may also lead to high levels of loan prepayments, which may also have an adverse impact on our net interest income.

Prepayments of loans may negatively impact our business.

Generally, our Banks customers may prepay the principal amount of their outstanding loans at any time. The speed at which such prepayments occur, as well as the size of such prepayments, are within our customers discretion. If customers prepay the principal amount of their loans, and we are unable to lend those funds to other borrowers or invest the funds at the same or higher interest rates, our interest income will be reduced. A significant reduction in interest income could have a negative impact on our results of operations and financial condition.

Our cost of funds for banking operations may increase as a result of general economic conditions, interest rates and competitive pressures.

Our cost of funds for banking operations may increase as a result of general economic conditions, interest rates and competitive pressures. Our Banks have traditionally obtained funds principally through deposits and through borrowings. As a general matter, deposits are a cheaper source of funds than borrowings, because interest rates paid for deposits are typically less than interest rates charged for borrowings. Historically and in comparison to commercial banking averages, our Banks have had a higher percentage of their time deposits in denominations of $100,000 or more. Within the banking industry, the amounts of such deposits are generally considered more likely to fluctuate than deposits of smaller denominations. If, as a result of general economic conditions, market interest rates, competitive pressures or otherwise, the value of deposits at our Banks decreases relative to their overall banking operations, our Banks may have to rely more heavily on borrowings as a source of funds in the future.

Our investment management business may be negatively impacted by changes in economic and market conditions.

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

In addition, our management contracts generally provide for fees payable for investment management services based on the market value of assets under management, although a portion of Westfield s and DGHM s contracts also provide for the payment of fees based on investment performance in addition to a base fee. Because most contracts provide for a fee based on market values of securities, fluctuations in securities prices may have a material adverse effect on our results of operations and financial condition.

Our investment management and wealth advisory businesses are highly regulated, which could limit or restrict our activities and impose fines or suspensions on the conduct of our business.

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

All of our investment adviser and wealth advisory affiliates are registered investment advisers under the Investment Advisers Act. The Investment Advisers Act imposes numerous obligations on registered investment advisers, including fiduciary, record keeping, operational and disclosure obligations. These subsidiaries, as investment advisers, are also subject to regulation under the federal and state securities laws and the fiduciary laws of certain states. In addition, Westfield, Sand Hill, and DGHM act as sub-advisers to mutual funds which are registered under the Investment Company Act of 1940 and are subject to that act s provisions and regulations.

We are also subject to the provisions and regulations of the Employee Retirement Income Security Act of 1974 (ERISA), to the extent we act as a fiduciary under ERISA with respect to certain of our clients. ERISA and the applicable provisions of the federal tax laws, impose a number of duties on persons who are fiduciaries under ERISA and prohibit certain transactions involving the assets of each ERISA plan which is a client, as well as certain transactions by the fiduciaries (and certain other related parties) to such plans.

In addition, applicable law provides that all investment contracts with mutual fund clients may be terminated by the clients, without penalty, upon no more than 60 days notice. Investment contracts with institutional and other clients are typically terminable by the client, also without penalty, upon 30 days notice.

We do not directly manage investments for clients, do not directly provide any investment management services and, therefore, are not a registered investment adviser. The Banks are exempt from the regulatory requirements of the Investment Advisers Act, but are subject to extensive regulation by the Federal Deposit Insurance Corporation (FDIC), the Massachusetts Commissioner of Banks, and the California Department of Financial Institutions.

Our banking business is highly regulated which could limit or restrict our activities and impose financial requirements or limitations on the conduct of our business.

Bank holding companies and state chartered banks operate in a highly regulated environment and are subject to supervision and examination by federal and state regulatory agencies. We are subject to the Bank Holding Company Act and to regulation and supervision by the Board of Governors of the Federal Reserve System. Boston Private Bank, as a Massachusetts chartered trust company, the deposits of which are insured by the FDIC, is subject to regulation and supervision by the Massachusetts Commissioner of Banks and the FDIC. Borel and FPB, as California banking corporations, are subject to regulation and supervision by the California Department of Financial Institutions and the FDIC.

Federal and state laws and regulations govern numerous matters including changes in the ownership or control of banks and bank holding companies, maintenance of adequate capital and the financial condition of a financial institution, permissible types, amounts and terms of extensions of credit and investments, permissible nonbanking activities, the level of reserves against deposits and restrictions on dividend payments. The FDIC, the California Department of Financial Institutions and the Massachusetts Commissioner of Banks possess cease and desist powers to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulation, and the Federal Reserve Board possesses similar powers with respect to bank holding companies. These and other restrictions limit the manner in which our Banks and we may conduct business and obtain financing.

Furthermore, our banking business is affected not only by general economic conditions, but also by the monetary policies of the Federal Reserve Board. Changes in monetary or legislative policies may affect the interest rates our Banks must offer to attract deposits and the interest rates they must charge on their loans, as well as the manner in which they offer deposits and make loans. These monetary policies have had, and are expected to continue to have, significant effects on the operating results of depository institutions generally, including our Banks.

Adverse developments in our litigation could negatively impact our business.

Since 1984, Borel has served as the trustee of a private family trust (Family Trust), which was a joint owner of certain real property known as the Guadalupe Oil Field. In litigation commenced in 1994, certain beneficiaries of the Family Trust claimed Borel breached its fiduciary duties in managing oil and gas leases on the Guadalupe Oil field and, following the discovery of environmental contamination on the property, by negotiating, and later finalizing, a Settlement Agreement and Purchase and Sale Agreement conveying the property to Union Oil Company of California (d/b/a UNOCAL), the operator of the oil field. In the first lawsuit, in which the beneficiaries sought to remove Borel as trustee, Borel prevailed at trial and obtained final judgment in its favor. In several subsequent lawsuits in the state court, Borel has prevailed on all material issues. In all such actions, the court has either entered final judgments in Borel s favor or voluntary dismissals with prejudice.

One beneficiary a contingent remainder beneficiary has split with the other plaintiff beneficiaries and has refused to participate in the voluntary dismissals with prejudice. Following the dismissal of his separate actions against Borel in the state court, this beneficiary, acting pro se, filed a new action on June 24, 2005, in the United States District Court for the Northern District of California. In this action, the plaintiff beneficiary makes claims similar to those made in the earlier actions that were dismissed by the state court. He seeks to invalidate the Settlement Agreement and Purchase and Sale Agreement, to have the Guadalupe Oil fields returned to the Family Trust, and to recover unspecified damages against Borel and others for alleged mismanagement of the Guadalupe Oil field and for sale of the property. In a 1998 trial of the action to remove Borel as trustee, the then plaintiff beneficiaries submitted expert testimony to the effect that Borel s actions had damaged the Family Trust in the amount of $102 million. The trial court found this testimony unpersuasive in that context, and Borel and the other defendants prevailed in that action. Borel and its co-defendants have filed motions to dismiss the present action on the basis of the prior final judgments in the state court and for lack of federal jurisdiction. Borel will continue to defend these matters vigorously. While the ultimate outcome cannot be predicted with certainty, at the present time, Borel s management, based on consultation with legal counsel, believes there is no basis to conclude that liability with respect to these matters is probable or that such liability can be reasonably estimated.

Adverse developments in these lawsuits could have a material adverse effect on Borel s business or the combined business of Boston Private s banks.

In May of 2002, a complaint was filed against Westfield which alleges that Westfield failed to uphold its contractual and common law obligations to invest the plaintiff s funds with proper care and diligence. On Westfield s Motion to Dismiss, the Plaintiff s unfair trade practices claim was dismissed, and fact and expert discovery on the remaining counts has now concluded. Westfield intends to move for summary judgment on the remaining claims. There can be no assurances that Westfield will be successful in defending these claims. Adverse developments in the Westfield litigation could have a material adverse effect on Westfield s business.

We are subject to regulatory capital adequacy guidelines, and if we fail to meet these guidelines our financial condition would be adversely affected.

Under regulatory capital adequacy guidelines and other regulatory requirements, we and our subsidiary Banks must meet guidelines that include quantitative measures of assets, liabilities, and certain off-balance sheet items, subject to qualitative judgments by regulators about components, risk weightings and other factors. If we fail to meet these minimum capital guidelines and other regulatory requirements, our financial condition would be materially and adversely affected. The regulatory accords on international banking institutions to be reached by the Basel Committee on Banking Supervision may require us to meet additional capital adequacy measures. We cannot predict the final form of, or the effects of, the regulatory accords. Our failure to maintain the status of well capitalized under our regulatory framework could affect the confidence of our clients in us, thus compromising our competitive position. In addition, failure to maintain the status of well capitalized under our regulatory framework or well managed under regulatory examination procedures could compromise our status as a bank holding company and related eligibility for a streamlined review process for acquisition proposals.

Item 3. Qualitative and Quantitative Disclosures about Market Risk

Interest Rate Sensitivity and Market Risk

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

Fee income from investment management and trust services is not directly dependent on market interest rates and may provide the Company a relatively stable source of income in varying market interest rate environments. However, this fee income is generally based upon the value of assets under management and, therefore, can be significantly affected by changes in the values of equities and bonds. Furthermore, performance fees and partnership income earned by Westfield and DGHM, as managers of limited partnerships, are directly dependent upon short-term investment performance that can fluctuate significantly with changes in the capital markets. The Company does not have any trading operations for its own account.

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

The principal objective of the Bank s asset and liability management is to maximize profit potential while minimizing the vulnerability of its operations to changes in interest rates by means of managing the ratio of interest rate sensitive assets to interest rate sensitive liabilities within specified maturities or repricing dates. The Bank s actions in this regard are taken under the guidance of their respective Asset/Liability Committees (ALCO), which are comprised of members of senior management. These committees are actively involved in formulating the economic assumptions that the Banks use in their respective financial planning and budgeting processes and establish policies which control and monitor the sources, uses and pricing of funds. Boston Private Bank evaluates hedging techniques to reduce interest rate risk where possible.

The ALCO uses both interest rate gap sensitivity and interest income simulation analysis to measure inherent risk in the Banks balance sheets at a specific point in time. The simulations look forward at one and two year increments with gradual and sustained changes in interest rates of up to 200 basis points, and take into account the repricing, maturity and prepayment characteristics of individual products and investments. The simulation results are reviewed to determine whether the exposure of net interest income to interest rate changes is within the following guidelines: (i) projected net interest income during the first 12 months of the simulation will not be reduced by more than 10% and (ii) projected net interest income during the first 24 months of the simulation will not be reduced by more than 20%. These guidelines are set and monitored at both the ALCO and Board levels. The Banks were in compliance with their applicable guidelines at all times during the year. The ALCO committees review the results with regard to the established tolerance levels and recommends appropriate strategies to manage this exposure.

Generally, the Banks hold variable rate mortgage loans. When possible the Banks make use of the secondary mortgage loan market to sell fixed rate mortgages to investors. This provides fee income and reduces interest rate risk. As a hedge against rising interest rates, Boston Private Bank increased its borrowings of low cost funds from the Federal Home Loan Bank of Boston by approximately $77 million during 2004. These additional borrowings were used to fund purchases of higher yielding assets, such as investments and residential and commercial loans.

As of December 31, 2004, the net interest income simulation indicated that the Banks exposure to changing interest rates was within the established tolerance levels described above. With interest rates at low levels, it would be difficult to reduce the cost of funds should interest rates decline. The shift in pro forma net income, from January 1, 2004 to January 1, 2005 was due to the increase in interest rates in 2004. While the ALCO reviews simulation assumptions to ensure that they reflect historical experience, it should be noted that income simulation may not always prove to be an accurate indicator of interest rate risk because the actual repricing, maturity, and prepayment characteristics of individual products may differ from the estimates used in the simulations. The following table presents the impact of gradual and sustained interest rate changes on pro forma net interest income for the Banks over a
12-month period:

	Twelve months beginning 1/1/05		
		Dollar Change (In thousands)	Percent Change
Up 200 basis point ramp	$	1,655	1.47%
Down 100 basis point ramp	$	(2,044)	(1.81)%

	Twelve months beginning 1/1/04		
		Dollar Change (In thousands)	Percent Change
Up 200 basis point ramp	$	(1,743)	(2.35)%
Down 100 basis point ramp	$	266	0.36%

Model Methodologies

The base model is built as a static balance sheet simulation. Growth and/or contraction are not incorporated into the base model to avoid masking of the inherent interest rate risk in the balance sheet as it stands at a point in time.

The model s yield curve is derived from the Federal Reserve Statistical Release H.15. Other market rates used in this analysis include the Prime rate and Fed Funds rate, which were 5.00% and 2.25%, respectively at December 31, 2004. All interest rate changes are assumed to occur over 12 months and remain flat thereafter. All points on the treasury yield curve increase/decrease congruently.

Short-term interest rates (e.g. Prime & LIBOR) are assumed to drive nonmaturity deposit (Savings, NOW and MMDA) pricing. Term deposit (CD, IRA) pricing changes are reflective of changes in the treasury curve. For rising and falling rate environments, prepayment speeds accelerate/decelerate over a 12-month period and remain flat thereafter.

The Banks also use interest rate sensitivity gap analysis to provide a general overview of their interest rate risk profile. The effect of interest rate changes on the assets and liabilities of a financial institution may be analyzed by examining the extent to which such assets and liabilities are interest rate sensitive and by monitoring an institution s interest rate sensitivity gap. An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds interest rate sensitive assets. During a period of falling interest rates, a positive gap would tend to adversely affect net interest income, while a negative gap would tend to result in an increase in net income. During a period of rising interest rates, a positive gap would tend to result in an increase in net interest income while a negative gap would tend to affect net interest income adversely.

Boston Private Bank has historically sought to maintain a relatively narrow gap position and has, in some instances, foregone investment in higher yielding assets when such investment, in management s opinion, exposed Boston Private Bank to undue interest rate risk. At December 31, 2004, Boston Private Bank s balance sheet is liability sensitive. Borel and FPB s balance sheets are asset sensitive. However, the Banks do not attempt to perfectly match interest rate sensitive assets and liabilities and will selectively mismatch their assets and liabilities to a controlled degree when they consider such a mismatch both appropriate and prudent. There are a number of relevant time periods in which to measure the gap position, such as at the 30, 60, 90, or 180 day points in the maturity schedule. Management monitors the Banks gap position at each of these maturity points, and also tends to focus closely on the gap at the one-year point in making funding decisions. Assumptions based on the historical behavior of deposit rates and balances in relation to changes in interest rates are also incorporated into the repricing schedule. These assumptions are inherently uncertain and, as a result, the repricing schedule cannot precisely measure net interest income or predict the impact of fluctuations in interest rates on net interest income.

The repricing schedule for the Banks interest-earning assets and interest-bearing liabilities is measured on a cumulative basis. The simulation analysis is based on expected cash flows and repricing characteristics, and incorporates market-based assumptions regarding the impact of changing interest rates on the prepayment speeds of certain assets and liabilities. Actual results will differ from simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies. The following table presents the repricing schedule for the Company s interest-earning assets and interest-bearing liabilities at December 31, 2004:

	Within Three Months	Over Three to Six Months	Over Six to Twelve Months	Over One Year to Five Years	Over Five Years	Total
			(In thousands)			
Interest earning assets(1):						
Cash and due from banks	$ 1,580	$	$	$	$	$ 1,580
Federal funds sold and other	73,662					73,662
Short Term Investments	19,019					19,019
Investment securities	73,173	43,257	91,390	275,774	36,490	520,084
FHLB stock	18,423	1,664				20,087
Loans-held for sale	42,384					42,384
Loans-fixed rate	40,843	40,489	71,006	318,983	92,663	563,984
Loans-variable rate	1,037,460	53,275	116,317	424,144	53,420	1,684,616
Total interest earning assets	1,306,544	138,685	278,713	1,018,901	182,573	2,925,416
Interest bearing liabilities(2):						
Savings and NOW accounts(3)	$ 196,643	70,504				267,147
Money market accounts	1,134,218					1,134,218
Time certificates under $100,000	40,442	36,481	19,489	10,041	33	106,486
Time certificates $100,000 or more	240,232	95,658	38,277	28,633	12,709	415,509
Reverse repurchase agreements	84,550					84,550
Borrowings	6,935	3,759	16,047	177,940	184,940	389,621
Total interest bearing liabilities	$ 1,703,020	206,402	73,813	216,614	197,682	2,397,531
	$ (396,476)	$ (67,717)	$ 204,900	$ 802,287	$ (15,109)	$ 527,885

Net interest sensitivity gap during the period					
Cumulative gap	$ (396,476)	$ (464,193)	$ (259,293)	$ 542,994	$ 527,885
Interest-sensitive assets as a percent of interest-sensitive liabilities (cumulative)	76.72%	75.69%	86.93%	125.77%	122.99%
Cumulative gap as a percent of total assets	(12.12)%	(14.19)%	(7.93)%	16.60%	16.14%

(1) Adjustable and floating-rate assets are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due, and fixed rate loans are included in the periods in which they are scheduled to mature.

(2) Does not include $463 million of demand accounts because they are non-interest bearing.

(3) While Savings, NOW and money market accounts can be withdrawn any time, management believes they have characteristics that make their effective maturity longer.

The preceding table does not necessarily indicate the impact of general interest rate movements on the Banks net interest income because the repricing of various assets and liabilities is discretionary and is subject to competitive and other factors. As a result, assets and liabilities indicated as repricing within the same period may in fact reprice at different times and at different rates.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

As required by Rule 13a-15 under the Securities Exchange Act of 1934, at the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s 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, and management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms. In connection with the rules regarding disclosure and control procedures, we intend to continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

(b) Change in internal controls.

There were no changes made in the Company s internal control over financial reporting for the quarter ended September 30, 2005 that have materially affected, or are reasonably likely to materially affect the Company s internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

A. Investment Management Litigation

On May 3, 2002, the Retirement Board of Allegheny County filed a complaint in Pennsylvania state court against Westfield and Grant D. Kalson & Associates bringing breach of contract and other claims for an alleged opportunity loss, notwithstanding that the Fund administered by the Retirement Board grew substantially under Westfield s and Kalson s management. Westfield and Kalson have defended the claim vigorously and will continue to do so. Expert discovery is now completed, and Westfield intends to file a motion for summary judgment.

B. Trust Litigation

Since 1984, Borel has served as the trustee of a private family trust (Family Trust), which was a joint owner of certain real property known as the Guadalupe Oil Field. In litigation commenced in 1994, certain beneficiaries of the Family Trust claimed Borel breached its fiduciary duties in managing oil and gas leases on the Guadalupe Oil field and, following the discovery of environmental contamination on the property, by negotiating, and later finalizing, a Settlement Agreement and Purchase and Sale Agreement conveying the property to Union Oil Company of California (d/b/a UNOCAL), the operator of the oil field. In the first lawsuit, in which the beneficiaries sought to remove Borel as trustee, Borel prevailed at trial and obtained final judgment in its favor. In several subsequent lawsuits, Borel has prevailed on all material issues. In all such actions, the court has either entered final judgments in Borel s favor or voluntary dismissals with prejudice.

One beneficiary a contingent remainder beneficiary has split with the other plaintiff beneficiaries and has refused to participate in the voluntary dismissals with prejudice. Following the dismissal of his separate actions against Borel in the state court, this beneficiary, acting pro se, filed a new action on June 24, 2005, in the United States District Court for the Northern District of California. In this action, the plaintiff beneficiary makes claims similar to those made in the earlier actions that were dismissed by the state court. He seeks to invalidate the Settlement Agreement and Purchase and Sale Agreement, to have the Guadalupe Oil fields returned to the Family Trust, and to recover unspecified damages against Borel and others for alleged mismanagement of the Guadalupe Oil field and for sale of the property. In a 1998 trial of the action to remove Borel as trustee, the then plaintiff beneficiaries submitted expert testimony to the effect that Borel s actions had damaged the Family Trust in the amount of $102 million. The trial court found this testimony unpersuasive in that context, and Borel and the other defendants prevailed in that action. Borel and its co-defendants have filed motions to dismiss the present action on the basis of the prior final judgments in the state court and for lack of federal jurisdiction. Borel will continue to defend these matters vigorously. While the ultimate outcome cannot be predicted with certainty, at the present time, Borel s management, based on consultation with legal counsel, believes there is no basis to conclude that liability with respect to these matters is probable or that such liability can be reasonably estimated.

C. Other

The Company is also involved in routine legal proceedings occurring in the ordinary course of business. In the opinion of management, final disposition of these proceedings will not have a material adverse effect on the financial condition or results of operations of the Company.

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

The Company issued 40,939 shares of common stock in the third quarter of 2005 in connection with the increased investment interest in BOS. The total equity consideration for this transaction was $1.1 million. This issuance of common stock was made in reliance upon the exemption from registration set forth in Section 4(2) of the Securities Act of 1933, as amended, and Regulation D promulgated thereunder, for transactions by an issuer not involving a public offering. The Company did not offer to sell the securities by any form of general solicitation or general advertising and informed each purchaser of the securities that the securities had not been registered under the Act and were subject to restrictions on transfer.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of the Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

*31.1	Certification of Chief Executive Officer pursuant to Rule 13(a)-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934.
*31.2	Certification of Chief Financial Officer pursuant to Rule 13(a)-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934.
*32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

(b) Reports on Form 8-K

The Company filed the following reports on Form 8-K during the third quarter of 2005:

On July 28, 2005, the Company filed a Current Report, dated July 27, 2005, on Form 8-K regarding its earnings press release announcing the financial results for the second quarter of 2005.

On September 2, 2005 the Company filed a Current Report, dated the same date, on Form 8-K regarding a brochure prepared by Boston Private Bank & Trust Company (the Bank) containing information relating to the Bank s financial results for the six months ended June 30, 2005.

On September 30, 2005 the Company filed a Current Report, dated September 26, 2005, on Form 8-K regarding: The Company and Boston Private Capital Trust II (the Trust) entering into a purchase agreement for the sale of capital securities to be issued by the Trust and guaranteed by the Company on a subordinated basis; the Trust issuing $100 million of capital securities under an Amended and Restated Declaration of Trust dated as of September 27, 2005; and on September 29, 2005 the Company settling the Amended and Restated Forward Sale Agreement with a Merrill Lynch affiliate entered into on November 1, 2004.

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. (Registrant)
November 9, 2005	/s/ Timothy L. Vaill Timothy L. Vaill Chairman and Chief Executive Officer
November 9, 2005	/s/ Robert J. Whelan Robert J. Whelan Executive Vice President and Chief Financial Officer