

**BOSTON PRIVATE**  
FINANCIAL HOLDINGS, INC.

**BPFH Investor Presentation**

Clayton G. Deutsch, CEO and President

David J. Kaye, CFO

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Q2 2012

# Forward Looking Statement

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# Agenda

- I. Priorities for the year
- II. Our Private Clients Business Model:  
Excellence in Wealth Management and Private  
Banking
- III. Appendix

# I. 2012 Priorities

- ✓ Complete the restructuring
- Continue to pursue value-creating transactions
- Invest in our Company
- Focus on client growth and improved profitability

# Value-Creating Transactions

- Repurchase of Trust Preferred Securities (TRUPs) at a discount (Q4, 2011, Q1 and Q2 this year)
- Repurchase of 5.4M warrants held by The Carlyle Group (Q1 2012)
- Sale of Davidson Trust Company to BMTC for small gain in Q2 2012

*We will continue to accumulate capital, pursue value-creating transactions, and reinvest in our Wealth Management and Private Banking businesses*

# Investing In Our Company

New West Coast Residential Mortgage Originators and Commercial Lenders fully staffed to target levels

Deposit Services Private Bankers being developed

New Private Banking Wealth Advisory, Investment Management and Trust platform introduced late February; new Portfolio Managers now in place

New Private Banking offices identified for 2012 and 2013; three new locations in 2012

Actively exploring Wealth Management affiliate expansion and add-on opportunities

# Enhancing Anchor Capital with Lift Outs

During the third quarter of 2012, BPFH orchestrated two transactions to enhance Anchor Capital:

- Announced hiring of Mike Pierre as SVP and Portfolio Manager, and the acquisition of the Focused Value strategy and associated client accounts
- Entered into a sub-advisory relationship with Aston Asset Management, LP
  - Portfolio Manager Ron Altman joined Anchor in July, 2012 and currently manages the ASTON/Anchor Capital Enhanced Equity Fund

# Evidence Our Model Is Beginning To Perform

## *Steadily Built Profitability in Q2 2012*

- Total Loans increased 5%, with growth coming from all markets
- Net Interest Income increased 4% in challenging environment
- Operating Expenses declined 1%
- Provision for Loan Losses declined to \$1.7M from \$4.0 million

## II. Our Business Model

The business model we have chosen to pursue our private client strategy includes:

1. A **unified and focused Private Bank**, delivering four essential private client services across our markets under the Boston Private banner
2. High integrity, highly competent, independent **wealth advice**, delivered to our private clients
3. High performance **investment management** delivered on a proprietary basis to a defined set of clients

# Targeted Private Client Segments

## High Net Worth Individuals

- Entrepreneurs
- Executives
- Family Wealth
- Baby Boomers/Retirees

## Privately Held Businesses

- C&I (preferred industries)
- Professional Service Firms

## Private Partnerships

- Venture Capital
- Hedge Funds
- Private Equity
- Real Estate Inv/Dev

## Non-Profits

- Educational
- Foundations/Endowments
- Health & Human Services

\$3 -\$50 million of financial assets

- “Sweet spot” is \$3 - \$30 million
- Selection factors favor us

Appeal of targeted segments includes:

- Stable growth
  - Historically 1.5x – 3x GDP
- Lower risk
  - Better loan loss rates, capital-light advisory activities
- Superior profitability
  - Relationship size and longevity, pricing flexibility

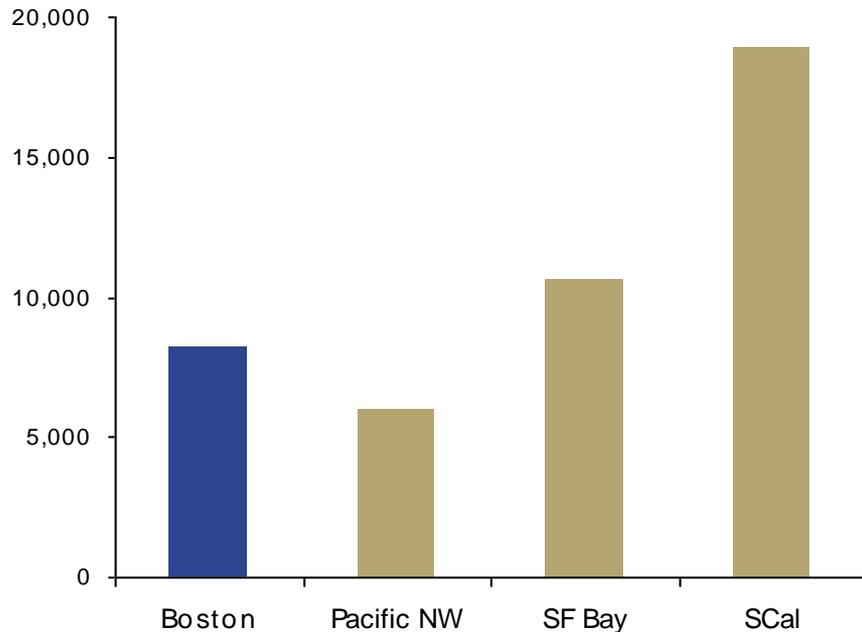
Basis of differentiation:

- Distinctive client service
- Private Banker stability; relationship management focus
- Superb execution
- Delivery of cross-enterprise client development expertise

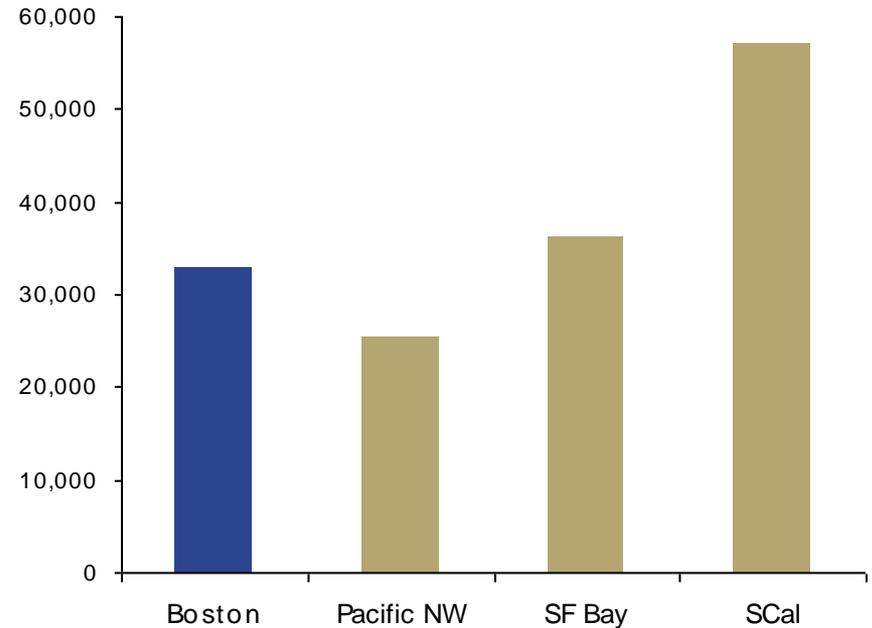
# Compelling Market Demographics

- All targeted markets\* have significant concentrations of HNW Households and Small Businesses
- Our “available” market on the West Coast is 4x - 5x New England

**# of HH with \$250k+ Income**



**# of Small Businesses**



*\*Targeted zip codes within each market, source Experian (HH) and Dun & Bradstreet (Small Businesses)*

# Our Program to Fully Develop Our Private Clients Across Markets

1. Position our Investment Management and Trust platform to serve as a private client beacon and lead offering across all markets
2. Upgrade and enhance our office model across all markets
3. Fully and seamlessly deliver our four product platforms across all private client segments

# 1. Transform the IM&T Platform

- Deliver an expanded, open architecture set of investment alternatives with:
  - Highly professional manager selection via external consultants
  - Governed “top down” across all markets
- Deliver proprietary excellence in our chosen investment management disciplines, with a focus on core fixed income and equity styles
- Apply “institutional quality” asset allocation tools and performance analytics, sourced via licensed software/external partnerships
- Build a West Coast platform with highly professional client-facing experts supporting our Private Bankers and developing clients
- Began roll out in Q1 2012, key portfolio management and sales professionals on board

## 2. Upgrade and Enhance Our Office Model in all Four Markets

### New England Proves the Power of Our Office Model



- Median office size of over \$100 million of client deposit base
- Near term focus on organic growth and client acquisition
- Opened 3 new offices in 2011
- Targeting 3+ new office openings/year within footprint
- Office break-even is \$25M of deposits; typically achieved in 18-24 months
- Full client and deposit ramp typically achieved in 4-5 years

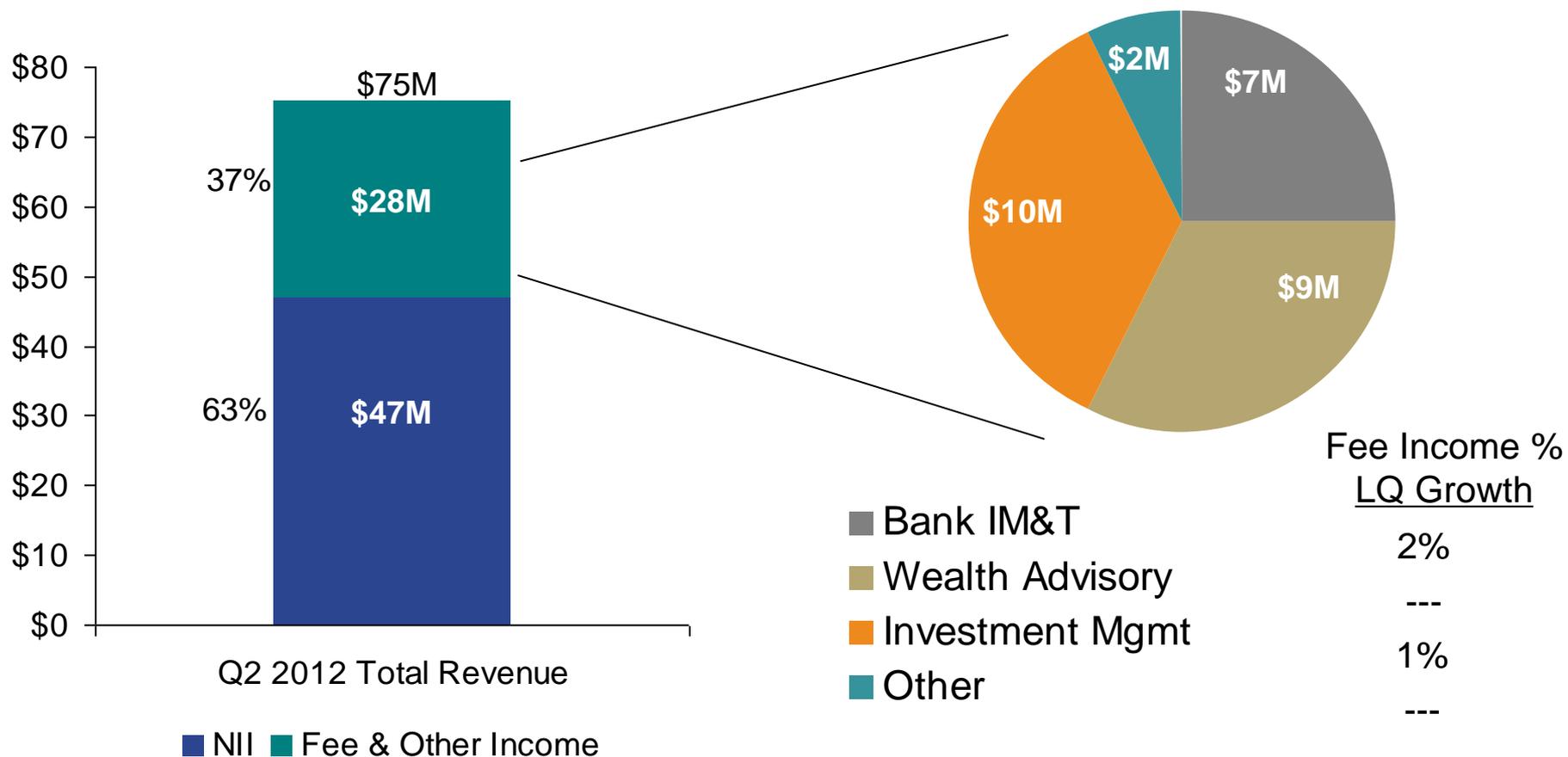
### 3. Fully and Seamlessly Deliver Our Product Platforms Across All Target Clients

- Install the Boston Private office-based service and sales model in all markets, all offices (2012 roll out)
- Position Residential Mortgage as a key client introduction and expansion vehicle in all three West Coast markets
- Build a stronger Commercial Lending skill base on the West Coast
- Cover all markets with an expanded IM&T platform and network of client-facing Wealth Advisors

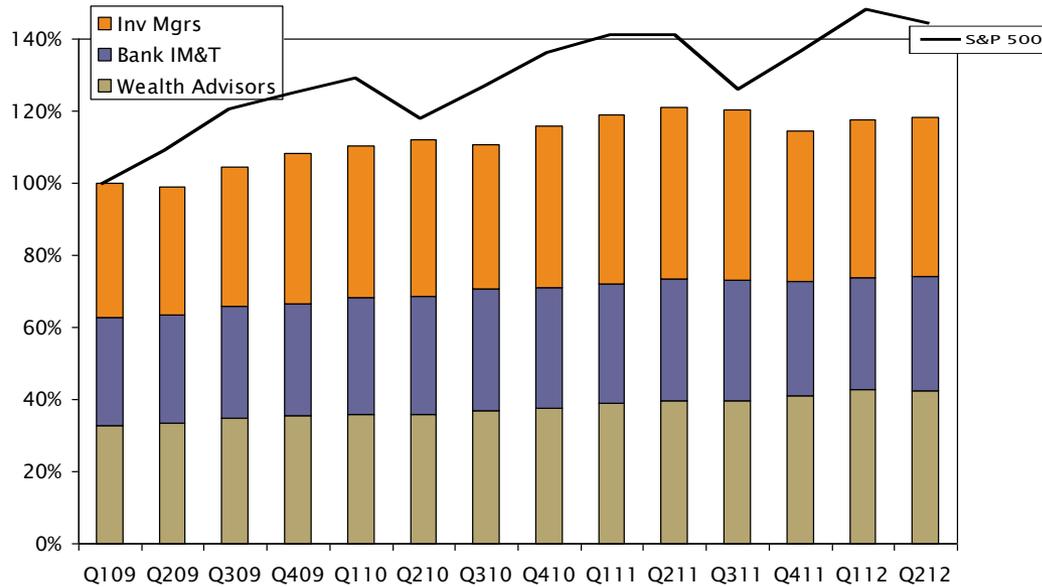
# Our Wealth Management Firms Are Strategically Important to Our Overall Success

- Vital earnings contributions to our overall Company
- Meaningful part of our private client positioning
- Enhances our revenue mix
  - BPFH revenue per employee = \$380K
  - Proxy Peer Group median = \$271K
  - ROE additive, and higher multiple on equivalent dollar earnings due to ROE advantage

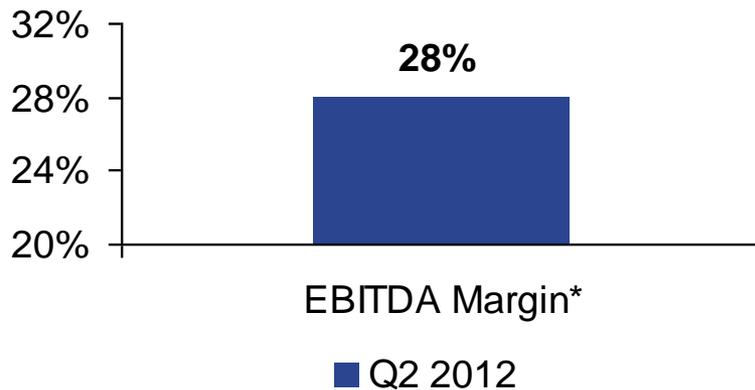
# Core Business Strength: A Diverse Revenue Stream



# Attractiveness of Fee-Based Revenue Stream



- Capital-light businesses
  - No additional capital needed for growth
  - Stable, significant stream of unrestricted cash flow
- Stable source of revenue
  - Diversifies NII exposure
  - Less volatile than overall equity market
  - Steady growth of Wealth Advisors
- Strong profit margins
  - Expand well in growth cycle
  - Demonstrated operating leverage

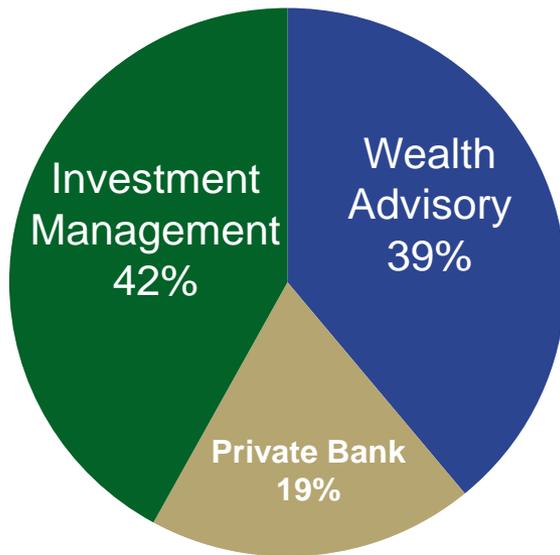


\*Wealth Advisors and Investment Managers only

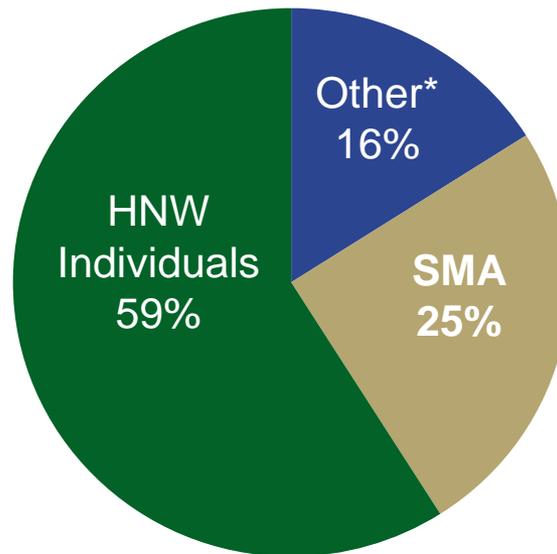
# Our Wealth Management Group Platform: A Diverse Portfolio

**\$19.1 Billion of AUM**

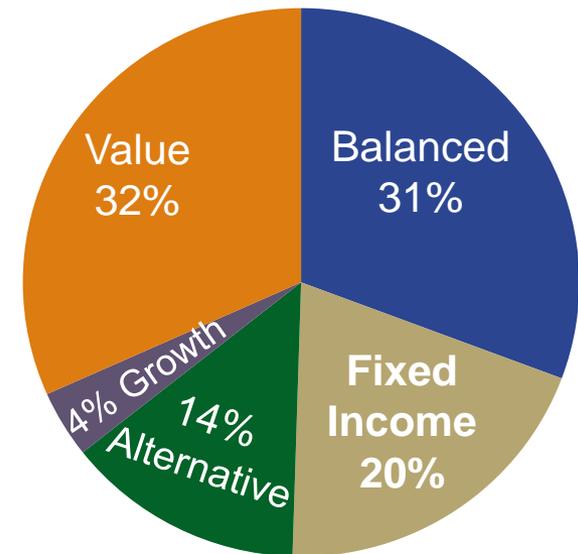
**By Source**



**By Client Type**



**By Asset Class**



\*Corporate, ERISA, Foundations/Endowments, Public, Sub Advisory

# Summary: Our Beliefs

- Our Wealth Management and Private Banking model has the intrinsic capability to outperform core financial services
- Our target segments are highly attractive and we operate in four deep, opportunity-rich geographic markets
- Our fee mix is attractive and provides an important element of revenue diversification
- We have continued opportunities to improve our expense profile and our operating leverage
- We are investing in Private Banking franchise building, and client acquisition across all of our Banking and Wealth Management businesses
  - Expanded IM&T platform
  - New/upgraded offices
  - High quality client-facing professionals in all markets and all businesses
  - Client building initiatives in all of our Wealth Management firms
  - Exploration of Wealth Management extensions/add-ons

# III. Appendix

# Consolidated P&L Highlights – Linked Quarter

(\$millions)	Q1 2012	Q2 2012	% Change	Results Driven By:
NII	\$44.8	\$46.6	4%	NIM up 8 bps to 3.35%
Fees*	\$25.5	\$25.7	1%	
<u>Other Revenue**</u>	<u>\$2.0</u>	<u>\$2.4</u>	<u>20%</u>	Q2 2012 reflects gain on investments and gain on sale of OREO
<b>Total Revenue</b>	<b>\$72.2</b>	<b>\$74.6</b>	<b>3%</b>	
Operating Expenses	\$55.5	\$54.8	(1%)	7% decline in compensation partially offset by increase in restructuring costs
Restructuring	\$0.1	\$0.6	NM	
<b><u>Total Expenses</u></b>	<b><u>\$55.6</u></b>	<b><u>\$55.3</u></b>	<b><u>(1%)</u></b>	
<b>PTPP***</b>	<b>\$17.4</b>	<b>\$21.1</b>	<b>22%</b>	
<u>Provision/(Credit)</u>	<u>\$4.0</u>	<u>\$1.7</u>	<u>(58%)</u>	
<b>Pre-Tax Income from Continuing Operations</b>	<b>\$12.6</b>	<b>\$17.6</b>	<b>39%</b>	
Efficiency Ratio	75%	72%	(3 pts)	

\*Includes IM&T fees, wealth advisory fees and other private banking fees

\*\*Includes gain on sale of investments, debt repurchase, loans, OREO and other

\*\*\*Pre-tax, pre-provision income

# Private Bank Performance Highlights – Linked Quarter

(\$millions)	Q1 2012	Q2 2012	% Change	Results Driven By:
NII	\$46.4	\$48.2	4%	Bank-only NIM of 3.47%, up 7 bps quarter-to-quarter due to pre-payment fees and interest on prior Non-Accrual loan
Fees*	\$6.8	\$6.9	2%	
<u>Other Revenue**</u>	<u>\$0.9</u>	<u>\$1.8</u>	<u>NM</u>	
<b>Total Revenue</b>	<b>\$54.1</b>	<b>\$56.9</b>	<b>5%</b>	
Operating Expenses	\$35.5	\$35.0	(1%)	Expenses related to marketing efforts
Restructuring	\$0.1	\$0.6	NM	
<b><u>Total Expenses</u></b>	<b><u>\$35.6</u></b>	<b><u>\$35.6</u></b>	<b>=</b>	
<b>PTPP***</b>	<b>\$18.5</b>	<b>\$21.2</b>	<b>15%</b>	
<u>Provision/(Credit)</u>	<u>\$4.0</u>	<u>\$1.7</u>	<u>(58%)</u>	Operating income increase due to spread-based revenues and fees, flat expenses, and improved provision
<b>Pre-Tax Income</b>	<b>\$14.5</b>	<b>\$19.5</b>	<b>35%</b>	
Efficiency Ratio	66%	63%	(3 pts)	

\*Includes IM&T fees and other private banking fees

\*\*Includes gain on sale of investments, loans, OREO and other

\*\*\*Pre-tax, pre-provision income

# Investment Management Performance Highlights – Linked Quarter

<i>(\$millions)</i>	Q1 2012	Q2 2012	% Change	Results Driven By:
Inv Mgt Fees	\$9.5	\$9.6	1%	Equity market correlated revenue on a one quarter lag
<b>Total Revenue</b>	<b>\$9.5</b>	<b>\$9.6</b>	<b>1%</b>	
<u>Operating Expenses</u>	<u>\$7.6</u>	<u>\$7.9</u>	<u>3%</u>	Margins still attractive despite negative operating leverage
<b>Pre-Tax Income from Continuing Operations</b>	<b>\$1.8</b>	<b>\$1.7</b>	<b>(7%)</b>	
EBITDA Margin	28%	26%	(2 pts)	
Pre-tax Margin	19%	18%	(1 pt)	Flows improving
AUM (\$B)	\$8.0	\$8.0	(1%)	
Net Flows (\$M)	(\$101)	(\$6)	NM	

# Wealth Advisory

## Performance Highlights – Linked Quarter

<i>(\$millions)</i>	Q1 2012	Q2 2012	% Change	
Wealth Adv Fees	\$9.2	\$9.2	--	
<b>Total Revenue</b>	<b>\$9.2</b>	<b>\$9.2</b>	<b>--</b>	Results Driven By: KLS and BOS provide revenue stability during down markets
<u>Operating Expenses</u>	<u>\$6.7</u>	<u>\$6.8</u>	<u>1%</u>	
<b>Pre-Tax Income from Continuing Operations</b>	<b>\$2.5</b>	<b>\$2.4</b>	<b>(6%)</b>	
EBITDA Margin	30%	29%	(1 pt)	Close to our 30% target
Pre-tax Margin	27%	26%	(1 pt)	
AUM (\$B)	\$7.6	\$7.5	(1%)	
Net Flows (\$M)	\$191	(\$14)	NM	

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