2006 Annual Report

2+2=5

BP | BOSTON PRIVATE
Wealth Management Group

Enduring Excellence

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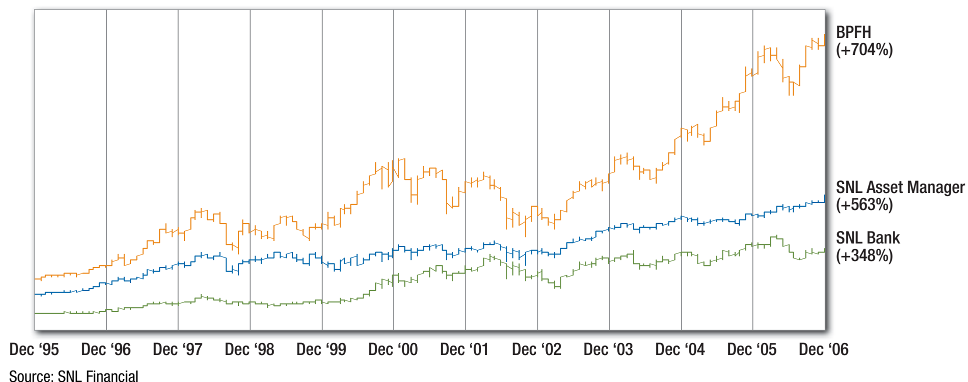
Dear Shareholders and Friends,

This last operating year was not the best one in Boston Private's history from an earnings growth standpoint; we had a profitable year—in fact, a *very* profitable year—but we didn't earn as much as I had hoped. This was due, mainly, to the squeeze on bank profits resulting from the inverted yield curve. I'll dig into that a bit later, but first I have to tell you that from every other standpoint, 2006 was a year where we again proved to the marketplace that at Boston Private, we are creating significant long-term value. This is because at Boston Private, there's more than meets the eye, or "2 + 2 = 5"— the theme of this year's report.

What do I really mean when I say 2 + 2 = 5? Grammarians would say that in the ordinary course it means that the reader (or the client) receives more than she or he expected or that there is some hidden "magic" in the formula. Well, that is the case at Boston Private as each of our Affiliate Partners strives to not only exceed expectations with its own clients, but also contributes to a larger offering of services that are made available to clients of all our other companies. This expands the capabilities of all of our firms, allowing them to deliver more than may meet the eye of their clients.

You may wonder how we do this when most of the products we offer are (frankly speaking) commodities. We make the magic happen through our people. Because it's only when you attach the right people, who deliver the ideal customer experience, that you can make a difference. At Boston Private, we are collectively focused on this compelling notion – with the goal of providing more than is expected. This happens to be what distinguishes us in this highly competitive marketplace. I'll try to put some meat on these bones as I go through a review of the year. (You might think of these thoughts as a series of brushstrokes on that masterpiece we have been creating!)

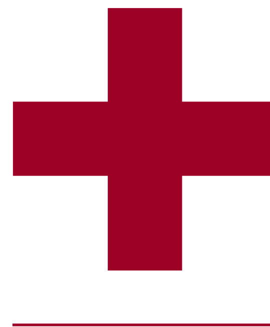
TOTAL RETURN TO INVESTORS
(12/29/95 - 12/29/06)



“One of the key dimensions of this year’s 2 + 2 = 5 theme is the **teamwork** and **collaboration** that takes place at all of our firms (and among our firms) in order to get the best results for the client.”

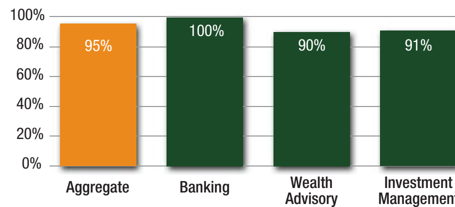
Our People

There's not a company I know of which doesn't say that its people are the backbone of its success, and the reason they say that is because it's true. But it's particularly true at a company whose main purpose in life is to take care of other people's money—something we do all day, every day at Boston Private in our 40 offices located from Seattle to Miami. One of the key dimensions of this year's 2 + 2 = 5 theme is the teamwork and collaboration that takes place at all of our firms (and among our firms) in order to get the best results for the client. And that takes people. It takes really, really good people, who trust and respect (and eventually share with) one another. So each one of our Affiliate Partners spends what seems like an inordinate amount of time choosing its staff, developing its management and building an environment where teamwork and client satisfaction are the focus. The payoff is worth it.



I am so pleased by the addition of new quality people and the deserving promotions within our enterprise. For example, at Boston Private Value Investors, our value-oriented investment shop in New England, Woody Small gained a new partner by naming Chris Pope as President of the firm. At Gibraltar Private Bank in Florida, Steve Rice joined the team as a Managing Director to run the private banking operations in the recently-opened New York location (it's a beautiful office located at 280 Park Avenue—you should stop by for a look when next in the neighborhood). Chris Damian, another one of Steve Hayworth's senior lieutenants at Gibraltar is also helping to get this exciting initiative underway in the Big Apple. Bill Urban joined Carol Benz as Co-Managing Principal at Bingham, Osborn & Scarborough in the Bay Area. Here is an example of two outstanding practitioners, Bill in wealth management and Carol in operations and business management, partnering to lead their firm to growth and continued success. At Dalton Greiner, our value investment experts in NYC, we were pleased to see that Bruce Geller was elected CEO and Jeff Baker as the Chief Investment Officer (leaving Tim Dalton free to do what he does best: prowl the marketplace for investment ideas and meet with clients!).

EXECUTIVE RETENTION RATES



Left: Walt Pressey, President
Right: Tim Vaill, Chairman and CEO

First Private Bank in Los Angeles welcomed a new marketing executive—Jim Caringi, and a new board member—Bruce Rognlien, and is expanding into the trust and investment area under the leadership of new senior officer Gary Helme. At KLS Professional Advisors in Manhattan, two senior client relationship professionals, Kara Boccella and Bruce Hyde, were advanced to Managing Partner level. Finally, Borel Private Bank enriched its financial function by naming Steve Rossi as their new CFO. (I was darn excited to see Borel cross over the $1 billion mark around the turn of the year! They continue to have a growing impact on the San Francisco region.)

I could go on here as we've seen positive moves at all of our companies. But I think you get the message: Nobody is standing still, nobody is waiting for "it" to happen; they are all *making* it happen by bringing in the best-of-the-best to get an edge on investment results, improved banking products, faster response, more creativity, more efficient company operations, and of course, client service.

Speaking of "making it happen," I must recognize the assiduous contributions of our employees at the holding company. The CEO gets all the newspaper headlines, but believe me, we have a super team here at Boston Private. From providing legal counsel, compliance guidance and human resources support to financial reporting, marketing and sales support, this hardworking group dedicates every day to serving our Affiliate Partners and contributing to the formula on the cover of this Annual Report.

I would be remiss if I didn't highlight the contributions of my trusted colleague and consummate business partner, Walt Pressey, Boston Private's President. Now, in all honesty, Walt did not have any good new jokes this year, but it's probably because he was out there doing what he does so well for all of us shareholders: Finding us investors, finding us clients, finding us new Affiliate Partners, finding us key employees, finding us profit opportunities, finding us better uses of capital… and finding us decaffeinated ice coffee from the local Starbucks! Walt is my absolute "go to" guy, and would give Charlie Munger a run for his money in terms of contribution to an enterprise.

My final comment on people has to do with our corporate Directors—both at the Affiliate Partner level as well as at the public company, and I want to single them out for thanks. In the current challenging governance environment, our Directors are working more hours, attending more meetings and grappling with more complex issues than just a few years ago. I want to especially thank our Boston Private Lead Director, Lynn Hoffman, who truly "goes the extra mile" for our Company. Her probing mind, her organizational skills, and her independent thinking help us better explore the significant potential we have among our affiliated companies and in this attractive marketplace. I also want to single out Susan Haney, who serves on the boards of all four of our private banks, as well as the founder of Westfield, Mike Hazard, who serves on the boards of three of our investment management companies, both of whom contribute significantly to our efforts. These three Directors, together with their boardroom colleagues, partnering with management, are a classic example of how 2 + 2 = 5 at Boston Private.

“ We approach our roles as Directors with different styles from different vantage points.”

Tim has been talking about the alchemy of 2+2=5 at Boston Private. From my perspective as Lead Director, this value proposition is very evident in the chemistry of our Board of Directors interactions. We start with very capable, experienced, high performing individuals. We share common attributes: a belief in and respect for the values and culture of Boston Private, trust in and high regard for our management, employees and Affiliate Partners, and a commitment to our unique value proposition for serving the wealth management objectives of our clients. We share a sense of responsibility to our shareholders for stewardship over the course of time. Our differences are as important as our commonalities. We have served Boston Private for different tenures, some from the Company's beginnings and others as more recent additions bringing refreshment of perspective and new knowledge. We represent diverse and complementary business competencies as financial experts, bankers, investment managers, executives, and entrepreneurs. We approach our roles as Directors with different styles from different vantage points. The alchemy occurs as a result of the combination of commonalities and differences with the bonds of mutual trust and respect. The deliberative process we engage in is enhanced. The collective judgments we reach are more firmly grounded. It is a privilege to participate with my colleagues on the Board in this formula for fiduciary enhancement at Boston Private.

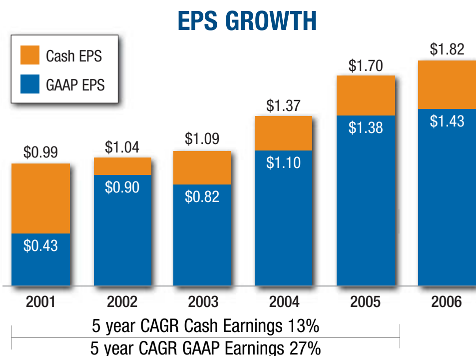
Lynn Thompson Hoffman, Lead Director

Our Numbers

This is an OK story for Boston Private in 2006, but not an extraordinary one. On a revenue base of $344.9 million during the year, we generated very considerable profits of $54.4 million, or $1.82 per share on a cash basis and $1.43 per share on a GAAP basis.

[By the way, Walt and I—and several of our colleagues in the analytical community—continue to believe that in a company like ours, cash is king. Here is why: Because of our acquisition activity combined with other non-cash expenses—such as the granting of options—there is a significant difference between GAAP earnings (accrual accounting per the accounting world), and cash earnings (which is what we're able to reap for the shareholders). In fact, in 2006 the difference was $0.39 per share—i.e., we actually earned that much more cash per share for you than the GAAP rules would allow us to report. Over time, we believe that Wall Street and the investing public will acknowledge and esteem this difference accordingly.]

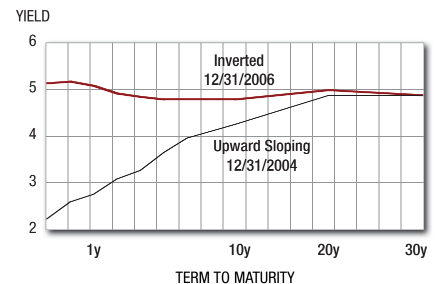
EPS GROWTH



5 year CAGR Cash Earnings 13%
5 year CAGR GAAP Earnings 27%

As I mentioned at the beginning, the yield curve was the bugaboo for us (and, frankly, for most banks in the country) in 2006. In the normal interest rate environment, the yield (or rate) on longer-term instruments is higher than it is on shorter-term instruments (because you take more risk over time waiting to get paid, among other things). This provides a spread between the two which is how banks make money. As interest rates rise—which of course they have been doing for several years now—the cost of deposits, driven mostly by shorter-term rates, goes up (naturally). But if long rates don't move up as much as short rates, the asset side of our balance sheet (which includes loans) takes longer to re-price which puts a heck of a squeeze on that spread I mentioned earlier. Well, that is what has been happening.

YIELD CURVE EXAMPLES

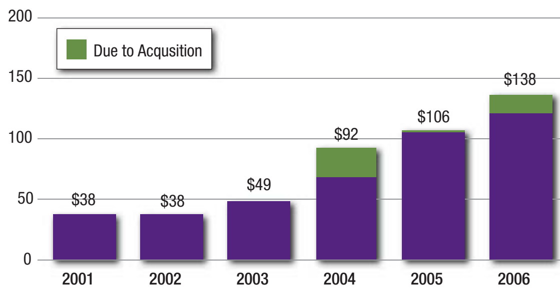


Graph represents yields on constant maturity U.S. Treasury instruments. Source: Federal Reserve

This phenomenon really has little to do with executing our strategy or serving client needs. But it is a marketplace reality to be reckoned with—and it can be costly. The really good news for Boston Private in 2006 was the acceleration at which new clients were brought in on the banking side and the new, attractive loans which were underwritten. The fundamental business growth of our banks was robust. I'm a believer in "regression to the mean," and unless the economic world stakes out entirely new territory (which I guess is always possible, but unlikely), when the yield curve returns to normal, our banks should be in an excellent position to benefit based on their strong balance sheets.

"The yield curve was the bugaboo for us

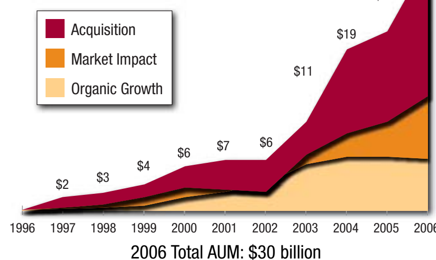
INVESTMENT MANAGEMENT INCOME
($Millions)



We had an excellent year with our investment income, as new clients and positive market action helped propel us to a record high in investment management and trust fee income—$137.7 million. While I'm at it, I might as well tell you about the investment performance (that is, how our portfolio managers did for their clients) in 2006. These results build consistent client relationships which lead to even higher fee income over time. Two of our firms in particular had investment results really worth crowing about (although there is no guarantee that it will look this way in the future): At Westfield—our oldest and largest investment management firm run ably by Art Bauernfeind and Will Muggia—the results for their large-cap product were 16.9% as compared to the standard S&P 500 benchmark of 15.8% for the year. (I was also thrilled that Westfield climbed over $10 billion in AUM during the year!) And at Anchor Capital (our newest investment management firm), CEO Bill Rice and CIO Mark Rickabaugh guided their mid-cap value team to produce returns of 19.4% as compared to the Russell Mid Cap benchmark of 15.3% for the year. (Anchor assets grew approximately $1 billion during 2006 bringing them to a year-end total of a little over $6 billion in AUM.)

Our wealth advisory firms continued their growth in 2006, bringing in new clients and new assets at a strong pace. This group delivered excellent results, propelling us to a record high in fee income—$20.8 million. All of our wealth advisors are involved in asset allocation and investment management—providing solutions that address the complexities of significant wealth. But each of our firms is special in their approach. Bingham, Osborn & Scarborough, our fastest growing wealth advisory firm, set the standard long before the crowd rushed in by using Exchange Traded Funds (ETFs) to enhance a client's investment return. There is no firm stronger than KLS, our advisory firm in New York City, when it comes to servicing the wealth management needs of partners at major law firms. Sand Hill Advisors, under the leadership of Jane Williams and Jim McCaffrey, continues to focus on women in transition. RINET Company, with Brian Rivotto at the helm, continues to provide exceptional service to legacy families in the Boston area. Finally, our colleagues at Coldstream Capital in Seattle have developed some special expertise in the alternative investments area.

ASSETS UNDER ADVISORY/MANAGEMENT
($Billions)



2006 Total AUM: $30 billion

Note: includes AUM from consolidated affiliates

(and, frankly, for most banks in the country) in 2006."

But back to the numbers for the year. Although we have a very desirable diversification in our revenue streams (approximately 53% in banking income and 47% in investment management and wealth advisory income), it is our job to turn those revenues into profits. I mentioned earlier that I thought we could have done a better job of that in 2006. Not only were we affected by a significant squeeze on the aforementioned banking income, but our expense growth was too high. Some of that expense growth was aimed at adding to our 2 + 2 = 5 concept as we invested in infrastructure, technology and additional locations for new and existing clients. These investments will provide us with great earning opportunities in the years ahead (and also support our strategy of providing the means for a unique customer experience in the fastest growing affluent regions). But we could have established a better balance such that positive operating leverage would have been possible during the year. Walt and I have committed ourselves to focusing on this aspect of our business and are working with each of our Affiliate Partners to help them optimize their results as well.

The final thing I want to mention this year in the "numbers" category is our continued focus on capital—in particular, our commitment to have the average return on our shareholder's capital exceed the cost of that capital. Capital can be generated from a variety of sources, including directly from the shareholders via the public markets, issuing shares to make acquisitions, and cash flow generated by our partner firms. We are growing this business and capital is needed for that growth, so we have to be very careful stewards of our capital from whatever source. This year our financial team, led by CFO Bob Whelan, Corporate Development Chief Katie Kearney, and VP extraordinaire Jay McHarg, developed a new capital planning model which enables us to carefully track both the location and returns on our capital wherever it exists. Sophisticated cash flow tracking by our Controller, Bill Morton, and his analytical staff, helps us plan for the extraction and redeployment of this capital throughout the year. This is paying dividends (no pun intended). Sometimes 2 + 2 = 6 when you can accelerate the redeployment of capital!

So, (all my teenage friends now start their comments with the word "so" these days), while we had very significant earnings in 2006, attracted some star-quality people, made great progress on building our national wealth management franchise and extended our long-term value creation for our investors during the year, we could have done better.

Gibraltar Bank's newly opened office at 280 Park Avenue puts us literally at the heart of New York City's high-net-worth community.

“Boston Private celebrated a **milestone year** in our expansion plans with the opening of **5 offices.**”

Lexington and Hingham, MA – Designed to serve the needs of business owners and professional service firms, these suburban offices represent the eighth and ninth locations for Boston Private Bank & Trust Company in the Greater Boston area.

New York City – Gibraltar Private Bank’s first expansion into a high-end market beyond Florida will, no doubt, appeal to clients with businesses and homes in both South Florida and metropolitan New York.

Naples, FL – Gibraltar Private’s first West Coast office in Florida delivers on the Bank’s promise to expand into mature, affluent communities.

Los Altos, CA – This opening further enhances Borel’s presence on the San Francisco peninsula, an area noted both for its preponderance of high-net-worth individuals and for businesses whose financial needs require a full-service approach.

"Because of their membership in the Boston Private Wealth Management Group, Bingham, Osborn & Scarborough knew they could turn to **colleagues** at Borel Private Bank to provide the appropriate **solutions** for their clients."

Our Magic

Getting back to our theme as I near the end of this letter, I want to explain the "magic" behind the 2 + 2 = 5. This is best done by giving you some real examples of how our people work together across the enterprise to create added value for clients.

Client Referrals to Affiliate Partners

When any one of our firms meets with their clients, they are often in the position to spot an unmet need. Such was the case when Barry Taylor, Portfolio Manager at Bingham, Osborn & Scarborough met with several of his clients. As a former small business owner himself, Barry understands the importance of succession planning and noticed that some of his business owner clients were in need of successor trustee relationships to ensure the continuity of their financial plan should a personal catastrophe arise. Because of membership in the Boston Private Wealth Management Group, Barry knew he could turn to his colleagues at Borel Private Bank for help. Krista Conover, the Trust Officer at Borel, was more than happy to oblige. They worked together to provide the appropriate solutions for the clients, whose financial futures are now better protected.

California Affiliates Partner to Provide Product Solutions

First Private Bank in Southern California recognized the need to offer their clients residential mortgages, particularly jumbos. But building in-house capabilities to serve as a residential mortgage lender is a major task. They looked to their colleagues at Borel Private Bank in Northern California, who already had that capability, and were able to establish a unique arrangement whereby First Private mortgage lending officers will be able to rely on the loan evaluation and processing capabilities of Borel. This allowed First Private to better serve its clients by adding residential mortgages to their product offerings. And it allows the banks to share an infrastructure cost. A win-win for everyone.

Barry Taylor, Bingham, Osborn & Scarborough

Krista Conover, Borel Private Bank & Trust Company

Front Row:
Clients Laura and Marshall Derby
Back Row:
Woody Small, Boston Private Value Investors
Janit Greenwood, Boston Private Bank & Trust Company
Gary Savage, RINET Company

New England Affiliates Partner for Banking Solutions

Most high-net-worth individuals need private banking services—be it commercial loans to grow their businesses, residential mortgages for their homes, trust services for their families, or deposit and cash management products for their short-term needs. Brian Rivotto of RINET Company—an Affiliate Partner in the New England Region—recognized that his clients needed access to a quality banking system. Knowing the terrific private banking capabilities offered by Mark Thompson and his team at Boston Private Bank, Brian has introduced many of his clients to the Bank. When RINET first joined us, virtually none of their clients used Boston Private Bank; now many—if not most—of them do. That's a happy situation which exhibits terrific cooperation and trust, and firmly demonstrates the client-level cooperation and benefit that can exist.

Multiple Affiliates Serve Same Client

Some of our clients have financial needs that span the wealth management spectrum. That's when our cluster model really shines. Meet Marshall Derby and his wife Laura. They are Boston Private clients in three different ways. Marshall became a client of Boston Private Value Investors when he met Woody Small, who has been managing his equity investments for over 10 years. As a Controller of Temple Isaiah in Lexington, Massachusetts, Marshall sought mortgage re-financing options. Woody referred him to Boston Private Bank, where he worked with Janit Greenwood and Rob Nentwig. His positive experiences with both of these firms led him to inquire about RINET Company when his wealth management needs involved estate and legacy planning. After meeting with Gary Savage and his team, Marshall happily became a RINET client. That's a win-win-win.

Cross-Fertilization of Ideas

You've heard the saying "two heads are better than one"—imagine what we get when we create a network of *many* people thinking together. To facilitate this brain trust we have established several forums dedicated to bringing Affiliate Partners together to share and cultivate ideas. For example, a committee of senior level bank staff assembles regularly to share strategies, discuss current banking trends, explore joint product development opportunities and embark on expense purchasing power initiatives. One significant outcome from this group has been a joint loan participation agreement. Likewise, a committee of senior level wealth advisory managers also meets to explore topics relevant to their space, such as how to leverage investment research across the enterprise. Similarly, Boston Private's "Marketing Exchange" brings together our professionals to discuss the collective and individual marketing communications goals, to jointly develop campaigns, and to share ideas on topics such as client events, website development, public relations, and the latest trends in product development.

“Working with the Boston Private family has been terrific. Woody Small has taken **great care** of my investments. The commercial loan closing was the easiest one I’ve done in 40 years. And, once I started interviewing with RINET and met Gary Savage, I knew I didn’t need to look any further for the **right team** to manage my estate.”

Marshall Derby

In Closing

Walt and I are very proud of the progress we have made during 2006—but we know there is still a lot to do. And it's getting tougher. What we're doing to address the needs in the wealth management marketplace—and the way we are doing it—apparently is attractive to other service providers as we're finding more and more competition emerging. So we have to work harder and faster (it's a good thing that we really like what we do!).

However, as I mentioned in this letter, in our judgment we have the strategy, the unique business model, the financial engine and the quality people at all levels to compete very effectively and provide that customer experience which makes us very special in the wealth management marketplace. We have an organization of people united by a commitment to *enduring excellence*. We have an organization of people who collaborate, which results in the 2 + 2 = 5 phenomenon that is certainly happening across the enterprise in many ways. In my humble view, if we keep our clients happy, they will continue to trust us with their money. They will refer their friends. And they will stay with us for many years. This can only result in highly attractive long-term value for our shareholders. We very much appreciate your support and look forward to your comments and suggestions as we move forward.

Sincerely,

P.S. You should always feel free to contact me directly at 617-912-1902 or at TVaill@BostonPrivate.com.

Dear Fellow Shareholder,

I welcome the opportunity to comment on our results in 2006 and our outlook for the future. During the year, we worked hard to strike a balance between investing in the Company's future and optimizing earnings growth. We opened new private banking offices in rich demographic markets such as New York City, Hingham and Lexington, Massachusetts and Naples, Florida. In June, we acquired Anchor Capital, gaining entry into the separately managed accounts market, which further diversified our business.

As for the financials in 2006, we reported revenue of $344.9 million, an increase of 31% from the prior year. On a same affiliate basis (excluding Gibraltar in 2005 and 2006, and Anchor in 2006), revenues for the year grew by 10% reaching $274.5 million. Our GAAP earnings per share increased by 3.6% to $1.43 per share and cash EPS increased 7.1% to $1.82 per share. We report both GAAP and cash EPS because we believe cash earnings reflect the additional value to shareholders generated by purchase accounting adjustments and the non-cash share based compensation plans.

In our banking business, we faced a flat to inverted yield curve which reduced our net interest margin, impacting our profitability. Despite that challenge, we grew our balance sheet significantly with loans increasing to $4.3 billion and deposits increasing to $4.1 billion. As we have in years past, we believe that when the yield curve returns to the "norm," we will be well positioned to capitalize on the balance sheet growth and to leverage our unique wealth management business model.

The wealth advisory business continues to grow at a steady, stable pace, and generated fees of $20.8 million, an 8.8% increase over last year. Our investment management business benefited from a strong market and diversification (business mix, geography, investment style, product type and distribution channel) increasing our AUM to $29.8 billion. Despite the near-term challenges faced by one investment product, our revenues grew by more than 30% overall and approximately 10% on a same affiliate basis.

We experienced negative operating leverage as a result of compression in the net interest margin and the significant investments in infrastructure that we made in order to open new private banking offices. However, positive operating leverage continues to be an important focus of this Company and ever a long-term strategic goal.

For 2007 we will be re-investing for future organic growth, improving our deposit gathering capabilities and promoting our superior customer experience, which will ultimately optimize our financial performance. Our long-term objective is to deliver sustainable organic growth that will generate superior returns to our shareholders.

We will also be implementing a comprehensive capital stewardship program with our Affiliate Partners. This program will enable the holding company to reinvest capital in our growing Affiliate Partners more efficiently and cost effectively, in order to generate a return on invested capital that exceeds the weighted average cost of capital.

In closing, I would like to thank our shareholders for their continued support. We invite you to stay connected with Boston Private's results and initiatives at www.bostonprivate.com.

Best regards,

Robert J. Whelan
Chief Financial Officer

TABLE OF CONTENTS

CONSOLIDATED BALANCE SHEETS 18
CONSOLIDATED STATEMENTS OF OPERATIONS. 19
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY 20
CONSOLIDATED STATEMENTS OF CASH FLOWS 21
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS:
1. ORGANIZATION 23
2. MERGERS AND ACQUISITIONS 24
3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 25
4. COMPREHENSIVE AND ACCUMULATED OTHER COMPREHENSIVE INCOME. 31
5. BUSINESS SEGMENTS. 32
6. INVESTMENT SECURITIES 35
7. LOANS RECEIVABLE 39
8. ALLOWANCE FOR CREDIT LOSSES 40
9. DERIVATIVES. 40
10. PREMISES AND EQUIPMENT 41
11. GOODWILL AND INTANGIBLE ASSETS 41
12. DEPOSITS. 42
13. FEDERAL HOME LOAN BANK BORROWINGS. 43
14. SHORT-TERM BORROWINGS 44
15. JUNIOR SUBORDINATED DEBENTURES 44
16. INCOME TAXES. 47
17. EMPLOYEE BENEFITS 48
18. OTHER OPERATING EXPENSE. 51
19. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK. 52
20. FAIR VALUE OF FINANCIAL INSTRUMENTS. 52
21. BOSTON PRIVATE FINANCIAL HOLDINGS, INC. (PARENT COMPANY ONLY) 54
22. SELECTED QUARTERLY DATA (UNAUDITED). 56
23. REGULATORY MATTERS 57
24. LITIGATION AND CONTINGENCIES 59
25. RELATED PARTY TRANSACTIONS. 59
26. COMMON STOCK. 60
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS 61
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING. 63
SELECTED FINANCIAL DATA (UNAUDITED) 68

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)	December 31, 2006	December 31, 2005*
ASSETS:		
Cash and due from banks	**$ 115,951**	$ 116,925
Federal funds sold	**123,445**	255,391
Cash and cash equivalents	**239,396**	372,316
Investment securities:		
Available-for-sale (amortized cost of $527,190 and $518,398, respectively)	**523,848**	512,742
Held-to-maturity (fair value of $13,819 and $44,208, respectively)	**13,959**	44,400
Total investment securities	**537,807**	557,142
Loans held for sale	**5,224**	12,883
Loans:		
Commercial	**1,863,971**	1,560,485
Construction	**632,263**	478,958
Residential mortgage	**1,546,965**	1,338,607
Home equity and other consumer loans	**268,053**	246,190
Total loans	**4,311,252**	3,624,240
Less: allowance for loan losses	**43,387**	37,607
Net loans	**4,267,865**	3,586,633
Stock in Federal Home Loan Banks and Banker's Bank	**40,096**	27,718
Premises and equipment, net	**35,641**	28,680
Goodwill	**335,633**	286,751
Intangible assets, net	**125,331**	97,656
Fees receivable	**28,248**	24,681
Accrued interest receivable	**22,913**	19,159
Other assets	**125,390**	104,949
Total assets	**$5,763,544**	$5,118,568
LIABILITIES:		
Deposits	**$4,077,831**	$3,748,141
Securities sold under agreements to repurchase	**77,605**	107,353
Federal Home Loan Bank borrowings	**602,903**	362,005
Junior subordinated debentures	**234,021**	234,021
Accrued interest payable	**10,964**	6,335
Deferred acquisition obligations	**20,921**	17,628
Other liabilities	**104,102**	103,737
Total liabilities	**$5,128,347**	$4,579,220
Commitments and contingencies (Notes 10, 19, 23, 24, 25, 26)		
STOCKHOLDERS' EQUITY:		
Common stock, $1.00 par value; authorized: 70,000,000 shares; issued: 36,589,727 shares in 2006 and 34,800,393 shares in 2005	**36,590**	34,800
Additional paid-in capital	**424,787**	374,818
Retained earnings	**176,111**	133,190
Accumulated other comprehensive loss	**(2,291)**	(3,460)
Total stockholders' equity	**635,197**	539,348
Total liabilities and stockholders' equity	**$5,763,544**	$5,118,568

** Adjusted to include the impact of stock-based compensation expense; see Note 17: Employee Benefits for additional information.*

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)	Year Ended December 31, 2006	Year Ended December 31, 2005*	Year Ended December 31, 2004*
INTEREST AND DIVIDEND INCOME:			
Loans	**$ 272,795**	$ 167,463	$ 105,636
Taxable investment securities	**11,242**	8,329	5,650
Non-taxable investment securities	**6,504**	6,012	5,744
Mortgage-backed securities	**1,619**	1,548	1,738
Federal funds sold and other	**7,872**	6,638	1,877
Total interest and dividend income	**300,032**	189,990	120,645
INTEREST EXPENSE:			
Deposits	**87,262**	39,636	19,460
Federal Home Loan Bank borrowings	**23,244**	12,823	10,337
Junior subordinated debentures	**13,167**	7,484	1,416
Other short-term borrowings	**2,846**	1,308	853
Total interest expense	**126,519**	61,251	32,066
Net interest income	**173,513**	128,739	88,579
Provision for loan losses	**6,179**	5,438	4,285
Net interest income after provision for loan losses	**167,334**	123,301	84,294
FEES AND OTHER INCOME:			
Investment management and trust fees	**137,732**	105,873	92,147
Wealth advisory fees	**20,760**	19,086	7,898
Earnings in equity investments	**3,034**	1,556	1,019
Deposit account service charges	**1,682**	1,375	1,217
Gain on sale of loans, net	**1,972**	1,774	1,424
Gain on sale of investment securities, net	**—**	20	373
Other	**6,161**	4,903	4,135
Total fees and other income	**171,341**	134,587	108,213
OPERATING EXPENSE:			
Salaries and employee benefits	**163,438**	123,387	97,110
Occupancy and equipment	**29,149**	21,053	15,702
Professional services	**13,346**	10,270	7,477
Marketing and business development	**8,705**	6,792	5,148
Contract services and processing	**5,125**	4,070	2,936
Amortization of intangibles	**13,649**	7,634	4,664
Other	**17,037**	13,063	10,007
Total operating expense	**250,449**	186,269	143,044
Minority interest	**3,699**	2,512	1,428
Income before income taxes	**84,527**	69,107	48,035
Income tax expense	**30,154**	25,561	16,802
Net income	**$ 54,373**	$ 43,546	$ 31,233
Per share data:			
Basic earnings per share	**$ 1.53**	$ 1.48	$ 1.14
Diluted earnings per share	**$ 1.43**	$ 1.38	$ 1.10
Average basic common shares outstanding	**35,452,880**	29,425,157	27,313,171
Average diluted common shares outstanding	**40,089,380**	33,824,717	29,024,520

** Adjusted to include the impact of stock-based compensation expense; see Note 17: Employee Benefits for additional information.*

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2003*	$25,167	$138,625	$ 73,183	$ 2,571	$239,546
Comprehensive income:					
Net income*	—	—	31,233	—	31,233
Other comprehensive income, net of tax:					
Change in unrealized gain (loss) on securities available-for-sale, net of tax	—	—	—	(3,080)	(3,080)
Total comprehensive income, net of tax					28,153
Dividends paid: $0.24 per share	—	—	(6,451)	—	(6,451)
Proceeds from issuance of 2,215,644 shares of common stock	2,216	53,960	—	—	56,176
Issuance of 70,725 shares of incentive common stock grants	71	(71)	—	—	—
Amortization of incentive stock grants	—	2,249	—	—	2,249
Amortization of stock options and employee stock purchase plan	—	3,892	—	—	3,892
Stock options exercised	203	1,955	—	—	2,158
Excess tax savings on stock options exercised*	—	811	—	—	811
Balance at December 31, 2004*	$27,657	$201,421	$ 97,965	$ (509)	$326,534
Comprehensive income:					
Net income*	—	—	43,546	—	43,546
Other comprehensive income, net of tax:					
Change in unrealized gain (loss) on securities available-for-sale, net of tax	—	—	—	(2,910)	(2,910)
Change in unrealized gain (loss) on cash flow hedge, net of tax	—	—	—	(41)	(41)
Total comprehensive income, net of tax					40,595
Dividends paid: $0.28 per share	—	—	(8,321)	—	(8,321)
Proceeds from issuance of 6,192,954 shares of common stock	6,193	151,967	—	—	158,160
Issuance of 99,475 shares of incentive common stock grants	99	(99)	—	—	—
Amortization of incentive stock grants	—	3,260	—	—	3,260
Amortization of stock options and employee stock purchase plan	—	4,490	—	—	4,490
Stock options exercised	851	9,646	—	—	10,497
Excess tax savings on stock options exercised*	—	4,133	—	—	4,133
Balance at December 31, 2005*	$34,800	$374,818	$133,190	$(3,460)	$539,348
Comprehensive income:					
Net income	**—**	**—**	**54,373**	**—**	**54,373**
Other comprehensive income, net of tax:					
Change in unrealized gain (loss) on securities available-for-sale, net of tax	**—**	**—**	**—**	**1,526**	**1,526**
Change in unrealized gain (loss) on cash flow hedge, net of tax	**—**	**—**	**—**	**(357)**	**(357)**
Total comprehensive income, net of tax					**55,542**
Dividends paid: $0.32 per share	**—**	**—**	**(11,452)**	**—**	**(11,452)**
Proceeds from issuance of 1,158,955 shares of common stock	**1,159**	**33,499**	**—**	**—**	**34,658**
Issuance of 121,073 shares of incentive common stock grants	**121**	**(121)**	**—**	**—**	**—**
Amortization of incentive stock grants	**—**	**3,229**	**—**	**—**	**3,229**
Amortization of stock options and employee stock purchase plan	**—**	**5,805**	**—**	**—**	**5,805**
Stock options exercised	**510**	**5,237**	**—**	**—**	**5,747**
Excess tax savings on stock options exercised	**—**	**2,320**	**—**	**—**	**2,320**
Balance at December 31, 2006	**$36,590**	**$424,787**	**$176,111**	**$(2,291)**	**$ 635,197**

** Adjusted to include the impact of stock-based compensation expense; see Note 17: Employee Benefits for additional information.*

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	**Year Ended December 31, 2006**	**Year Ended December 31, 2005***	**Year Ended December 31, 2004***
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 54,373**	$ 43,546	$ 31,233
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**26,403**	21,873	15,895
Common shares issued as compensation	**870**	538	357
Provision for loan losses	**6,179**	5,438	4,285
Loans originated for sale	**(168,815)**	(608,958)	(345,427)
Proceeds from sale of loans held for sale	**177,995**	641,607	308,880
Net (increase) decrease in other operating activities	**(22,536)**	(8,802)	3,708
Net cash provided by operating activities	**74,469**	95,242	18,931
CASH FLOWS FROM INVESTING ACTIVITIES:			
Maturity of short term investments	**—**	—	100
Investment securities available-for-sale:			
Purchases	**(359,429)**	(459,921)	(437,469)
Sales	**72**	48,281	81,992
Maturities, redemptions, and principal payments	**348,580**	412,686	305,757
Investment securities held-to-maturity:			
Purchases	**(20,930)**	(128,272)	(43,725)
Maturities and principal payments	**51,513**	119,490	24,806
Investments in trusts	**(888)**	(7,590)	(11,276)
Investment in bank owned life insurance	**(30,000)**	—	—
Purchase of Federal Home Loan Banks stock	**(12,378)**	(3,935)	(8,890)
Net increase in portfolio loans	**(680,120)**	(433,474)	(399,975)
Capital expenditures, net of sale proceeds	**(15,142)**	(10,653)	(8,109)
Cash paid for acquisitions, including deferred acquisition obligations, net of cash acquired	**(27,976)**	8,057	(78,941)
Net cash used in investing activities	**(746,698)**	(455,331)	(575,730)

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(In thousands)	**Year Ended December 31, 2006**	**Year Ended December 31, 2005***	**Year Ended December 31, 2004***
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in deposits	**329,690**	388,455	378,486
Net (increase) decrease in securities sold under agreements to repurchase	**(29,748)**	22,803	18,780
Increase in short-term Federal Home Loan Bank borrowings	**194,898**	—	—
Increase in long-term Federal Home Loan Bank borrowings	**46,181**	45,279	77,337
Proceeds from issuance of trust preferred debt	**—**	103,092	104,506
Dividends paid to stockholders	**(11,452)**	(8,321)	(6,451)
Excess tax savings on stock options exercised	**2,320**	4,133	811
Proceeds from stock option exercises	**5,747**	10,497	2,158
Proceeds from issuance of common stock, net	**1,673**	37,553	16,598
Net cash provided by financing activities	**539,309**	603,491	592,225
Net (decrease) increase in cash and cash equivalents	**(132,920)**	243,402	35,426
Cash and cash equivalents at beginning of year	**372,316**	128,914	93,488
Cash and cash equivalents at end of year	**$239,396**	$372,316	$128,914
SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Cash paid for interest	**$121,890**	$ 58,717	$ 31,238
Cash paid for income taxes, net of refunds received	**30,328**	21,656	25,889
Change in unrealized loss on securities available-for-sale, net of estimated income taxes	**1,526**	(2,910)	(3,080)
Change in unrealized loss on cash flow hedge, net of estimated income taxes	**(357)**	(41)	—
Non-Cash Transactions			
Equity issued for acquisitions	**$ 32,115**	$120,069	$ 39,221

** Adjusted to include the impact of stock-based compensation expense; see Note 17: Employee Benefits for additional information.*

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Boston Private Financial Holdings, Inc. (the "Company" and/or "Boston Private") is a holding company with wholly-owned and majority-owned subsidiaries, which consist of four private banks, and seven registered investment advisers. The Company's four private banks include; 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"), both California state banking corporations; and Gibraltar Private Bank & Trust Company ("Gibraltar"), a federal savings association. The Company's seven registered investment advisers include: 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"), RINET Company LLC ("RINET"), and Anchor Capital Holdings LLC ("Anchor"). In addition, the Company holds an approximately 28.4% minority interest in Coldstream Holdings, Inc., ("Coldstream Holdings") and a 49.7% minority interest in Bingham, Osborn, & Scarborough, LLC ("BOS"). Coldstream Holdings is the parent company of Coldstream Capital Management Inc., a registered investment adviser and Coldstream Securities Inc., a registered broker dealer. BOS is a registered investment adviser. The Company conducts substantially all of its business through its wholly-owned and majority-owned subsidiaries, Boston Private Bank, Borel, FPB and Gibraltar, (together, the "Banks"), Westfield, Sand Hill, BPVI, DGHM, KLS, RINET, and Anchor (together, the "Registered Investment Advisers"). 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 are included in Other Assets.

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, 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.

Gibraltar provides private banking and wealth management services to professionals, as well as business owners, entrepreneurs, corporate executives and individuals primarily in Miami-Dade, Monroe, Broward, Collier, and Palm Beach counties. Gibraltar opened a private banking office in New York City in 2006.

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

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 serves the investment needs of institutions and high net worth individuals managing large capitalization US equities and balanced portfolios with a value orientation.

KLS is a wealth management firm specializing in investment management, estate and insurance planning, retirement planning, financial decision making and income tax planning services. The firm is headquartered in New York City.

RINET provides fee-only financial planning, 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.

Anchor is the parent holding company of Anchor Capital and Anchor/Russell. Anchor Capital is a value-oriented investment adviser specializing in active investment management for families, trusts, and institutions, including foundations and endowments. Anchor Capital serves clients through its Discretionary Management Accounts division and its Separately Managed Accounts ("Wrap Accounts") division, and offers four core disciplines, which include balanced, all-cap, mid-cap, and small-cap styles. Anchor Capital's sister company, Anchor/Russell, structures diversified investment management programs for clients utilizing a host of sophisticated management solutions including institutional multi-manager, multi-style, multi-asset mutual funds and Separately Managed Accounts programs sponsored by the Frank Russell Company.

2. MERGERS AND ACQUISITIONS

The Company completed one business combination in 2006 and in 2005; both were accounted for under the purchase method of accounting. The results of operations prior to the date of acquisition are not included in the accompanying consolidated financial statements. Goodwill, investment advisory contracts, non-compete agreements, core deposit intangibles, and other purchase accounting adjustments, if applicable, were recorded upon the completion of each acquisition.

Boston Private's strategy is to build a national wealth management enterprise by expanding into demographically attractive regions in the United States through acquisition. The Company is acquiring companies that participate in three core competencies: private banking, wealth advisory and/or investment management. Within each region the Company seeks to form "clusters" of independent affiliates that represent these core competencies. Boston Private focuses on purchasing firms with good performance and growth potential, which could require a purchase price premium over book value.

Westfield, RINET, Sand Hill, BPVI and Borel were acquired by merger prior to January 1, 2002. Except for Sand Hill, all of these mergers were accounted for as a "pooling of interests."

On December 18, 2002, the Company acquired 26% of the outstanding capital stock of Coldstream Holdings, Inc. Since the initial acquisition the Company has increased its ownership to 28.4%. Coldstream Holdings, Inc. is the parent of Coldstream Capital Management, Inc. Coldstream Capital is a multi-client family office that provides comprehensive wealth management services to high net worth private clients. This investment is accounted for using the equity method.

On February 5, 2004, the Company acquired a 20% interest in BOS, a financial planning and investment firm located in San Francisco, California. The Company made additional investments in BOS on August 11, 2004, July 29, 2005, and August 1, 2006, increasing its ownership to 49.7% as of December 31, 2006. Over the next two years, the Company has the option to increase its investment interest an additional 10% per year, up to approximately 70%. BOS has offices in San Francisco and Menlo Park, California. This investment is accounted for using the equity method.

On February 6, 2004, the Company acquired an 80% interest in DGHM. DGHM is a value style manager specializing in small-cap equities. DGHM was purchased for approximately $96.0 million, with approximately 86% payable in cash. Approximately 20% of the purchase price was deferred and the payments are contingent upon operating results of DGHM through a five-year earn-out period. $12.5 million has been accrued as of December 31, 2006, for the net present value of the estimated remaining deferred payments, which are determinable beyond a reasonable doubt. 20% of the remaining payments will be paid with Boston Private common stock valued using the volume weighted average price for the 30 days prior to the annual payments.

On February 17, 2004, the Company acquired First State Bancorp, the holding company of FPB, a commercial bank situated in Los Angeles county. In the transaction, the Company acquired 100% of First State Bancorp's common stock through the issuance of approximately 886 thousand shares of Boston Private common stock valued at $21.1 million and $3.7 million in cash payments to shareholders. In addition, options to acquire First State Bancorp common stock were converted to options to acquire Boston Private common stock valued at $2.7 million for an aggregate transaction value of $27.5 million.

On October 1, 2004, the Company through its subsidiary, FPB, acquired Encino State Bank ("Encino"), a commercial bank located in southern California, for $33.1 million in cash. Encino was merged into FPB with FPB as the surviving entity.

On December 31, 2004, the Company acquired an 81% interest in KLS, a wealth management firm located in New York City. The transaction purchase price was approximately $30.0 million, with approximately 90% paid in cash and the remainder paid in Boston Private common stock. KLS has an option to put and the Company has an option to call, at a negotiated formula based on fair market value, the remaining 19% interest in KLS beginning in 2010.

On October 1, 2005, the Company acquired Gibraltar Financial Corp. ("Gibraltar Financial"), the holding company of Gibraltar, a federal savings bank headquartered in Coral Gables, Florida. The Company acquired 100% of the common stock of Gibraltar Financial through the issuance of approximately 4.3 million shares of Boston Private common stock and approximately $112.2 million in cash. The purchase price was approximately $248.2 million, which included the trust preferred debt assumed, the fair value of Gibraltar Financial's stock options, and the Company's transaction costs. The Company exchanged options to acquire Gibraltar Financial common stock for approximately 819 thousand options to acquire Boston Private common stock. The Company assumed Gibraltar Financial's outstanding trust preferred debt of $16.0 million. In addition, the Company contributed $16.0 million of capital to Gibraltar at acquisition and an additional $3.0 million in December 2005.

On June 1, 2006, the Company acquired Anchor, a newly created holding company that owns 80% of the profits interests in Anchor Capital, a value-oriented investment adviser and 80% of the profits interests in Anchor/Russell, which structures disciplined and sophisticated investment management programs. The Company owns 100% of Anchor and the financial results of Anchor Capital and Anchor/Russell are consolidated for financial reporting purposes since the date of acquisition. At the closing of the transaction, the Company paid approximately $55.4 million plus acquisition costs of approximately $1.3 million, in a combination of cash and common stock, which represents approximately 68% of the total estimated consideration at closing. The remaining consideration will be paid over the next five years contingent upon Anchor's financial performance. All earn-out payments will be paid with Boston Private common stock. The consideration paid at closing consisted of approximately 981 thousand shares of newly issued Boston Private common stock (of which 278,465 have been registered for resale on Form S-3, effective June 1, 2006) and approximately $25.4 million in cash. As of December 31, 2006, goodwill of approximately $38.5 million, which is not expected to be deductible for tax purposes, was recorded as part of the purchase price allocation.

The acquisition of Anchor gives the Company access to the rapidly growing Separately Managed Accounts ("SMA") market, expands the Company's investment value disciplines and enhances asset allocation services within the Company.

Contingent payments for the Anchor transaction are additional costs of the acquisition and will be recorded as goodwill. Anchor shareholders had the option of accelerating 100% of the deferred contingent merger consideration at the time of closing the acquisition, and therefore would not participate in the earn-out payments. Pursuant to the Anchor merger agreement, the earn-out payments for each of the years ended 2006 through 2010 are to be paid to the shareholders of Anchor Capital and Anchor/Russell who elected that option in proportion to their respective ownership immediately prior to the acquisition. The Company accrued approximately $8.4 million as of December 31, 2006, which represents the estimated contingent payment earned in 2006 and due in 2007. The remaining future payments are contingent upon Anchor achieving certain earnings goals through a five-year earn-out period and, therefore, are not determinable beyond a reasonable doubt. As such, the Company has not accrued these future payments. The annual earn-out payments are based on the compound annual growth rate ("CAGR") of Anchor's annual earnings before interest, taxes, depreciation, and amortization ("Anchor EBITDA"), as defined in the Anchor merger agreement, over the base year Anchor EBITDA. A multiple, which varies based on the CAGR is then applied to 80% of the annual Anchor EBITDA to calculate the amount of the contingent payment. The Anchor merger agreement does not provide for a minimum payment, nor does it cap the total amount that may be paid. Therefore, future contingent payments will depend on the financial results of Anchor.

In addition to the earn-out, certain employees and former shareholders of Anchor Capital and Anchor/Russell purchased, for fair value, profits interests units representing in the aggregate a 20% interest in the profits and losses of Anchor in periods following the acquisition, which is reflected in the accompanying consolidated balance sheets as a minority interest in "Other Liabilities" and is included in the "Other" category of operating expenses in the consolidated statements of operation. The profits interests units entitle the holder to share pro-rata in the earnings of Anchor for as long as they are held. Pursuant to the terms of the transaction, the Company and the profits interests unit holders have under certain circumstances, the right to call and put, respectively, the profits interests units at a price based on the then fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting and reporting policies used by management in preparing and presenting the consolidated financial statements.

BASIS OF PRESENTATION

The consolidated financial statements of the Company include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. The Company's wholly-owned

subsidiaries include Boston Private Bank, Borel, FPB, Gibraltar, Westfield, Sand Hill, BPVI and RINET. The Company's majority-owned subsidiaries include DGHM, and KLS. The Company owns 100% of Anchor, which owns 80% of the profits interests in Anchor Capital and Anchor/Russell. All significant intercompany accounts and transactions have been eliminated in consolidation, and the portion of income allocated to owners other than the Company is included in minority interest in the consolidated statements of operations. Minority interest in the consolidated balance sheets includes the capital account of other owners in majority-owned subsidiaries and is included in Other Liabilities.

The Company applies the equity method of accounting to investments that the Company or a subsidiary do not hold a majority interest in but have the ability to exercise significant influence over operations. The Company includes its proportionate share of earnings of equity method investments as a separate line item on the consolidated statements of operations. Equity method investments at December 31, 2006, and 2005 of $33.2 million and $44.1 million, respectively, which include the minority interests in Coldstream Holdings, BOS, affordable housing partnerships, and other partnership holdings, are included in Other Assets on the consolidated balance sheets.

The financial statements are prepared in accordance with United States generally accepted accounting principles ("GAAP"). Certain reclassifications have been made to prior year's financial statements to conform to the current year's presentation.

USE OF ESTIMATES

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to change, in the near term, relate to the determination of the allowance for loan losses as well as the evaluation of goodwill and other intangibles.

INVESTMENT MANAGEMENT AND WEALTH ADVISORY FEES

The Company generates fee income from providing investment management and trust services to its clients at the Banks and from providing investment management and wealth advisory services through the Registered Investment Advisors. These fees are generally based upon the value of assets under management and are billed monthly, quarterly or annually. Asset-based advisory fees are recognized monthly as services are rendered and are based upon a percentage of the market value of client assets managed. Certain wealth advisory fees are not asset based and are negotiated individually with clients. Any fees collected in advance are deferred and recognized as income over the period earned. Performance-based advisory fees are generally assessed as a percentage of the investment performance realized on a client's account, generally over an annual period, and are not recognized until any contingencies in the contract that could require the performance fee to be reduced have been eliminated.

Investment management and trust assets under management at the Company's consolidated affiliates totaled $29.8 billion, $21.3 billion and $19.3 billion at December 31, 2006, 2005, and 2004, respectively. These assets are not included in the consolidated financial statements since they are held in a fiduciary or agency capacity and are not assets of the Company.

SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Company's activities are with customers within the New England, New York City, northern and southern California, and south Florida regions of the country. Note 6: Investment Securities, highlights the types of securities in which the Company invests and Note 7: Loans Receivable, describes the types of lending activities the Company engages in. The Company does not have any significant concentrations in any one industry or customer.

STATEMENT OF CASH FLOWS

For purposes of reporting cash flows, the Company considers cash and due from banks and federal funds sold, all of which have original maturities with 90 days or less, to be cash equivalents.

CASH AND DUE FROM BANKS

Each Bank is required to maintain average reserve balances in a non-interest bearing account with the Federal Reserve Bank based upon a percentage of certain deposits. As of December 31, 2006, the daily amount required to be held for Boston Private Bank, Borel, FPB, and Gibraltar was $7.0 million, $260 thousand, $8.5 million, and $2.5 million, respectively.

INVESTMENT SECURITIES

Investments available-for-sale are reported at fair value, with unrealized gains and losses credited or charged, net of estimated tax effect, to accumulated other comprehensive income. Investments held-to-maturity are those which the Company has the positive intent and ability to hold to maturity and are reported at amortized cost.

Premiums and discounts on the investment securities are amortized or accreted into interest income by a method that approximates the level-yield method. Actual prepayment experience is reviewed periodically and the timing of the accretion and amortization is adjusted accordingly. Gains and losses on the sale of the investments available-for-sale are recognized at the time of sale on a specific identification basis. Dividend and interest income is recognized when earned.

Interest income is recorded on the accrual basis adjusted for amortization of premium and accretion of discount.

If a decline in fair value below the amortized cost basis of an investment security is judged to be other-than-temporary, the cost basis of the investment is written down to fair value. To determine whether impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery. The Company also considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. The amount of the write down is included as a charge against gain on sale of investments and a new cost basis for the investment is established.

LOANS HELD FOR SALE

Loans originated and held for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Fair value is based on commitments on hand from investors or prevailing market prices. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

LOANS

Loans are carried at the principal amount outstanding generally including deferred loan origination fees and costs. Loan origination fees, net of related direct incremental loan origination costs, are deferred and recognized into income over the contractual lives of the related loans as an adjustment to the loan yield, using a method which approximates the level-yield method. When a loan is paid-off or sold, the unamortized portion of net fees is recognized into interest income, or gain/loss on sale of loans, respectively.

Impaired loans are loans for which it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreements. Impaired loans are accounted for at the present value of the expected future cash flows discounted at the loan's effective interest rate, except those loans that are accounted for at fair value or at the lower of cost or fair value. Impairment is measured based on the fair value of the collateral if it is determined that foreclosure is probable. Accrual of interest income is discontinued and all interest previously accrued but not collected is reversed against current period income when a loan is initially classified as impaired. Interest received on impaired loans is either applied against principal or reported as income according to management's judgment as to the collectibility of principal. At December 31, 2006, and 2005 the amounts of impaired loans were immaterial.

Loans on which the accrual of interest has been discontinued are designated non-accrual loans. Accrual of interest income on loans is discontinued when concern exists as to the collectibility of principal or interest. When a loan is placed on non-accrual status, all interest previously accrued but not collected is reversed against current period income. Loans are removed from non-accrual status when they become less than 90 days past due and when concern no longer exists as to the collectibility of principal or interest. Interest received on non-accrual loans is either applied against principal or reported as income according to management's judgment as to the collectibility of principal.

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 a disciplined procedure 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 non-performing 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.

PREMISES AND EQUIPMENT

Premises and equipment consists of leasehold improvements, equipment and buildings. Equipment consists primarily of computer equipment, art, and furniture and fixtures. Premise and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed primarily by the straight-line method over the estimated useful lives of the assets, or the terms of the leases, if shorter, for leasehold improvements. The estimated useful lives for leasehold improvements and buildings are 5-15 years and 40 years, respectively. The estimated useful life for furniture and fixtures is 2-10 years and is 3-5 years for computer equipment. The costs of improvements that extend the life of an asset are capitalized, while the cost of repairs and maintenance are expensed as incurred. Both land and art are not depreciated.

GOODWILL AND OTHER INTANGIBLE ASSETS

The Company allocates the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Other intangible assets identified in acquisitions generally consist of advisory contracts, core deposit intangibles and non-compete agreements. The value attributed to advisory contracts is based on the time period over which they are expected to generate economic benefits. Core deposit intangibles are valued based on 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. Non-compete agreements are valued based on the expected receipt of future economic benefits protected by clauses in the non-compete agreements that restrict competitive behavior.

We test other intangible assets with definite lives for impairment by comparing the carrying amount to the sum of undiscounted cash flows expected to be generated by the asset whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying amount of the asset is less than its undiscounted cash flows, then an impairment loss is recognized for the amount by which the carrying amount exceeds its fair value.

The excess of the purchase price for acquisitions over the fair value of the net assets acquired, including other intangible assets, is reported as goodwill. Goodwill is not amortized but is tested for impairment at the segment level at least annually in the fourth quarter or more frequently whenever events or circumstances occur that indicate that it is more likely than not that an impairment loss has occurred. The fair value of each segment is determined using a discounted cash flow analysis and by review of comparable market multiples. If the carrying amount of the goodwill exceeds its estimated fair value, an impairment loss is recognized for the difference.

DEBT ISSUANCE COSTS

Debt issuance costs for Boston Private Capital Trust I and Boston Private Capital Trust II (together the "Trusts") and for the junior subordinated debentures assumed through the acquisition of FPB are recorded as an asset. The costs associated with the Trusts are amortized using the effective-yield method over the life of the securities. Debt issuance costs for the junior subordinated debentures assumed through the acquisition of FPB are amortized over a 65 month-period on a straight-line basis. The Company had approximately $3.7 million and $3.9 million in debt issuance costs at December 31, 2006, and 2005, respectively.

INVESTMENT TAX CREDITS

We record low-income housing and rehabilitation investment tax credits using the equity method in accordance with Emerging Issues Task Force ("EITF") Abstract No. 94-1, *Accounting for Tax Benefits Resulting from Investments in Affordable Housing Projects.* The equity method recognizes tax credits in the same year they are allowed for tax reporting purposes.

STOCK-BASED INCENTIVE PLANS

At December 31, 2006, the Company has three stock-based compensation plans. These plans encourage and enable the officers, employees, non-employee directors and other key persons of the Company to acquire a proprietary interest in the Company. Prior to January 1, 2006, the Company accounted for these plans under the intrinsic-value based method in accordance with the Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by Financial Accounting Standards Board ("FASB") Statement No. 123, *Accounting for Stock-Based Compensation* (FAS 123) . Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(Revised), *Share-Based Payment* ("FAS 123(R)"), using the modified retrospective application method. Under the modified retrospective application method, the Company has adjusted all applicable prior periods to reflect the effects of applying FAS 123(R). See Note 17: Employee Benefits, for more information on the adoption of FAS 123(R).

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

As required by FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest

rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transactions.

INCOME TAXES

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income during the period that includes the enactment date.

EARNINGS PER SHARE

Basic earnings per share ("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 entity. The dilutive effect of convertible securities are 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 is a reconciliation of the components of basic and diluted EPS computations for the three years ended December 31:

(In thousands, except per share data)	**2006**	**2005**	**2004**
Calculation of net income for EPS:			
Net income as reported and for basic EPS	**$54,373**	$43,546	$31,233
Interest on convertible trust preferred securities, net of tax	**3,060**	3,059	672
Net income for EPS calculation using the if-converted method	**$57,433**	$46,605	$31,905
Calculation of average shares outstanding:			
Average basic common shares outstanding[(1)]	**35,453**	29,425	27,313
Dilutive effect of:			
Stock options, stock grants and other	**1,453**	1,071	936
Forward agreement[(1)]	**—**	147	119
Convertible trust preferred securities	**3,183**	3,182	657
Dilutive potential common shares	**4,636**	4,400	1,712
Average diluted common shares outstanding	**40,089**	33,825	29,025
Per Share Data:			
Basic earnings per share	**$1.53**	$1.48	$1.14
Diluted earnings per share	**$1.43**	$1.38	$1.10

(1) On March 31, 2004, the 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 497 thousand and 132 thousand unissued shares in the calculation of basic EPS for the years ended December 31, 2004, and 2003, respectively.

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

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments*, ("FAS 155"). FAS 155 amends FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* and FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* and allows an entity to remeasure at fair value a hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation from the host, if the holder irrevocably elects to account for the whole instrument on a fair value basis. FAS 155 is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The Company is currently evaluating the impact the statement will have on the financial statements and believes that, when adopted, will not have a material impact on the Company's financial condition or results of operations.

In March 2006, the FASB issued Statement No. 156, *Accounting for Servicing of Financial Assets —An Amendment of FASB Statement No. 140* ("FAS 156"). FAS 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. The statement permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. FAS 156 is effective for fiscal years that begin after September 15, 2006. The Company does not believe that the adoption of FAS 156 will have a material impact on the Company's financial condition or results of operations.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty with respect to income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes,* by providing guidance on the recognition, derecognition and classification of taxes, interest and penalties and the accounting during interim periods of uncertain tax positions including financial statement disclosure. This interpretation will become effective for fiscal years beginning after December 15, 2006, and will be adopted using a cumulative-effect adjustment to retained earnings. The adoption of this standard did not have a material impact on the Company's financial condition or results of operations.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("FAS 157"). This statement defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States and requires certain disclosures about fair value measurements. FAS 157 provides guidance on how to measure fair value when required under existing accounting standards. The statement establishes a fair value hierarchy of three levels based on the inputs to valuation techniques used to measure fair value. Required disclosures will focus on the inputs used to measure fair value, fair value measurements, and the effects of the measurements in the financial statements. FAS 157 is effective for fiscal years beginning after November 15, 2007, with earlier application allowed. Management is currently evaluating the impact of adopting this statement on the Company's financial condition and results of operations.

In September 2006, the FASB ratified EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements,* which requires recognition of a liability for future benefits associated with endorsement split-dollar life insurance arrangements with employees. The consensus is effective for fiscal years beginning after December 15, 2007, and should be adopted as a cumulative-effect adjustment to retained earnings or through retrospective application to all prior periods. Management is currently evaluating the impact of adopting this consensus on the Company's financial condition and results of operations.

In September 2006, the FASB ratified EITF Issue No. 06-5, *Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4*. This consensus consists of three issues related to accounting for life insurance policies purchased by entities to provide employee benefits and to protect against the loss of "key persons." The consensus clarifies how an entity should determine the amount that could be realized under the insurance contract and whether the determination should be on an individual or group policy basis. The consensus is effective for fiscal years beginning after December 15, 2006, and should be adopted as a cumulative-effect adjustment to retained earnings or through retrospective application to all prior periods. Management is currently evaluating the impact of adopting this consensus on the Company's financial condition and results of operations.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("FAS 159"). FAS 159 permits entities to measure certain financial assets and financial liabilities at fair value and amended FASB Statement No. 115, *Accounting for*

Investments in Debt and Equity Securities. Unrealized gains and losses on items for which the fair value option is elected will be reported in earnings. FAS 159 is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact of adopting this statement on the Company's financial condition and results of operations.

4. COMPREHENSIVE AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Comprehensive income represents the change in the Company's equity during a period from transactions and other events and circumstances from non-stockholder sources. It includes all changes in equity during a period except those resulting from investments by stockholders and distributions to stockholders.

The Company's other comprehensive income and related tax effects for the years ended December 31, 2006, 2005, and 2004 is as follows:

(In thousands)	Pre-tax	Tax expense (benefit)	Net
Other comprehensive income:			
2006			
Unrealized gains (losses) on securities available-for-sale	**$ 2,314**	**$ 788**	**$ 1,526**
Unrealized gain (loss) on cash flow hedge	**(454)**	**(93)**	**(361)**
Less: adjustment for ineffective portion	**6**	**2**	**4**
Net unrealized gain (loss) on cash flow hedge	**(448)**	**(91)**	**(357)**
Other comprehensive income (loss)	**$ 1,866**	**$ 697**	**$ 1,169**
2005			
Unrealized gains (losses) on securities available-for-sale	$(4,717)	$(1,818)	$(2,899)
Less: adjustment for realized gains	(20)	(9)	(11)
Net unrealized gains (losses) on securities available-for-sale	$(4,737)	$(1,827)	$(2,910)
Unrealized gain (loss) on cash flow hedge	(71)	(30)	(41)
Other comprehensive income (loss)	$(4,808)	$(1,857)	$(2,951)
2004			
Unrealized gains (losses) on securities available-for-sale	$(5,045)	$(2,187)	$(2,858)
Less: adjustment for realized gains	(373)	(151)	(222)
Other comprehensive income (loss)	$(5,418)	$(2,338)	$(3,080)

The following table details the components of the Company's accumulated other comprehensive income (loss) for the three years ended December 31:

(In thousands)	2006	2005	2004
Accumulated Other Comprehensive Income:			
Unrealized gains (losses) on securities available-for-sale, net of tax	**$(1,893)**	$(3,419)	$ (509)
Unrealized gain (loss) on cash flow hedge, net of tax	**(398)**	(41)	—
Accumulated other comprehensive income (loss)	**$(2,291)**	$(3,460)	$ (509)

5. BUSINESS SEGMENTS

MANAGEMENT REPORTING

The Company has twelve reportable segments: Boston Private Bank, Borel, FPB, Gibraltar, Westfield, DGHM, Sand Hill, BPVI, KLS, RINET, Anchor, and Boston Private Financial Holdings, Inc. (Parent Company only) ("HC"). 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

A description of each business segment, except the HC, is provided in Note 1: Organization.

MEASUREMENT OF SEGMENT PROFIT AND ASSETS

The accounting policies of the segments are the same as those described in Note 3: Summary of Significant Accounting Policies. Revenues, expenses, and assets are recorded by each segment, and management reviews separate financial statements.

RECONCILIATION OF REPORTABLE SEGMENT ITEMS

The following tables are a reconciliation of the revenues, net income, assets, and other significant items of reportable segments:

AT AND FOR THE YEAR ENDED DECEMBER 31, 2006

(In thousands)	Westfield	DGHM	Sand Hill	BPVI	KLS	RINET	Anchor	Total Registered Investment Advisers
Income Statement Data:								
Revenue								
Net interest income	$ 323	$ 153	$ 25	$ 22	$ 195	$ 51	$ 45	$ 814
Non-interest income	58,351	27,478	6,752	6,984	12,375	8,181	16,633	136,754
Total revenues	$58,674	$ 27,631	$ 6,777	$ 7,006	$12,570	$ 8,232	$ 16,678	$ 137,568
Non-interest expense and minority interest	34,625	19,640	6,163	5,579	10,101	7,243	13,077	96,428
Income taxes	10,079	3,642	239	600	1,170	424	1,525	17,679
Segment profit	$13,970	$ 4,349	$ 375	$ 827	$ 1,299	$ 565	$ 2,076	$ 23,461
Segment assets	$57,551	$ 98,655	$ 16,646	$ 5,742	$35,836	$ 6,180	$ 88,346	$ 308,956
Amortization of intangibles	$ —	$ 3,540	$ 102	$ 238	$ 898	$ —	$ 2,005	$ 6,783
(In millions)								
Assets under management	$10,102	$ 2,302	$ 1,252	$ 961	$ 3,727	$ 1,262	$ 6,444	$ 26,050

(In thousands)	Boston Private Bank	Borel	FPB	Gibraltar	Total Banks	Total Registered Investment Advisers	HC	Inter-Segment	Total
Income Statement Data:									
Revenue									
Net interest income	$ 64,630	$ 41,705	$ 26,179	$ 52,920	$ 185,434	$ 814	$(12,858)	$ 123	$ 173,513
Non-interest income	17,691	5,448	2,081	8,199	33,419	136,754	2,012	(844)	171,341
Total revenues	$ 82,321	$ 47,153	$ 28,260	$ 61,119	$ 218,853	$137,568	$(10,846)	$ (721)	$ 344,854
Provision for loan losses	2,708	706	826	1,939	6,179	—	—	—	6,179
Non-interest expense and minority interest	53,362	23,932	15,097	44,489	136,880	96,428	21,561	(721)	254,148
Income taxes	7,005	8,904	4,898	5,996	26,803	17,679	(14,328)	—	30,154
Segment profit	$ 19,246	$ 13,611	$ 7,439	$ 8,695	$ 48,991	$ 23,461	$(18,079)	$ —	$ 54,373
Segment assets	$2,455,651	$965,296	$552,844	$1,482,959	$5,456,750	$308,956	$ 50,607	$(52,769)	$5,763,544
Amortization of intangibles	$ —	$ —	$ 819	$ 5,739	$ 6,558	$ 6,783	$ 308	$ —	$ 13,649
(In millions)									
Assets under management	$ 2,369	$ 731	$ 5	$ 907	$ 4,012	$ 26,050	$ —	$ (238)	$ 29,824

AT AND FOR THE YEAR ENDED DECEMBER 31,2005

(In thousands)	Westfield	DGHM	Sand Hill	BPVI	KLS	RINET	Total Registered Investment Advisers
Income Statement Data:							
Revenue							
Net interest income	$ 78	$ 77	$ 20	$ 11	$ 112	$ 25	$ 323
Non-interest income	49,699	27,227	6,631	6,417	10,783	8,161	108,918
Total revenues	**$49,777**	**$ 27,304**	**$ 6,651**	**$6,428**	**$10,895**	**$8,186**	**$109,241**
Non-interest expense and minority interest	29,801	19,924	5,920	5,028	9,276	7,127	77,076
Income taxes	8,360	3,411	301	611	744	451	13,878
Segment profit	**$11,616**	**$ 3,969**	**$ 430**	**$ 789**	**$ 875**	**$ 608**	**$ 18,287**
Segment assets	**$45,503**	**$103,117**	**$16,439**	**$5,806**	**$35,902**	**$5,582**	**$212,349**
Amortization of intangibles	**$ —**	**$ 3,957**	**$ 102**	**$ 238**	**$ 1,034**	**$ —**	**$ 5,331**
(In millions)							
Assets under management	**$ 8,325**	**$ 3,259**	**$ 1,094**	**$ 867**	**$ 3,140**	**$1,129**	**$ 17,814**

(In thousands)	Boston Private Bank	Borel	FPB	Gibraltar	Total Banks	Total Registered Investment Advisers	HC	Inter-Segment	Total
Income Statement Data:									
Revenue									
Net interest income	$ 62,145	$ 37,805	$ 21,579	$ 13,860	$ 135,389	$ 323	$ (6,971)	$ (2)	$ 128,739
Non-interest income	16,424	4,593	2,240	1,813	25,070	108,918	1,164	(565)	134,587
Total revenues	**$ 78,569**	**$ 42,398**	**$ 23,819**	**$ 15,673**	**$ 160,459**	**$109,241**	**$ (5,807)**	**$ (567)**	**$ 263,326**
Provision for loan losses	2,266	1,705	919	548	5,438	—	—	—	5,438
Non-interest expense and minority interest	50,098	20,208	12,892	9,824	93,022	77,076	19,250	(567)	188,781
Income taxes	7,065	7,635	3,968	2,109	20,777	13,878	(9,094)	—	25,561
Segment profit	**$ 19,140**	**$ 12,850**	**$ 6,040**	**$ 3,192**	**$ 41,222**	**$ 18,287**	**$(15,963)**	**$ —**	**$ 43,546**
Segment assets	**$2,231,513**	**$853,466**	**$476,175**	**$1,321,443**	**$4,882,597**	**$212,349**	**$ 57,523**	**$(33,901)**	**$5,118,568**
Amortization of intangibles	**$ —**	**$ —**	**$ 824**	**$ 1,479**	**$ 2,303**	**$ 5,331**	**$ —**	**$ —**	**$ 7,634**
(In millions)									
Assets under management	**$ 2,310**	**$ 661**	**$ —**	**$ 757**	**$ 3,728**	**$ 17,814**	**$ —**	**$ (203)**	**$ 21,339**

AT AND FOR THE YEAR ENDED DECEMBER 31, 2004

(In thousands)	Westfield	DGHM	Sand Hill	BPVI	KLS	RINET	Total Registered Investment Advisers
Income Statement Data:							
Revenue							
Net interest income	$ 56	$ —	$ 3	$ 8	$ —	$ 10	$ 77
Non-interest income	45,578	22,240	6,069	6,007	—	7,800	87,694
Total revenues	**$ 45,634**	**$ 22,240**	**$ 6,072**	**$6,015**	**$ —**	**$7,810**	**$ 87,771**
Non-interest expense and minority interest	27,028	17,077	5,596	5,111	—	6,881	61,693
Income Taxes	7,787	2,348	199	418	—	395	11,147
Segment profit	**$ 10,819**	**$ 2,815**	**$ 277**	**$ 486**	**$ —**	**$ 534**	**$ 14,931**
Segment assets	**$ 35,961**	**$104,841**	**$16,485**	**$5,043**	**$33,343**	**$4,556**	**$200,229**
Amortization of intangibles	**$ —**	**$ 3,939**	**$ 104**	**$ 238**	**$ —**	**$ —**	**$ 4,281**
(In millions)							
Assets under management	**$ 7,707**	**$ 3,353**	**$ 1,062**	**$ 860**	**$ 2,880**	**$1,051**	**$ 16,913**

(In thousands)	Boston Private Bank	Borel	FPB	Total Banks	Total Registered Investment Advisers	HC	Inter-Segment	Total
Income Statement Data:								
Revenue								
Net interest income	$ 50,564	$ 28,625	$ 10,541	$ 89,730	$ 77	$(1,238)	$ 10	$ 88,579
Non-interest income	14,515	4,055	1,744	20,314	87,694	652	(447)	108,213
Total revenues	**$ 65,079**	**$ 32,680**	**$ 12,285**	**$ 110,044**	**$ 87,771**	**$ (586)**	**$ (437)**	**$ 196,792**
Provision for loan losses	2,375	1,575	335	4,285	—	—	—	4,285
Non-interest expense and minority interest	44,046	17,378	6,583	68,007	61,693	15,209	(437)	144,472
Income taxes	4,290	5,624	2,212	12,126	11,147	(6,471)	—	16,802
Segment profit	**$ 14,368**	**$ 8,103**	**$ 3,155**	**$ 25,626**	**$ 14,931**	**$(9,324)**	**$ —**	**$ 31,233**
Segment assets	**$1,888,341**	**$734,704**	**$427,586**	**$3,050,631**	**$200,229**	**$47,366**	**$(23,805)**	**$3,274,421**
Amortization of intangibles	**$ 5**	**$ —**	**$ 378**	**$ 383**	**$ 4,281**	**$ —**	**$ —**	**$ 4,664**
(In millions)								
Assets under management	**$ 2,010**	**$ 568**	**$ —**	**$ 2,578**	**$ 16,913**	**$ —**	**$ (185)**	**$ 19,306**

6. INVESTMENT SECURITIES

A summary of investment securities follows:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
At December 31, 2006				
Available-for-sale securities at fair value:				
U.S. Government	**$ 18,041**	**$ 3**	**$ (62)**	**$ 17,982**
U.S. Agencies	**182,033**	**22**	**(1,253)**	**180,802**
Corporate bonds	**23,686**	**—**	**(276)**	**23,410**
Municipal bonds	**232,068**	**598**	**(1,558)**	**231,108**
Mortgage-backed securities	**28,515**	**11**	**(721)**	**27,805**
Other	**42,847**	**33**	**(139)**	**42,741**
Total	**$527,190**	**$667**	**$(4,009)**	**$523,848**
Held-to-maturity securities at amortized cost:				
U.S. Government	**$ 2,745**	**$ —**	**$ (6)**	**$ 2,739**
U.S. Agencies	**1,970**	**—**	**(23)**	**1,947**
Mortgage-backed securities	**7,660**	**—**	**(101)**	**7,559**
Other	**1,584**	**—**	**(10)**	**1,574**
Total	**$ 13,959**	**$ —**	**$ (140)**	**$ 13,819**
At December 31, 2005				
Available-for-sale securities at fair value:				
U.S. Government	$ 22,618	$ 6	$ (162)	$ 22,462
U.S. Agencies	185,311	8	(2,141)	183,178
Corporate bonds	45,586	8	(539)	45,055
Municipal bonds	225,933	363	(2,215)	224,081
Mortgage-backed securities	34,024	—	(942)	33,082
Other	4,926	—	(42)	4,884
Total	$518,398	$385	$(6,041)	$512,742
Held-to-maturity securities at amortized cost:				
U.S. Government	$ 4,472	$ —	$ (28)	$ 4,444
U.S. Agencies	29,412	—	(27)	29,385
Mortgage-backed securities	9,439	—	(127)	9,312
Other	1,077	—	(10)	1,067
Total	$ 44,400	$ —	$ (192)	$ 44,208

The following table sets forth the maturities of investment securities available-for-sale, based on contractual maturity, at December 31, 2006, and the weighted average yields of such securities:

	U.S. Government			U.S. Agencies			Corporate Bonds		
(In thousands)	Amortized Cost	Market Value	Weighted Average Yield	Amortized Cost	Market Value	Weighted Average Yield	Amortized Cost	Market Value	Weighted Average Yield
Within one year	$ 14,110	$ 14,073	4.40%	$ 74,598	$ 74,183	3.71%	$20,686	$20,528	3.75%
After one, but within five years	3,931	3,909	4.43%	103,223	102,487	4.61%	3,000	2,882	2.45%
After five, but within ten years	-	-	-	4,212	4,132	5.48%	-	-	-
After ten years	-	-	-	-	-	-	-	-	-
Total	$ 18,041	$ 17,982	4.41%	$182,033	$180,802	4.26%	$23,686	$23,410	3.59%

	Municipal Bonds			Mortgage-Backed Securities			Other Investment Securities		
(In thousands)	Amortized Cost	Market Value	Weighted Average Yield	Amortized Cost	Market Value	Weighted Average Yield	Amortized Cost	Market Value	Weighted Average Yield
Within one year	$ 78,000	$ 77,561	2.60%	$ -	$ -	-	$37,879	$37,894	5.11%
After one, but within five years	68,617	67,833	3.18%	7,940	7,658	3.81%	2,500	2,466	4.01%
After five, but within ten years	76,772	77,078	3.74%	-	-	-	-	-	-
After ten years	8,679	8,636	3.36%	20,575	20,147	3.81%	2,468	2,381	4.36%
Total	$232,068	$231,108	3.18%	$ 28,515	$ 27,805	3.81%	$42,847	$42,741	5.00%

Mortgage-backed securities are shown based on their final maturity, but due to prepayments, they are expected to have shorter lives. Certain securities are callable before their final maturity.

The following table sets forth the maturities of investment securities held-to-maturity, based on contractual maturity, at December 31, 2006, and the weighted average yields of such securities:

	U.S. Government			U.S. Agencies			Mortgage-Backed Securities		
(In thousands)	Amortized Cost	Market Value	Weighted Average Yield	Amortized Cost	Market Value	Weighted Average Yield	Amortized Cost	Market Value	Weighted Average Yield
Within one year	$2,745	$2,739	3.75%	$ -	$ -	-	$ -	$ -	-
After one, but within five years	-	-	-	1,970	1,947	4.23%	780	774	4.77%
After five, but within ten years	-	-	-	-	-	-	1,842	1,814	4.42%
After ten years	-	-	-	-	-	-	5,038	4,971	4.94%
Total	$2,745	$2,739	3.75%	$1,970	$1,947	4.23%	$7,660	$7,559	4.80%

	Other Investment Securities		
(In thousands)	Amortized Cost	Market Value	Weighted Average Yield
Within one year	$ —	$ —	—
After one, but within five years	600	600	5.58%
After five, but within ten years	—	—	—
After ten years	984	974	4.80%
Total	$1,584	$1,574	5.10%

Mortgage-backed securities are shown based on their final maturity, but due to prepayments, they are expected to have shorter lives. Included in U.S. Agencies is one investment which can be called prior to maturity.

The weighted average remaining life of investment securities available-for-sale at December 31, 2006, was 3.49 years. As of December 31, 2006, approximately $123.5 million of investment securities available-for-sale were callable before maturity. The weighted average yield is calculated based on average amortized cost which does not include the effect of changes in market value that are reflected as a component of stockholders' equity.

The following table presents the sale of investment securities available-for-sale with the resulting realized gains, losses, and net proceeds from such sales:

(In thousands)	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Amortized cost of securities sold	**$72**	$48,261	$81,619
Gains realized on sales	**4**	218	373
Losses realized on sales	**(4)**	(198)	—
Net proceeds from sales	**$72**	$48,281	$81,992

The following tables sets forth information regarding securities at December 31, 2006, and 2005, having temporary impairment, due to the fair market values having declined below the amortized costs of the individual securities, and the time period that the investments have been temporarily impaired.

	Less Than 12 Months		12 Months or Longer		Total	
(In thousands)	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
At December 31, 2006						
Available-for-sale securities:						
U.S. Government	**$ 990**	**$ (5)**	**$ 6,883**	**$ (57)**	**$ 7,873**	**$ (62)**
U.S. Agencies	**40,733**	**(58)**	**124,587**	**(1,195)**	**165,320**	**(1,253)**
Corporate bonds	**—**	**—**	**20,410**	**(276)**	**20,410**	**(276)**
Municipal bonds	**47,834**	**(161)**	**107,730**	**(1,397)**	**155,564**	**(1,558)**
Mortgage-backed securities	**1,413**	**(6)**	**24,627**	**(715)**	**26,040**	**(721)**
Other	**140**	**(18)**	**4,347**	**(121)**	**4,487**	**(139)**
Total	**$91,110**	**$(248)**	**$288,584**	**$(3,761)**	**$379,694**	**$(4,009)**
Held-to-maturity securities:						
U.S. Government	**$ 496**	**$ (1)**	**$ 2,243**	**$ (5)**	**$ 2,739**	**$ (6)**
U.S. Agencies	**—**	**—**	**1,947**	**(23)**	**1,947**	**(23)**
Mortgage-backed securities	**—**	**—**	**7,560**	**(101)**	**7,560**	**(101)**
Other	**—**	**—**	**974**	**(10)**	**974**	**(10)**
Total	**$ 496**	**$ (1)**	**$ 12,724**	**$ (139)**	**$ 13,220**	**$ (140)**

At December 31, 2006, the above U.S. Government securities are comprised of four securities available-for-sale, and five securities held-to-maturity, which are guaranteed by the U.S. Government. The above U.S. Agencies securities are comprised of 69 securities available-for-sale, and one held-to-maturity security which is guaranteed by an agency of the U.S. Government. The above Corporate Bonds are comprised of nine securities available-for-sale with a Moody's credit rating of at least Baa-2. The above municipal bonds are comprised of 150 securities available-for-sale which have a Moody's credit rating of at least Aa-3. The above mortgage-backed securities are comprised of nine securities available-for-sale, and six securities held-to-maturity, which were guaranteed by either the Federal Home Loan Mortgage Corp. ("FHLMC") or the Federal National Mortgage Association ("FNMA"). Because the decline in market value is primarily attributed to changes in interest rates and not credit quality, and because the Company has the intent and ability to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired. Decisions to hold or sell securities are influenced by the Banks' need for liquidity, alternative investments, risk assessment, and asset liability management.

(In thousands)	Less Than 12 Months Market Value	Less Than 12 Months Unrealized Losses	12 Months or Longer Market Value	12 Months or Longer Unrealized Losses	Total Market Value	Total Unrealized Losses
At December 31, 2005						
Available-for-sale securities:						
U.S. Government	$ 6,933	$ (38)	$ 6,970	$ (124)	$ 13,903	$ (162)
U.S. Agencies	95,714	(791)	75,348	(1,350)	171,062	(2,141)
Corporate bonds	19,654	(60)	13,839	(479)	33,493	(539)
Municipal bonds	115,979	(727)	75,762	(1,488)	191,741	(2,215)
Mortgage-backed securities	6,960	(82)	26,055	(860)	33,015	(942)
Other	4,884	(42)	—	—	4,884	(42)
Total	$250,124	$(1,740)	$197,974	$(4,301)	$448,098	$(6,041)
Held-to-maturity securities:						
U.S. Government	$ 4,444	$ (28)	$ —	$ —	$ 4,444	$ (28)
U.S. Agencies	29,385	(27)	—	—	29,385	(27)
Mortgage-backed securities	9,312	(127)	—	—	9,312	(127)
Other	967	(10)	—	—	967	(10)
Total	$ 44,108	$ (192)	$ —	$ —	$ 44,108	$ (192)

At December 31, 2005, the above U.S. Government securities are comprised of seven securities available-for-sale, and five securities held-to-maturity, which are guaranteed by the U.S. Government. The above U.S. Agencies securities are comprised of 80 securities available-for-sale, and three held-to-maturity securities which are guaranteed by an agency of the U.S. Government. The above Corporate Bonds are comprised of 20 securities available-for-sale with a Moody's credit rating of at least Baa-3. The above municipal bonds are comprised of 143 securities available-for-sale which have a Moody's credit rating of at least Baa-1. The above mortgage-backed securities are comprised of eight securities available-for-sale, and ten securities held-to-maturity, which were guaranteed by either the FHLMC or the FNMA. Because the decline in market value is primarily attributed to changes in interest rates and not credit quality, and because the Company has the intent and ability to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired. Decisions to hold or sell securities are influenced by the Banks' need for liquidity, alternative investments, risk assessment, and asset liability management.

The following table sets forth the cost method investments, which are included in Other Assets, having temporary impairment, due to the fair market values having declined below the amortized costs of the individual investments, and the time period that the investments have been temporarily impaired:

(In thousands)	Less Than 12 Months Market Value	Less Than 12 Months Unrealized Losses	12 Months or Longer Market Value	12 Months or Longer Unrealized Losses	Total Market Value	Total Unrealized Losses
At December 31, 2006						
Cost Method Investments	$ —	$ —	$485	$(15)	$485	$(15)
Total	$ —	$ —	$485	$(15)	$485	$(15)

The cost method investment with unrealized losses at December 31, 2006, was comprised of one investment with an amortized cost of $500 thousand. Boston Private Bank invests primarily in low income housing partnerships which generate tax credits. Boston Private Bank also holds partnership interests in venture capital funds formed to provide financing to small businesses, and to promote community development. Temporary impairment is caused by the fact that the partnerships are still in the early stages of their lives, and have not yet invested all of their funds and/or have had enough time to fully develop their portfolio

companies. Therefore, management does not believe these investments are other-than-temporarily impaired.

At December 31, 2005, there were no cost method investments having temporary impairment. The Company recorded a write-down of approximately $306 thousand for cost method investments in 2005 due to an other-than-temporary impairment. The Company had $22.3 million and $23.1 million in cost method investments included in Other Assets at December 31, 2006, and 2005 respectively.

The following table presents the concentration of securities with any one issuer that exceeds ten percent of stockholders' equity as of December 31, 2006:

(In thousands)	**Amortized Cost**	**Market Value**
Federal Home Loan Bank	$101,047	$100,371
Federal National Mortgage Association	86,807	85,798
Total	$187,854	$186,169

7. LOANS RECEIVABLE

The Banks' lending activities are conducted principally in New England, northern and southern California, and south Florida. The Banks originate single and multi-family residential loans, commercial real estate loans, commercial loans, construction loans, and home equity and consumer loans. Most loans are secured by borrowers' personal or business assets. The ability of the Banks' single family residential and consumer borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the lending area. Commercial borrowers' ability to repay is generally dependent upon the health of the economy and the real estate sector in particular. Accordingly, the ultimate collectibility of a substantial portion of the Banks' loan portfolio is susceptible to changing conditions in the New England, northern and southern California, and south Florida economies. Included in total loans are $5.0 million and $3.4 million of net deferred loan fees as of December 31, 2006, and 2005, respectively. Mortgage loans serviced for others totaled $17.8 million and $5.8 million at December 31, 2006, and 2005, respectively.

Loans to senior management, executive officers, and directors are generally made in the ordinary course of business, under normal credit terms, including interest rates and collateral requirements prevailing at the time of origination for comparable transactions with other persons, and do not represent more than normal credit risk. Gibraltar has an Employee Loan Program that provides eligible employees, including senior management and executive officers, with a beneficial rate on mortgage loans. Gibraltar had $10.6 million and $5.4 million in such loans at December 31, 2006, and 2005, respectively.

The following table presents a summary of the activity of loans to senior management, executive officers, and directors:

(In thousands)	**Year Ended December 31, 2006**	**Year Ended December 31, 2005**
Balance at beginning of year	**$24,894**	$24,145
Additions	**13,961**	4,912
Repayments	**(10,142)**	(12,524)
Additions due to acquisition	**—**	8,361
Balance at end of year	**$28,713**	$24,894

The following table presents a summary of risk elements within the loan portfolio:

(In thousands)	**December 31, 2006**	**December 31, 2005**
Non-accrual loans	**$ 9,999**	$ 7,900
Loans past due 90 days or more, but still accruing	**24**	132
Loans past due 30-89 days	**$13,424**	$ 7,907

Interest income that would have been recorded on non-accrual loans in accordance with the loans' original terms would have been $935 thousand in 2006 and $338 thousand in 2005, compared with amounts that were actually recorded of $287 thousand and $174 thousand, respectively.

8. 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.

The following table is an analysis of the Company's allowance for credit losses for the periods indicated:

(In thousands)	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Allowance for loan losses, beginning of period	**$37,607**	$25,021	$17,761
Provision for loan losses	**6,179**	5,438	4,285
Charge-offs	**(898)**	(250)	(65)
Recoveries	**499**	204	61
Addition due to acquisitions	**—**	7,194	2,979
Allowance for loan losses, end of period	**$43,387**	$37,607	$25,021
Reserve for unfunded loan commitments, beginning of period	**$ 4,747**	$ 2,916	$ 2,411
Provision for unfunded loan commitments(1)	**839**	513	282
Addition due to acquisitions	**—**	1,318	223
Reserve for unfunded loan commitments, end of period	**$ 5,586**	$ 4,747	$ 2,916
Total allowance for credit losses, end of period	**$48,973**	$42,354	$27,937

(1) Expenses related to off-balance sheet credit risk are included in Other Expenses.

9. DERIVATIVES

Boston Private Bank entered into a $100 million prime-based interest rate floor (the "Floor") with an effective date of November 1, 2005, and a maturity date of November 1, 2010, and is designated as a cash flow hedge of the risk of overall changes in the cash flows below the floor strike rate, when the Wall Street Journal published prime interest rate falls below 6.50%, for certain variable rate loans based on the prime rate.

The Floor had a fair value of $350 thousand and $798 thousand as of December 31, 2006, and 2005, respectively and is included in Other Assets. The decrease in the Floor's fair value of $361 thousand and $41 thousand (net of income tax benefit of $93 thousand and $30 thousand) in 2006 and 2005, respectively, is separately disclosed in the statement of changes in stockholders' equity and comprehensive income. Changes in fair value due to hedge ineffectiveness were immaterial in 2006, and 2005.

Amounts reported in accumulated other comprehensive income related to the derivative will be reclassified to interest income as interest payments are received on Boston Private Bank's variable rate assets. The change in the fair value of the Floor reflects an immaterial reclassification from accumulated other comprehensive income to interest expense in 2006 and 2005. During 2007, Boston Private Bank estimates that an additional $109 thousand will be reclassified.

During 2006, Boston Private Bank implemented a program to offer certain derivative products directly to qualified commercial borrowers. These programs are typically used if a borrower wished to fix an interest rate range on a variable rate loan, and Boston Private Bank wants to retain an unrestricted range on its variable rate asset. Boston Private Bank entered into one such derivative transaction, an interest rate collar, during 2006. Boston Private Bank economically hedged the collar executed with the commercial borrower by entering into an equal and offsetting collar with a third party. Derivative transactions executed as part of this program are not designated in qualifying hedging relationships and are, therefore, marked-to-market through earnings each period. However, because the derivatives have mirror-image terms, the majority of the changes in fair value offset through earnings. As of December 31, 2006, the fair value of the derivative asset and the fair value of the offsetting derivative liability is $162 thousand, which are included in Other Assets and Other Liabilities, respectively. Fees earned in connection with the execution of derivatives related to this program are recognized in Other Income.

10. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

(In thousands)	December 31, 2006	December 31, 2005
Leasehold improvements	**$30,453**	$21,982
Furniture, fixtures, and equipment	**33,808**	27,389
Buildings	**1,393**	1,403
Land	**374**	374
Subtotal	**66,028**	51,148
Less: accumulated depreciation and amortization	**30,387**	22,468
Premises and equipment, net	**$35,641**	$28,680

Depreciation and amortization expense related to premises and equipment was $8.5 million, $5.6 million, and $4.1 million for the years ended December 31, 2006, 2005, and 2004, respectively.

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

(In thousands)	Minimum Lease Payments
2007	$ 13,721
2008	13,922
2009	13,821
2010	14,023
2011	14,166
Thereafter	50,254
Total	$119,907

Rent expense for the years ended December 31, 2006, 2005, and 2004 was $13.4 million, $9.9 million, and $6.9 million, respectively.

11. GOODWILL AND OTHER INTANGIBLE ASSETS

The following is an analysis of the activity in goodwill:

	2006			2005		
(In thousands) **Goodwill**	Balance at December 31, 2005	Acquisitions and adjustments	Balance at December 31, 2006	Balance at December 31, 2004	Acquisitions and adjustments	Balance at December 31, 2005
Boston Private Bank	**$ 2,403**	**$ —**	**$ 2,403**	$ 2,403	$ —	$ 2,403
Sand Hill	**13,417**	**(90)**	**13,327**	13,417	—	13,417
BPVI	**1,204**	**(15)**	**1,189**	1,204	—	1,204
DGHM	**56,890**	**(422)**	**56,468**	57,106	(216)	56,890
FPB	**34,633**	**(241)**	**34,392**	37,240	(2,607)	34,633
KLS	**22,829**	**—**	**22,829**	19,116	3,713	22,829
Gibraltar	**155,375**	**(878)**	**154,497**	—	155,375	155,375
Anchor	**—**	**38,463**	**38,463**	—	—	—
Equity method investments	**—**	**12,065**	**12,065**	—	—	—
Total	**$286,751**	**$48,882**	**$335,633**	$130,486	$156,265	$286,751

The amount of additional goodwill recognized in 2006 was $42.1 million, which is due to the acquisition of Anchor in the 2nd quarter of 2006, the acquisition in certain equity method investments and other adjustments. Additionally, goodwill increased approximately $8.0 million, on a net basis, due to contingent consideration payments at Anchor and DGHM and decreased $1.2 million due to tax benefits of fully vested stock options issued to employees in previous acquisitions, primarily at FPB and Gibraltar.

The amount of goodwill related to new acquisitions recognized in 2005 was $155.4 million from the Gibraltar acquisition. Other changes in goodwill during 2005 related to contingent consideration payments and acquisition adjustments.

Goodwill is expected to be deductible for tax purposes except for Gibraltar's, FPB's which includes Encino, Anchor's, and a portion of BPVI's.

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

	2006			2005		
(In thousands) **Other Intangibles**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Advisory contracts	**$ 98,194**	**$17,693**	**$ 80,501**	$ 60,490	$ 9,825	$50,665
Core deposit intangibles	**47,800**	**7,497**	**40,303**	47,800	2,233	45,567
Employment agreements	**3,670**	**1,043**	**2,627**	1,950	526	1,424
Trade names	**1,900**	**—**	**1,900**	—	—	—
Total	**$151,564**	**$26,233**	**$125,331**	$110,240	$12,584	$97,656

The Company acquired Anchor on June 1, 2006 and allocated approximately $30.0 million of the purchase price to goodwill, $35.9 million to amortizable intangible assets and $1.9 million to intangible assets not subject to amortization. $34.2 million of the amortizable intangible assets was allocated to advisory contracts and will be amortized over a weighted average period of 12.8 years and $1.7 million was allocated to non-compete agreements that will be amortized over a weighted average period of 7 years. These amortization periods are based upon estimates of their expected useful lives. The intangible asset not subject to amortization was the value attributed to the Anchor Capital and Anchor/Russell trade names.

Consolidated expense related to intangible assets subject to amortization was $13.6 million, $7.6 million and $4.7 million for 2006, 2005, and 2004, respectively. The estimated annual amortization expense for these intangibles over the next five years is:

(In thousands)	
2007	$13,770
2008	$12,495
2009	$11,446
2010	$10,604
2011	$10,042

12. DEPOSITS

Deposits are summarized as follows:

(In thousands)	**December 31, 2006**	**December 31, 2005**
Demand deposits (non-interest bearing)	**$ 794,371**	$ 779,606
NOW	**368,238**	370,718
Savings	**163,310**	73,836
Money market	**1,892,164**	1,876,393
Certificates of deposit under $100,000	**143,106**	138,519
Certificates of deposit $100,000 or greater	**716,642**	509,069
Total	**$4,077,831**	$3,748,141

Certificates of deposit had the following schedule of maturities:

(In thousands)	**December 31, 2006**	**December 31, 2005**
Less than 3 months remaining	**$ 383,711**	$ 292,797
3 to 6 months remaining	**264,061**	156,992
6 to 12 months remaining	**142,006**	120,180
1 to 3 years remaining	**51,990**	58,698
3 to 5 years remaining	**6,071**	8,913
More than 5 years remaining	**11,909**	10,008
Total	**$ 859,748**	$ 647,588

Interest expense on certificates of deposit $100,000 or greater was $26.9 million, $12.8 million, and $6.1 million for the years ended December 31, 2006, 2005, and 2004, respectively.

$3.1 million and $2.2 million of overdrawn deposit accounts were reclassed to loans at December 31, 2006 and 2005, respectively.

13. FEDERAL HOME LOAN BANK BORROWINGS

Boston Private Bank is a member of the Federal Home Loan Bank ("FHLB") of Boston. Borel and FPB are members of the FHLB of San Francisco. Gibraltar is a member of the FHLB of Atlanta. As members of a FHLB, the Banks have access to short and long-term borrowings. Borrowings from the FHLB are secured by the Bank's stock in the FHLB and a blanket lien on "qualified collateral" defined principally as a percentage of the principal balance of certain types of mortgage loans. The percentage of collateral allowed varies between 50% and 75% based on the type of the underlying collateral. As of December 31, 2006, Boston Private Bank had $366.9 million of borrowings outstanding and available credit of $238.4 million. Boston Private Bank had additional short-term federal fund lines with the FHLB of $15.0 million at December 31, 2006. Borel had no outstanding borrowings at December 31, 2006. Borel had available credit with the FHLB of $203.1 million as of December 31, 2006. FPB had no outstanding borrowings at December 31, 2006. FPB also had available credit with the FHLB of $97.9 million as of December 31, 2006. Gibraltar had $235.4 million of borrowings outstanding and available credit of $277.3 million at December 31, 2006. The carrying amount of Gibraltar's FHLB borrowings is $236.0 million due to the unamortized amount of the fair market valuation adjustment at the time of acquisition.

As members of the FHLB, the Banks' are required to invest in FHLB stock based on a percentage of outstanding advances in addition to a membership stock requirement. The minimum requirements vary depending on the FHLB membership. As a member of the FHLB of Boston, Boston Private Bank is required to own FHLB stock at least equal to 4.5% of outstanding advances. As members of the FHLB of San Francisco, Borel and FPB are required to own FHLB stock at least equal to 4.7% of outstanding advances. Gibraltar, a member of the FHLB of Atlanta, is required to own FHLB stock at least equal to 4.5% of outstanding advances. FHLB stock owned in excess of the minimum requirements can be redeemed at par upon the FHLB's request. The FHLB redeems excess stock at its option at par from time to time. The Banks' may not redeem additional purchases of stock prior to a five year minimum holding period.

As of December 31, 2006, the Banks' FHLB stock holdings totaled $40.0 million. The Banks' investment in FHLB stock is recorded at cost and is redeemable at par after a five-year holding period.

A summary of borrowings, including Gibraltar's fair market value adjustment, from the Federal Home Loan Banks is as follows:

	December 31, 2006		December 31, 2005	
(In thousands)	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**
Within 1 year	**$254,902**	**5.16%**	$ 39,715	3.72%
Over 1 to 2 years	**62,440**	**4.09%**	58,904	4.01%
Over 2 to 3 years	**63,532**	**4.47%**	56,621	3.99%
Over 3 to 5 years	**145,783**	**5.10%**	97,575	4.72%
Over 5 years	**76,246**	**4.51%**	109,190	4.54%
Total	**$602,903**	**4.88%**	$362,005	4.32%

14. SHORT-TERM BORROWINGS

(In thousands)	Federal Funds Purchased	Securities Sold Under Agreement to Repurchase
2006		
Outstanding at end of period	**$ —**	**$ 77,605**
Maximum outstanding at any month-end	**48,200**	**130,926**
Average balance for the year	**13,356**	**116,873**
Weighted average rate at end of period	**—%**	**2.01%**
Weighted average rate paid for the period	**5.33%**	**1.80%**
2005		
Outstanding at end of period	$ —	$107,353
Maximum outstanding at any month-end	37,000	107,353
Average balance for the year	5,799	100,362
Weighted average rate at end of period	—%	1.02%
Weighted average rate paid for the period	3.29%	1.13%
2004		
Outstanding at end of period	$ —	$ 84,550
Maximum outstanding at any month-end	16,500	84,550
Average balance for the year	2,041	76,784
Weighted average rate at end of period	—%	1.02%
Weighted average rate paid for the period	1.43%	1.03%

The federal funds purchased and securities sold under agreements to repurchase generally mature within 30 days of the transaction date. The Company enters into sales of securities under agreements to repurchase with clients and brokers. These agreements are treated as financing and the obligations to repurchase securities sold are reflected as a liability in the Company's consolidated balance sheet. The securities underlying the agreements remain under the Company's control. Investment securities with a market value of $78.0 million and $107.7 million were pledged as collateral for the securities sold under agreements to repurchase at December 31, 2006 and 2005, respectively.

As of December 31, 2006, the Company had an unused line of credit from an unaffiliated bank, which totaled $75.0 million. The Company and its bank subsidiaries are required to maintain specified minimum balances or ratios for: capital, adjusted net tangible capital to adjusted tangible asset ratios, debt equity ratios, loan ratios, non-performing asset ratios, return on average assets ratio, and cash flow requirements for the nonbanks. The credit agreement also includes other covenants, including a restriction limiting dividends to 35% of earnings. The Company was in compliance with all the loan covenants as of December 31, 2006.

As of December 31, 2006, the Banks had unused federal fund lines with the FHLB and other correspondent banks of $154.0 million.

15. JUNIOR SUBORDINATED DEBENTURES

BOSTON PRIVATE CAPITAL TRUST II

On September 27, 2005 the Company and Boston Private Capital Trust II, a Delaware statutory trust ("Trust II") entered into a Purchase Agreement for the sale of $100 million of trust preferred securities to be issued by Trust II and guaranteed by the Company on a subordinated basis. Trust II's preferred securities pay interest quarterly and have an annual distribution rate of 6.25% up to, but not including, December 30, 2010. Subsequently, Trust II's preferred securities will convert to a floating rate of a three-month London Inter Bank Offering Rate ("LIBOR") plus 1.68%, provided, however, that the interest rate does not exceed the highest rate permitted by New York law, and may be modified by the United States law of general application.

Each of the Trust II preferred securities represents an undivided beneficial interest in the assets of Trust II. The Company owns all of Trust II's common securities. Trust II's only assets will be the junior subordinated debentures issued to it by the Company on substantially the same payment terms as Trust II's preferred securities.

The junior subordinated debentures mature on December 30, 2035, and may not be redeemed prior to or on December 30, 2010, except that they may be redeemed at

any time upon the occurrence and continuation of certain special events.

The Company has the following covenants with regard to Trust II:

- for so long as Trust II's preferred securities remain outstanding, the Company shall maintain 100% ownership of the Trust II's common securities;
- the Company will use its commercially reasonable efforts to ensure Trust II remains a statutory trust, except in connection with a distribution of debt securities to the holders of the Trust II securities in liquidation of Trust II, the redemption of all Trust II's securities or mergers, consolidations or incorporation, each as permitted by Trust II's declaration of trust;
- to continue to be classified as a grantor trust for United States federal income tax purposes; and
- the Company will ensure each holder of Trust II's preferred securities is treated as owning an undivided beneficial interest in the junior subordinated debentures.

At December 31, 2006, the Company was in compliance with the above covenants.

So long as the Company is not in default in the payment of interest on the junior subordinated debentures, the Company has the right under the indenture to defer payments of interest for up to 20 consecutive quarterly periods. The Company has no current intention to exercise its right to defer interest payments on the junior debentures issued to Trust II. If the Company defers interest payments, it would be subject to certain restrictions relating to the payment of dividends on or purchases of its capital stock and payments on its debt securities ranking equal with or junior to the junior subordinated debentures.

BOSTON PRIVATE CAPITAL TRUST I

On October 5, 2004 the Company and Boston Private Capital Trust I, a Delaware statutory trust ("Trust I"), entered into a Purchase Agreement for the sale of $75 million of convertible trust preferred securities to be issued by Trust I and guaranteed by the Company on a subordinated basis. The convertible trust preferred securities have a liquidation amount of $50.00 per security, pay interest quarterly and have a fixed distribution rate of 4.875%. The quarterly distributions are cumulative. The junior subordinated convertible debentures will mature on October 1, 2034. The Company also granted the initial purchasers an option to purchase up to an additional $30 million of convertible trust preferred securities, which was exercised on November 1, 2004.

Each of the convertible trust preferred securities represents an undivided beneficial interest in the assets of Trust I. The Company owns all of Trust I's common securities. Trust I's only assets will be the junior subordinated debentures issued to it by the Company on substantially the same payment terms as the convertible trust preferred securities.

The initial conversion ratio was 1.5151 shares of the Company's common stock, $1.00 par value, for each trust preferred security (equivalent to a conversion price of approximately $33.00 per share), subject to adjustment as described in the offering memorandum. The conversion ratio at December 31, 2006 was 1.5157. The trust preferred securities may not be redeemed prior to October 1, 2009, except that they may be redeemed at any time upon the occurrence of certain special events. The trust preferred securities may be redeemed in whole at any time or in part from time to time on or after October 1, 2009 if the closing price of Boston Private's common stock for 20 trading days in a period of 30 consecutive trading days ending on the trading day prior to the mailing of the redemption notice exceeds 130% of the then prevailing conversion price of the trust preferred securities. Assuming all $105 million liquidation amount of convertible trust preferred securities are converted, the Company would issue approximately 3,182,970 shares of common stock, based on the December 31, 2006 conversion ratio.

The initial conversion ratio is subject to adjustment if the Company takes certain actions, including paying dividends to all holders of Boston Private common stock, excluding any quarterly cash dividend on Boston Private common stock to the extent that such quarterly cash dividend per share of Boston Private common stock in any quarter does not exceed the greater of (i) $0.060 and (ii) 1.00% multiplied by the average of the daily closing prices per share of Boston Private common stock for the ten consecutive trading days ending on the trading day immediately prior to the declaration date of the dividend. If an adjustment is required to be made as a result of a distribution that is a quarterly dividend, the adjustment would be based upon the amount by which the distribution exceeds the amount of the quarterly cash dividend permitted to be excluded.

The Company has the following covenants with regard to Trust I:

- to cause Trust I to remain a statutory business Trust and not try to voluntarily dissolve, wind-up, liquidate or terminate except as permitted by the Trust agreement;
- to maintain directly or indirectly ownership of all of the common securities of Trust I;
- to use its commercially reasonable efforts to ensure that Trust I will not be an "investment company" under the Investment Company Act of 1940, as amended from time to time, or any successor legislation; and
- to take no action that would be reasonably likely to cause Trust I to be classified as an association or a partnership taxable as a corporation for United States federal income tax purposes.

At December 31, 2006, the Company was in compliance with the above covenants.

So long as the Company is not in default in the payment of interest on the junior subordinated convertible debentures, the Company has the right under the indenture to defer payments of interest. The Company has no current intention to exercise its right to defer interest payments on the junior subordinated convertible debentures issued to Trust I. If the Company defers interest payments, it would be subject to certain restrictions relating to the payment of dividends on or purchases of its capital stock and payments on its debt securities ranking equal with or junior to the junior subordinated convertible debentures.

FPB JUNIOR SUBORDINATED DEBENTURES

The Company, through the acquisition of FPB, assumed the outstanding amount of FPB's junior subordinated debentures of $6 million. The trust preferred securities have a floating rate based on the 3 month LIBOR plus a margin of 3.15% with a maximum rate of 11.75% and pay interest quarterly. The interest rate on December 31, 2006 was 8.52%. The junior subordinated debentures will mature on March 26, 2033, and may not be redeemed prior to, or on March 26, 2008, except that they may be redeemed, in whole or in part from time to time, upon the occurrence and continuation of certain special events.

GIBRALTAR JUNIOR SUBORDINATED DEBENTURES

The Company, through the acquisition of Gibraltar, assumed the outstanding amount of Gibraltar's junior subordinated debentures of $16 million. The trust preferred securities pay interest quarterly at a floating rate based on the 3 month LIBOR plus a margin of 2.27%, provided, however, that the interest rate does not exceed the highest rate permitted by New York law, and may be modified by the United States law of general application. The interest rate on December 31, 2006 was 7.64%. The junior subordinated debentures will mature on February 23, 2035, and may not be redeemed prior to, or on February 23, 2010, except that they may be redeemed, in whole or in part from time to time, upon the occurrence and continuation of certain special events.

Debt issuance costs for the Trusts are recorded as an asset and amortized over the contractual life of the securities.

Management has determined that each of the trusts qualify as variable interest entities under FASB Interpretation 46 (Revised December 2003) *Consolidation of Variable Interest Entities — An Interpretation of Accounting Research Bulletin No. 51* ("FIN 46(R)"). The trusts issued preferred securities to investors and loaned the proceeds to the Company. Each of the trusts holds, as its sole asset, subordinated debentures issued by the Company. The provisions of FIN 46(R) were required to be applied to certain variable interest entities, including each of the trusts, by March 31, 2004, at which time each was deconsolidated.

In March 2005, the Federal Reserve Board adopted a final rule that would continue to allow the inclusion of trust preferred securities in Tier 1 capital, but with stricter quantitative limits. Under the final rule, after a five-year transition period, the aggregate amount of trust preferred securities and certain other capital elements would be limited to 25% of Tier 1 capital elements. The amount of trust preferred securities and certain other elements in excess of the limit could be included in Tier 2 capital, subject to restrictions.

16. INCOME TAXES

The components of income tax expense (benefit) are as follows:

(In thousands)	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Current expense:			
Federal	**$24,716**	$20,324	$16,852
State	**6,675**	7,860	5,682
Total current expense	**31,391**	28,184	22,534
Deferred benefit:			
Federal	**(963)**	(1,701)	(4,660)
State	**(274)**	(922)	(1,072)
Total deferred benefit	**(1,237)**	(2,623)	(5,732)
Income tax expense	**$30,154**	$25,561	$16,802

Income tax expense for 2006, 2005, and 2004 varied from the amount computed by applying the Federal statutory rate to income before income taxes. A reconciliation between the expected Federal income tax expense using the Federal statutory rate of 35% to actual income tax expense and resulting effective tax rate for 2006, 2005 and 2004 follows:

(In thousands)	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Statutory Federal income tax rate	**35.0%**	35.0%	35.0%
Increase (decrease) resulting from:			
State and local income tax, net of Federal tax benefit	**4.9%**	6.5%	6.2%
Tax exempt interest, net	**(3.4)%**	(3.6)%	(5.1)%
Tax credits	**(1.5)%**	(1.6)%	(2.1)%
Other, net	**0.7%**	0.7%	1.0%
Effective income tax rate	**35.7%**	37.0%	35.0%

The components of gross deferred tax assets and gross deferred tax liabilities are as follows:

(In thousands)	December 31, 2006	December 31, 2005
Gross deferred tax assets:		
Allowance for losses on loans	**$19,207**	$16,209
Deferred and accrued compensation	**11,272**	10,404
Stock compensation	**10,420**	13,415
Unrealized loss on securities available-for-sale	**1,526**	2,257
Depreciation	**2,043**	389
Other	**2,546**	2,667
Total deferred tax assets	**47,014**	45,341
Gross deferred tax liabilities:		
Goodwill and acquired intangible assets	**31,574**	19,820
Unrealized gain on investments	**552**	549
Investment in partnerships	**79**	113
Other	**378**	—
Total gross deferred tax liabilities	**32,583**	20,482
Net deferred tax asset	**$14,431**	$24,859

Management believes the existing net deductible temporary differences that give rise to the net deferred tax asset will reverse in periods the Company generates net taxable income. The Company would need to generate approximately $34.4 million of future net taxable income to realize the net deferred tax asset at December 31, 2006. Management believes that it is more likely than not that the net deferred tax asset will be realized based on the generation of future taxable income.

17. EMPLOYEE BENEFITS

EMPLOYEE 401(K) PROFIT SHARING PLAN

The Company established a corporate-wide 401(k) Profit Sharing Plan for the benefit of the employees of the Company and its affiliates, which became effective on July 1, 2002. The plan is a 401(k) savings and retirement plan that is designed to qualify as an ERISA section 404(c) plan. This plan is a continuation of the Boston Private Bank & Trust Company 401(k) plan. As of July 1, 2002, the assets of the Westfield Profit Sharing Plan, the RINET Company, Inc. Salary Reduction Contribution Plan, the Sand Hill Advisors, Inc. Profit Sharing 401(k) Plan, the E.R. Taylor Investments, Inc. 401(k) Profit Sharing Plan and the Borel Bank Salary Deferral 401(k) Plan were merged into this plan. The assets of the First State Bank of California 401(k) Plan and the KLS Professional Advisors Group, Inc. 401(k) Employee Savings Plan were merged into this plan during January 2006. The employees of DGHM joined the plan as new participants on January 1, 2006. Generally, employees that are at least twenty-one (21) years of age are eligible to participate in the plan on the first day of the calendar quarter following their date of hire. Employee contributions may be matched based on a predetermined formula and additional discretionary contributions may be made. Consolidated 401(k) expenses for all plans were $2.3 million, $1.8 million, and $1.5 million, in 2006, 2005 and 2004, respectively.

SALARY CONTINUATION PLANS

Borel maintains a discretionary salary continuation plan for certain officers. The officers become eligible for benefits under the salary continuation plan if they reach a defined retirement age while working for Borel. In December 1990, Borel implemented a discretionary deferred compensation plan for directors. The compensation expense relating to each contract is accounted for individually and on an accrual basis. An individual covered under the plan resigned in October 2005 and forfeited his benefit. As of that date, $336 thousand had been accrued and was reversed. The expense, exclusive of the 2005 forfeiture, relating to these plans was $266 thousand, $274 thousand, and $275 thousand, for 2006, 2005 and 2004, respectively. The amount recognized in Other Liabilities was $2.5 million and $2.6 million at December 31, 2006 and 2005, respectively. Borel has purchased life insurance contracts to help fund these plans. Borel has single premium life insurance policies with cash surrender values totaling $5.8 million and $5.7 million, which are included in Other Assets on the accompanying balance sheets, as of December 31, 2006 and 2005, respectively.

FPB maintains a discretionary salary continuation plan for certain officers. The plan provides for payments to the participants at the age of retirement. The expense relating to these plans was $327 thousand and $296 thousand in 2006 and 2005, respectively. The net amount recognized in Other Liabilities was $1.5 million and $1.2 million at December 31, 2006 and 2005, respectively. FPB has purchased life insurance contracts to help fund these plans. These life insurance policies have cash surrender values totaling $3.2 million and $2.7 million, which are included in Other Assets on the accompanying balance sheets as of December 31, 2006 and 2005, respectively.

DEFERRED COMPENSATION PLAN

The Company offers a deferred compensation plan that enables certain executives to elect to defer a portion of their income. The amounts deferred are excluded from the employee's taxable income and are not deductible by the Company until paid. The employee selects from a limited number of mutual funds and the deferred liability is increased or decreased to correspond to the market value of these underlying hypothetical mutual fund investments. The increase in value is recognized as compensation expense. The Company established and funded a Rabbi Trust to offset this liability. The Rabbi Trust holds similar assets and approximately mirrors the activity in the hypothetical mutual funds. Increases and decreases in the value of the mutual funds in the Rabbi Trust are recognized in Other Income.

STOCK-BASED INCENTIVE PLANS

At December 31, 2006, the Company has three stock-based compensation plans. These plans encourage and enable the officers, employees, non-employee directors and other key persons of the Company to acquire a proprietary interest in the Company. Prior to January 1, 2006, the Company accounted for these plans under the intrinsic-value based method in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by FAS 123. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FAS 123(R), using the modified retrospective application method. Under the modified retrospective application method, the Company has adjusted all applicable prior periods to reflect the effects of applying FAS 123(R).

The following table presents the difference between the Company's previously reported financial results and adjustments for FAS 123(R):

	For the Year Ended December 31, 2005		For the Year Ended December 31, 2004	
(In thousands, except per share data)	Adjusted	As Previously Reported	Adjusted	As Previously Reported
Income Statement Items:				
Income before income taxes	$ 69,107	$ 73,597	$ 48,035	$ 51,927
Net income	$ 43,546	$ 46,318	$ 31,233	$ 33,634
Basic earnings per share	$ 1.48	$ 1.57	$ 1.14	$ 1.23
Diluted earnings per share	$ 1.38	$ 1.47	$ 1.10	$ 1.18
Cash Flow Items:				
Net cash provided by operating activities	$ 95,242	$ 99,375	$ 18,931	$ 19,742
Net cash provided by financing activities	$603,491	$599,358	$592,225	$591,414
Shares Outstanding:				
Average diluted common shares outstanding	33,824,717	33,666,358	29,024,520	28,963,856

	As of December 31, 2005	
(In thousands)	Adjusted	As Previously Reported
Balance Sheet Items:		
Total assets (1)	$5,118,568	$5,112,810
Additional paid-in capital (2)	$ 374,818	$ 354,064
Retained earnings (3)	$ 133,190	$ 148,186
Stockholders' equity	$ 539,348	$ 533,590

(1) Total assets and total stockholders' equity increased as a result of recording the deferred tax assets related to stock option expense.

(2) Additional paid-in capital as adjusted and as previously reported for December 31, 2005 also includes unearned compensation of $(4.5) million which was previously included as a separate line item.

(3) The decrease in retained earnings was a result of recording the retrospective expense related to FAS 123(R)

Prior to the adoption of FAS 123(R), the Company was required to record tax savings resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. FAS 123(R) requires the cash flows resulting from the excess tax benefits resulting from tax deductions in excess of the compensation costs recognized for those options to be classified as financing cash flows. The $2.3 million, $4.1 million, and $811 thousand excess tax savings on stock options exercised classified as a financing cash inflow, for the twelve months ended December 31, 2006, 2005, and 2004, respectively, would have been classified as an operating cash inflow if the Company had not adopted FAS 123(R).

Under the 2004 Stock Option and Incentive Plan (the "Plan"), the Company may grant options or stock to its officers, employees, non-employee directors and other key persons of the Company for an amount not to exceed 5% of the total shares of common stock outstanding as of the last business day of the preceding fiscal year. Under the Plan, the exercise price of each option shall not be less than 100% of the fair market value of the stock on the date the options are granted except for non-employee directors in which the exercise price shall be equal to the fair market value on the date the stock option is granted. Generally, options expire ten years from the date granted and vest over a three-year graded vesting period for officers and employees and a one-year or less period for non-employee directors. Stock grants generally vest over a one to five-year cliff vesting period.

The Company maintains both a qualified and non-qualified Employee Stock Purchase Plan ("the ESPP's") with similar provisions. The non-qualified plan was approved in 2006 and allows for employees of certain subsidiaries that are structured as limited liability companies to participate. Under the ESPP's eligible employees may purchase common stock of the Company at 85 percent of the lower of the closing price of the Company's common stock on the first or last day of a six month purchase period on the NASDAQ® stock exchange. Employees pay for their stock purchases through payroll deductions at a rate equal to any whole percentage from 1 percent to 15 percent. Participants have a right to a full reimbursement of ESPP's deferrals through the end of the offering period. Such a reimbursement would result in a reversal of the compensation expense, previously recorded, attributed to that participant. There were 72,551 shares issued under the plan during the year ended December 31, 2006. The Company issues shares under the ESPP's in January and July of each year. As of December 31, 2006, there were 502,353 shares reserved for future issuance under the ESPP's.

Share-based payments recorded in salaries and benefits are as follows:

(In thousands)	2006	2005	2004
Stock option and ESPP expense	**$5,382**	$4,490	$3,892
Nonvested share expense (1)	**3,324**	2,571	2,240
Subtotal	**8,706**	7,061	6,132
Tax benefit	**3,328**	2,767	2,402
Stock-based compensation expense, net of tax benefit	**$5,378**	$4,294	$3,730

(1) Nonvested share expense has previously been reported in the Company's statement of operations.

The above table does not include $381 thousand of share-based payments to directors in 2006, which is recorded in professional services.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option-pricing model that uses the assumptions noted in the table below. Expected volatility is determined based on historical volatility of the Company's stock, historical volatility of industry peers and other factors. The Company uses historical data to estimate employee option exercise behavior, and post-vesting cancellation for use in determining the expected life assumption. The risk-free rate is determined on the grant date of each award using the yield on a U.S. Treasury zero-coupon issue with a remaining term that approximates the expected term for the award. The dividend yield is based on expectations of future dividends paid by the Company and the market price of the Company's stock on the date of grant. Compensation expense is recognized using the straight-line method over the vesting period of the option. Options issued to retirement eligible employees are expensed on the date of grant. Option expense, related to options granted to employees who will become retirement eligible during the vesting period, are amortized over the period until the employee becomes retirement eligible. The Company did not accelerate vesting for options granted to retirement eligible employees prior to the adoption date of FAS 123(R) in accordance with the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 107.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2006	2005	2004
Expected volatility	**25%**	25%	25%
Expected dividend yield	**1.3%**	1.0%	1.5%
Expected term (in years)	**4.4**	4.1	4.1
Risk-free rate	**4.6%**	3.7%	2.6%

STOCK OPTIONS

A summary of option activity under the Plan for the year ended December 31, 2006 is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term in Years	Aggregate Intrinsic Value* (000s)
Outstanding at January 1, 2006	4,227,066	$18.18		
Granted	867,498	$30.23		
Exercised	(509,279)	$11.29		
Forfeited or expired	(59,246)	$27.42		
Outstanding at December 31, 2006	4,526,039	$21.17	6.39	$33,368
Exercisable at December 31, 2006	2,954,188	$17.24	5.27	$32,549

*The intrinsic value was calculated by the excess value of the closing price of the Company's common stock on December 31, 2006 as compared to the option exercise price. If the exercise price of the stock option was above the closing price, an intrinsic value of $0 was assigned.

The weighted-average grant-date fair value of options granted during the years ended December 31, 2006, 2005 and 2004 was $7.60, $6.34 and $5.86, respectively. The total intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 was $9.7 million, $13.3 million and $3.2 million, respectively. As of December 31, 2006, there was $10.8 million of total unrecognized compensation cost related to stock option arrangements granted under the Plan that is expected to be recognized over a weighted-average period of 1.8 years.

RESTRICTED STOCK

A summary of the Company's nonvested shares as of December 31, 2006 and changes during the year ended December 31, 2006 is as follows:

	Shares	**Weighted-Average Grant-Date Fair Value**
Nonvested at January 1, 2006	368,510	$24.95
Granted	123,673	$29.96
Vested	(69,010)	$18.45
Forfeited	(2,500)	$25.78
Nonvested at December 31, 2006	420,673	$27.48

The fair value of nonvested shares is determined based on the closing price of the Company's stock on the grant date. The weighted-average grant-date fair value of shares granted during the year ended December 31, 2006 and 2005 was $29.96 and $27.45 respectively. At December 31, 2006, there was $5.0 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements under the Plan. That cost is expected to be recognized over a weighted-average period of 1.8 years. The total fair value of shares that vested during the years ended December 31, 2006, 2005 and 2004 was $3.7 million, $843 thousand and $1.3 million, respectively.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

The Company has a non-qualified supplemental executive retirement plan ("SERP") with an executive officer of the Company. The SERP, which is unfunded, provides a defined cash benefit based on a formula using average compensation, years of service, and age at retirement of the executive. The agreement was amended in July 2004. Expected benefits were increased and full vesting age was increased to age 68. The actuarial present value of the projected benefit obligation was $8.3 million and the accrued SERP liability was $3.9 million at December 31, 2006. The expense associated with the SERP was $1.5 million and $1.4 million in 2006 and 2005, respectively. The benefit will be fully accrued by November 2009. The discount rate used to calculate the SERP liability was 8.0% through July 2004, 6.5% from August 2004 through December 2005 and 5.75%, thereafter. On February 23, 2007, the full vesting age under the plan was increased to age 70.

18. OTHER OPERATING EXPENSE

Major components of other operating expense are as follows:

(In thousands)	**Year Ended December 31, 2006**	**Year Ended December 31, 2005**	**Year Ended December 31, 2004**
Insurance	**$ 3,756**	$ 2,834	$ 2,296
Forms and supplies	**2,030**	1,551	1,089
Employee travel and meals	**1,352**	604	276
Telephone	**1,197**	827	576
Courier and express mail	**952**	759	585
Training and education	**897**	531	423
Provision for off-balance sheet risk	**839**	513	282
Publications and dues	**762**	719	536
Postage	**737**	587	520
Imputed interest on deferred acquisition liabilities	**697**	871	888
Other	**3,818**	3,267	2,545
Total	**$17,037**	$13,063	$10,007

19. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to originate loans, unadvanced portion of loans, unused lines of credit, letters of credit, and commitments to sell loans. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to originate loans, the unadvanced portion of loans, and the unused lines of credit are agreements to lend to a customer, provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower.

Letters of credit are conditional commitments issued by the Company to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Loans sold to investors have recourse to the Company on any loans that are deemed to have been fraudulent or misrepresented. In addition, investors would require the Company to repurchase any loan sold which has a first payment default.

Financial instruments with off-balance sheet risk are summarized as follows:

(In thousands)	**December 31, 2006**	**December 31, 2005**
Commitments to originate loans:		
Variable rate	**$180,067**	$238,933
Fixed rate	**35,525**	38,722
Total commitments to originate loans	**$215,592**	$277,655
Unadvanced portion of loans and unused lines of credit	**$994,920**	$820,152
Letters of credit	**$ 38,532**	$ 24,304
Forward commitments to sell loans	**$ 33,854**	$ 21,489

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by using available quoted market information or other appropriate valuation methodologies. The aggregate fair value amounts presented do not represent the underlying value of the Company taken as a whole.

The fair value estimates provided are made at a specific point in time, based on relevant market information and the characteristics of the financial instrument. The estimates do not provide for any premiums or discounts that could result from concentrations of ownership of a financial instrument.

Because no active market exists for some of the Company's financial instruments, certain fair value estimates are based on subjective judgments regarding current economic conditions, risk characteristics of the financial instruments, future expected loss experience, prepayment assumptions, and other factors. The resulting estimates involve uncertainties and therefore cannot be determined with precision. Changes made to any of the underlying assumptions could significantly affect the estimates.

The book values and fair values of the Company's financial instruments are as follows:

	December 31, 2006		December 31, 2005	
(In thousands)	Book Value	Fair Value	Book Value	Fair Value
FINANCIAL ASSETS:				
Cash and cash equivalents	**$ 239,396**	**$ 239,396**	$ 372,316	$ 372,316
Securities:				
Available-for-sale	**523,848**	**523,848**	512,742	512,742
Held-to-maturity	**13,959**	**13,819**	44,400	44,208
Loans, net (includes loans held for sale)	**4,273,089**	**4,266,711**	3,599,516	3,628,376
Other assets	**130,687**	**130,687**	79,944	79,944
FINANCIAL LIABILITIES:				
Deposits	**4,077,831**	**4,075,765**	3,748,141	3,745,378
Federal Home Loan Bank borrowings	**602,903**	**598,844**	362,005	358,592
Junior subordinated debentures	**234,021**	**237,292**	234,021	242,505
Other liabilities	**88,569**	**88,569**	113,688	113,688

CASH AND CASH EQUIVALENTS

The carrying value reported in the balance sheet for cash and cash equivalents approximates fair value due to the short-term nature of their maturities.

SECURITIES

The fair value presented for securities are based on quoted bid prices received from third party pricing services.

LOANS

Fair value estimates are based on loans with similar financial characteristics. Fair values of commercial and residential mortgage loans are estimated by discounting contractual cash flows adjusted for prepayment estimates and using discount rates approximately equal to current market rates on loans with similar characteristics and maturities. The incremental credit risk for non-performing loans has been considered in the determination of the fair value of consumer loans. The fair value estimated for home equity and other loans is based on outstanding loan terms and pricing in each Bank's local market.

OTHER ASSETS

Other financial assets consist primarily of accrued interest and fees receivable, Stock in Federal Home Loan Banks and Banker's Bank, and the cash surrender value of bank-owned life insurance, for which the carrying amount approximates fair value.

DEPOSITS

The fair values reported for deposits, equal their respective book values reported on the balance sheet. The fair values disclosed are, by definition, equal to the amount payable on demand at the reporting date. The fair values for certificates of deposit are based on the discounted value of contractual cash flows. The discount rates used are representative of approximate rates currently offered on certificates of deposit with similar remaining maturities.

FEDERAL HOME LOAN BANK BORROWINGS

The fair value reported for FHLB borrowings is estimated based on the discounted value of contractual cash flows. The discount rate used is based on the Company's estimated current incremental borrowing rate for FHLB borrowings of similar maturities.

JUNIOR SUBORDINATED DEBENTURES

The fair value of the junior subordinated debentures issued by Boston Private Capital Trust I was based on the current market price of the securities at December 31, 2006. The fair value of the junior subordinated debentures issued by Boston Private Capital Trust II was based on the present value of cash flows discounted using the current rate for similar securities. The fair value of the junior subordinated debentures acquired in the FPB and Gibraltar acquisition approximates book because of the floating rate nature of the securities.

OTHER LIABILITIES

Other financial liabilities consist of securities sold under agreements to repurchase and accrued interest payable for which the carrying amount approximates fair value.

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company's commitments to originate loans, and for unused lines and outstanding letters of credit are primarily at market interest rates and therefore there is no fair value adjustment.

21. BOSTON PRIVATE FINANCIAL HOLDINGS, INC. (PARENT COMPANY ONLY)

CONDENSED BALANCE SHEETS

(In thousands)	December 31, 2006	December 31, 2005
ASSETS:		
Cash and cash equivalents	**$ 6,683**	$ 4,723
Investments securities held-to-maturity	**—**	27,464
Investment in wholly-owned and majority-owned subsidiaries:		
Banks	**621,097**	567,586
Nonbanks	**234,978**	166,377
Investment in partnerships and trusts	**10,126**	20,148
Goodwill	**12,065**	—
Intangible assets, net	**3,295**	—
Other assets	**20,111**	15,049
Total assets	**$908,355**	$801,347
LIABILITIES:		
Deferred acquisition obligations	**$ 20,921**	$ 16,839
Junior subordinated debentures	**234,021**	234,021
Other liabilities	**18,216**	11,139
Total liabilities	**273,158**	261,999
STOCKHOLDERS' EQUITY:		
Common stock, $1.00 par value per share; authorized: 70,000,000 issued: 36,589,727 shares in 2006, and 34,800,393 shares in 2005	**36,590**	34,800
Additional paid-in capital	**424,787**	374,818
Retained earnings	**176,111**	133,190
Accumulated other comprehensive loss	**(2,291)**	(3,460)
Total stockholders' equity	**635,197**	539,348
Total liabilities and stockholders' equity	**$908,355**	$801,347

CONDENSED STATEMENTS OF OPERATIONS

(In thousands)	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
INCOME:			
Interest income	**$ 453**	$ 513	$ 259
Dividends from subsidiaries:			
Banks	**—**	—	425
Nonbanks	**28,441**	23,233	12,345
Other income	**2,012**	1,164	652
Total income	**30,906**	24,910	13,681
EXPENSES:			
Salaries and employee benefits	**13,824**	12,422	9,516
Professional fees	**3,703**	3,554	3,132
Interest expense	**13,311**	7,484	1,497
Other expenses	**4,034**	3,274	2,561
Total expenses	**34,872**	26,734	16,706
Loss before income taxes	**(3,966)**	(1,824)	(3,025)
Income tax benefit	**(14,328)**	(9,094)	(6,471)
Income before equity in undistributed earnings of subsidiaries	**10,362**	7,270	3,446
Equity in undistributed earnings of subsidiaries	**44,011**	36,276	27,787
Net income	**$54,373**	$43,546	$31,233

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 54,373**	$ 43,546	$ 31,233
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in earnings of subsidiaries:			
Banks	**(48,991)**	(41,222)	(25,626)
Nonbanks	**(23,461)**	(18,287)	(14,931)
Dividends from subsidiaries:			
Banks	**—**	—	425
Nonbanks	**26,847**	20,038	12,345
Depreciation and amortization	**3,762**	3,333	1,516
Net increase in other operating activities	**(3,127)**	(1,776)	(3,865)
Net cash provided by operating activities	**9,403**	5,632	1,097
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash paid for acquisitions, including deferred acquisition obligations	**(34,644)**	(122,700)	(104,431)
Capital investment in subsidiaries:			
Banks	**—**	(22,000)	(40,198)
Nonbanks	**—**	—	(379)
Investment securites held-to-maturity:			
Purchases	**—**	(126,179)	(43,725)
Maturities and principal payments	**27,464**	117,634	24,806
Investments in trusts	**(384)**	(3,387)	(3,555)
Net increase (decrease) in other investing activites	**772**	(588)	(161)
Net cash used in investing activities	**(6,792)**	(157,220)	(167,643)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of trust preferred debt	**—**	103,092	104,506
Dividends paid to stockholders	**(11,452)**	(8,321)	(6,451)
Excess tax savings on stock options exercised	**1,183**	4,133	811
Proceeds from stock options exercises	**5,747**	10,497	2,158
Proceeds from issuance of common stock, net	**3,871**	39,860	18,036
Net cash (used in) provided by financing activities	**(651)**	149,261	119,060
Net increase (decrease) in cash and cash equivalents	**1,960**	(2,327)	(47,486)
Cash and cash equivalents at beginning of year	**4,723**	7,050	54,536
Cash and cash equivalents at end of year	**$ 6,683**	$ 4,723	$ 7,050

22. SELECTED QUARTERLY DATA (UNAUDITED)

	2006[(1)]			
(In thousands, except per share data)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues				
Net interest income	**$43,385**	**$43,158**	**$43,402**	**$43,568**
Non-interest income	**47,534**	**45,389**	**40,137**	**38,282**
Total revenues	**90,919**	**88,547**	**83,539**	**81,850**
Provision for loan losses	**987**	**2,325**	**1,704**	**1,163**
Non-interest expense and minority interest	**66,058**	**64,802**	**62,775**	**60,513**
Income before taxes	**23,874**	**21,420**	**19,060**	**20,174**
Income taxes	**8,266**	**7,770**	**6,772**	**7,346**
Net income	**$15,608**	**$13,650**	**$12,288**	**$12,828**
Earnings per share				
Basic	**$ 0.43**	**$ 0.38**	**$ 0.35**	**$ 0.37**
Diluted	**$ 0.40**	**$ 0.36**	**$ 0.33**	**$ 0.35**

	2005[(1)]			
(In thousands, except per share data)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues				
Net interest income	$43,916	$30,052	$28,294	$26,477
Non-interest income	35,584	34,718	32,366	31,919
Total revenues	79,500	64,770	60,660	58,396
Provision for loan losses	2,070	1,728	778	862
Non-interest expense and minority interest	56,688	44,622	43,551	43,918
Income before taxes	20,742	18,420	16,331	13,616
Income taxes	7,583	7,004	6,075	4,900
Net income	$13,159	$11,416	$10,256	$ 8,716
Earnings per share				
Basic	$ 0.38	$ 0.41	$ 0.37	$ 0.32
Diluted	$ 0.36	$ 0.38	$ 0.35	$ 0.30

(1) Due to rounding, the sum of the four quarters may not add to the year to date total.

23. REGULATORY MATTERS

INVESTMENT MANAGEMENT

The Company's investment management business is highly regulated, primarily at the federal level by the Securities and Exchange Commission, National Association of Securities Dealers, and by state regulatory agencies. Specifically, seven of the Company's subsidiaries, including Westfield, Sand Hill, BPVI, DGHM, KLS, RINET, and Anchor are registered investment advisers under the Investment Advisers Act of 1940. 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 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. The Company's subsidiaries are also subject to the provisions and regulations of the Employee Retirement Income Security Act of 1974 ("ERISA"), to the extent any such entities act as a "fiduciary" under ERISA with respect to certain of its clients. ERISA and the related 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.

BANKING

The Company and its subsidiaries are also subject to extensive supervision and regulation by the Board of Governors of the Federal Reserve System, (the "Federal Reserve"), the Federal Deposit Insurance Corporation ("FDIC"), which insures the deposits of Boston Private Bank, Borel, FPB, and Gibraltar to the maximum extent permitted by law, by the Massachusetts Commissioner of Banks, the California Department of Financial Institutions, and by the Office of Thrift Supervision ("OTS"). The federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, and the nature and amount of collateral for certain loans. The laws and regulations governing the Banks generally have been promulgated to foster the safety and soundness of the Banks and protect depositors and not for the purpose of protecting stockholders.

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 the Company's financial statements. For example, under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Banks, which are wholly owned subsidiaries of the Company, must each meet specific capital guidelines that involve quantitative measures of each of the Banks' assets and certain off-balance sheet items as calculated under regulatory accounting standards. The Banks' 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 with respect to certain non-banking activities, including adjustments in connection with off-balance sheet items.

Current FDIC regulations governing capital requirements state that FDIC-insured institutions, to be adequately capitalized, have qualifying total capital to risk-weighted assets of at least 8%, of which at least 4% must be Tier I capital. Tier I capital is defined as common equity and retained earnings, less goodwill and purchased intangibles, and is compared to total risk-weighted assets. Assets and off-balance sheet items are assigned to four risk categories, each with appropriate weights. The resulting capital ratio represents Tier I capital as a percentage of risk weighted assets and off-balance sheet items. The risk-based capital rules are designed to make regulatory capital more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. As of December 31, 2006, management believes that the Banks meet all capital adequacy requirements to which they are subject.

As of December 31, 2006, the Company meets the Federal Reserve requirements to be categorized as well capitalized under the regulatory framework for prompt corrective action. As of December 31, 2006, Boston Private Bank, Borel, FPB, and Gibraltar meet the FDIC requirements under the regulatory framework for prompt corrective action to be categorized as well capitalized. To be categorized as well capitalized the Company and the Banks must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since December 31, 2006 that management believes have adversely changed the Company's or the Banks' categories.

Actual capital amounts and regulatory capital requirements as of December 31, 2006 and 2005 are presented in the tables below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Purposes	
(In thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
AS OF DECEMBER 31, 2006						
Total risk-based capital:						
Company	**$491,325**	**12.24%**	**$321,011**	**>8.0%**	**$401,264**	**>10.0%**
Boston Private Bank	**182,681**	**11.40**	**128,223**	**8.0**	**160,279**	**10.0**
Borel	**102,142**	**10.89**	**75,055**	**8.0**	**93,818**	**10.0**
FPB	**53,691**	**11.90**	**36,109**	**8.0**	**45,136**	**10.0**
Gibraltar	**107,544**	**11.06**	**77,791**	**8.0**	**97,239**	**10.0**
Tier I risk-based:						
Company	**429,464**	**10.70**	**160,506**	**4.0**	**240,759**	**6.0**
Boston Private Bank	**162,625**	**10.15**	**64,111**	**4.0**	**96,167**	**6.0**
Borel	**91,423**	**9.74**	**37,527**	**4.0**	**56,291**	**6.0**
FPB	**48,498**	**10.74**	**18,054**	**4.0**	**27,082**	**6.0**
Gibraltar	**96,215**	**9.89**	**38,896**	**4.0**	**58,343**	**6.0**
Tier I leverage capital:						
Company	**429,464**	**8.22**	**209,035**	**4.0**	**261,293**	**5.0**
Boston Private Bank	**162,625**	**6.78**	**95,879**	**4.0**	**119,849**	**5.0**
Borel	**91,423**	**9.60**	**38,098**	**4.0**	**47,622**	**5.0**
FPB	**48,498**	**9.94**	**19,525**	**4.0**	**24,406**	**5.0**
Gibraltar	**96,215**	**7.51**	**51,241**	**4.0**	**64,051**	**5.0**
AS OF DECEMBER 31, 2005						
Total risk-based capital:						
Company	$450,819	13.14%	$274,391	>8.0%	$342,989	>10.0%
Boston Private Bank	158,567	11.15	113,767	8.0	142,209	10.0
Borel	86,278	11.42	60,429	8.0	75,537	10.0
FPB	44,261	11.86	29,844	8.0	37,305	10.0
Gibraltar	92,764	11.41	65,023	8.0	81,279	10.0
Tier I risk-based:						
Company	362,598	10.57	137,196	4.0	205,793	6.0
Boston Private Bank	140,791	9.90	56,884	4.0	85,325	6.0
Borel	76,836	10.17	30,215	4.0	45,322	6.0
FPB	39,772	10.66	14,922	4.0	22,383	6.0
Gibraltar	83,563	10.28	32,512	4.0	48,767	6.0
Tier I leverage capital:						
Company	362,598	7.64	189,887	4.0	237,358	5.0
Boston Private Bank	140,791	6.54	86,106	4.0	107,633	5.0
Borel	76,836	9.02	34,064	4.0	42,580	5.0
FPB	39,772	9.22	17,255	4.0	21,569	5.0
Gibraltar	83,563	7.59	44,045	4.0	55,057	5.0

Bank regulatory authorities restrict the Banks from lending or advancing funds to, or investing in the securities of, the Company. Further, these authorities restrict the amounts available for the payment of dividends by the Banks to the Company.

24. LITIGATION AND CONTINGENCIES

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. Discovery was completed on August 1, 2005. The Plaintiff has initiated no activity on the case since the close of discovery, and Westfield intends to file a motion for summary judgment in due course.

TRUST LITIGATION
Since 1984, Borel has served as a trustee of a private family trust ("Family Trust") that was a joint owner of certain real property known as the Guadalupe Oil Field. The field was leased for many years to Union Oil Company of California (d/b/a UNOCAL) for oil and gas production. Significant environmental contamination resulting from UNOCAL's operations was found on the property in 1994. At that time Borel entered into negotiations to sell the property to UNOCAL, to settle UNOCAL's liabilities to the Family Trust, and to obtain a comprehensive indemnity on the Trust's behalf. Certain beneficiaries of the Family Trust brought a series of actions against Borel claiming that Borel had breached its fiduciary duties in managing the oil and gas leases and in negotiating with UNOCAL for settlement and for sale of the property. In the first lawsuit, the beneficiaries sought to remove Borel as trustee. Borel prevailed at trial and obtained final judgment in its favor, but the beneficiaries continued to pursue related litigation against Borel for many years afterwards. In 2002 Borel concluded a settlement with UNOCAL and sold the property to UNOCAL. In 2005 all of the parties, with one exception noted below, entered into a global settlement whereby UNOCAL agreed to pay the plaintiff beneficiaries certain amounts, and the beneficiaries dismissed all of their pending actions with prejudice, including all actions against Borel, which paid nothing in the settlement.

One beneficiary—a contingent remainder beneficiary—split with the other plaintiff beneficiaries in 2003, filed parallel actions in the state court against Borel, and refused to participate in the otherwise global settlement in 2005. The state court subsequently dismissed those parallel actions against Borel on the merits. The non-settling beneficiary, acting *pro se*, then filed a new action on June 24, 2005, in the United States District Court for the Northern District of California. In this action, the non-settling beneficiary makes claims similar to those made in the earlier actions that were dismissed by the state court. He seeks to invalidate the settlement with UNOCAL, to compel the return of the Guadalupe Oil Field to the Family Trust, and to recover damages against Borel and others for alleged mismanagement. The complaint does not specify an amount of damages, but in the trial of the action to remove Borel as trustee in 1998, 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 the current federal litigation, in November 2005 the court dismissed the entire action as to Borel based on the prior final judgments in the state court and on lack of federal jurisdiction. The non-settling beneficiary appealed from the judgment. The matter is now fully briefed, but the appellate court has not yet scheduled oral judgment.

Borel will continue to litigate these matters vigorously. While the ultimate outcome of these proceedings 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 this matter is probable or that such liability can be reasonably estimated.

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.

25. RELATED PARTY TRANSACTIONS

Stephen M. Waters, who is a director of the Company, has two loans for approximately $7.8 million with Boston Private Bank. In addition to this loan, Mr. Waters is also a guarantor on one loan with Boston Private Bank for approximately $236 thousand at December 31, 2006. Mr. Waters also has an unsecured standby letter of credit with a line of $465 thousand and a zero balance as of December 31, 2006 with Gibraltar. The loans with Boston Private Bank were originated prior to Mr. Waters becoming a director of the Company. All of the loans are current as of December 31, 2006. All loans were made in the ordinary course of business under normal credit terms, including interest rates and collateral requirements prevailing at the

time of origination for comparable transactions with other persons, and do not represent more than normal credit risk.

Robert J. Whelan, who is Executive Vice President and Chief Financial Officer of the Company, has an outstanding residential mortgage loan for approximately $198 thousand, as of December 31, 2006, with Boston Private Bank. This loan was originated prior to Mr. Whelan being employed by the Company. This loan was current as of December 31, 2006. This loan was made in the ordinary course of business under normal credit terms, including interest rate and collateral requirements prevailing at the time of origination for comparable transactions with other persons, and does not represent more than normal credit risk.

26. COMMON STOCK

In December of 2003 the Company entered into a forward sale agreement pursuant to which an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated (the “Merrill Lynch Affiliate”) agreed to borrow and sell 2.3 million shares of the Company’s common stock. In the first quarter of 2004, the Company drew down 700 thousand shares of stock under the forward sale agreement.

On November 1, 2004, the Company entered into an Amended and Restated Forward Sale Agreement (the “Amendment”) with the Merrill Lynch Affiliate. Pursuant to the original agreement, the Merrill Lynch Affiliate borrowed and sold shares of the Company’s common stock in December of 2003 with the proceeds of such sale to be received by the Company on a settlement date or dates to be specified at the Company’s discretion up to and including December 17, 2004 at an initial forward price determined in accordance with a pre-determined schedule subject to increases based on a floating interest factor equal to the federal funds rate, less a spread. Under the Amendment, the settlement date was extended until December 31, 2005.

On September 29, 2005 the Company settled the Amendment. Under the settlement terms of the forward sale agreement, the Company received approximately $36.4 million in proceeds from the issuance of 1.6 million shares of the Company’s common stock, at an initial forward price of $22.74 per share. The proceeds were used to assist in funding the Gibraltar acquisition.

The impact of the forward sale agreement, through settlement date, is reflected in the financial statements through an increase to diluted common shares outstanding.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Boston Private Financial Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Boston Private Financial Holdings, Inc. and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Gibraltar Private Bank & Trust Company, a wholly-owned subsidiary, which statements reflect total assets constituting 25.7 percent and total revenues constituting 17.7 percent in 2006 of the related totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Gibraltar Private Bank & Trust Company, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Boston Private Financial Holdings, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 17 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, using the modified retrospective application method and, accordingly, has adjusted all prior periods.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2007 expresses an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Boston, Massachusetts
February 28, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

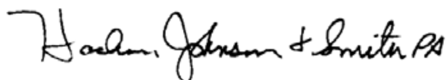
Gibraltar Private Bank & Trust Company
Coral Gables, Florida:

We have audited the consolidated balance sheets of Gibraltar Private Bank & Trust Company and Subsidiary (the "Bank") as of December 31, 2006 and December 31, 2005, and the related consolidated statement of income, changes in stockholders' equity, and cash flows for the year ended December 31, 2006 and the three-month period ended December 31, 2005. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statement referred to above present fairly, in all material respects, the financial position of Gibraltar Private Bank & Trust Company and Subsidiary as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the year ended December 31, 2006 and the three-month period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Bank's internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2007 expresses an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting and an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.



Fort Lauderdale, Florida
February 26, 2007

MANAGEMENTS REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance to the Company's management and Board of Directors regarding the reliability and preparation of published financial statements in accordance with accounting principles generally accepted in the United States of America. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, the Company used the criteria set forth in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on management's assessment, the Company believes that, as of December 31, 2006, the Company's internal control over financial reporting is effective based on the criteria established in *Internal Control-Integrated Framework*. The Company acquired Anchor ("Anchor") on June 1, 2006, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, Anchor's internal control over financial reporting, with associated assets of $88.3 million and total revenue of $16.7 million generated by Anchor that was included in the Company's consolidated financial statements as of and for the year ended December 31, 2006.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, has been audited by the Company's independent registered public accounting firms: KPMG LLP and Hacker Johnson & Smith PA, as stated in their reports which is included elsewhere herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Boston Private Financial Holdings, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Boston Private Financial Holdings, Inc. the ("Company") maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit. We did not audit the effectiveness of internal control over financial reporting of Gibraltar Private Bank and Trust Company, a wholly-owned subsidiary, whose financial statements reflect total assets and total revenues constituting 25.7 and 17.7 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2006. The effectiveness of Gibraltar Private Bank and Trust Company's internal control over financial reporting was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the effectiveness of Gibraltar Private Bank & Trust Company's internal control over financial reporting is based solely on the report of the other auditors.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our report and the report of the other auditors, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control-Integrated Framework*

issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Also, in our opinion, based on our audit and the report of other auditors, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

The Company acquired on June 1, 2006, Anchor Capital Holdings LLC ("Anchor"), a newly created holding company that owns 80% of Anchor Capital and Anchor/Russell and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, Anchor's internal control over financial reporting, with associated assets of $88.3 million and total revenue of $16.7 million generated by Anchor that was included in the Company's consolidated financial statements as of and for the year ended December 31, 2006. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Anchor.

We also have audited, in accordance with the standards of Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006, and our report dated February 28, 2007 expressed an unqualified opinion on those consolidated financial statements. We did not audit the financial statements of Gibraltar Private Bank & Trust Company, a wholly-owned subsidiary, which statements reflect total assets constituting 25.7 percent and total revenue constituting 17.7 percent in 2006 of the related totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for Gibraltar Private Bank & Trust Company, is based solely on the report of the other auditors.

KPMG LLP

Boston, Massachusetts
February 28, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Gibraltar Private Bank & Trust Company

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Gibraltar Private Bank & Trust Company and Subsidiary (the "Bank") maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Bank's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A bank's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Bank are being made only in accordance with authorizations of management and directors of the Bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Bank assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Bank maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Also, in our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

We also have audited, in accordance with the standards of Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Bank as of December 31, 2006 and 2005, and the

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

related consolidated statements of income, changes in stockholders' equity, and cash flows for the year ended December 31, 2006, and the three-month period ended December 31, 2005, and our report dated February 26, 2007 expressed an unqualified opinion on those consolidated financial statements.

Fort Lauderdale, Florida
February 26, 2007

SELECTED FINANCIAL DATA

The following table represents selected financial data for the five fiscal years ended December 31. The data set forth below does not purport to be complete. It should be read in conjunction with, and is qualified in its entirety by, the more detailed information, including the Company's Consolidated Financial Statements and related Notes, appearing elsewhere herein.

(In thousands, except per share data)	2006	2005*	2004*	2003*(3)	2002*
At December 31:					
Total balance sheet assets	**$ 5,763,544**	$ 5,118,568	$ 3,274,421	$ 2,202,802	$1,826,360
Total loans (excluding loans held for sale)	**4,311,252**	3,624,240	2,248,600	1,612,564	1,301,726
Allowance for loan losses	**43,387**	37,607	25,021	17,761	15,163
Investment securities	**537,807**	557,142	539,103	396,746	322,734
Cash and cash equivalents	**239,396**	372,316	128,914	93,488	97,529
Goodwill and intangible assets	**460,964**	384,407	187,163	20,318	18,007
Deposits	**4,077,831**	3,748,141	2,386,368	1,658,461	1,400,333
Borrowed funds	**914,529**	703,379	474,171	263,620	218,389
Stockholders' equity	**635,197**	539,348	326,534	239,546	171,113
Non-performing assets	**10,549**	7,900	1,514	1,311	1,057
Client assets under management and advisory	**$29,824,000**	$21,339,000	$19,306,000	$10,966,000	$ 6,441,000
For The Year Ended December 31:					
Interest and dividend income	**$ 300,032**	$ 189,990	$ 120,645	$ 92,680	$ 90,293
Interest expense	**126,519**	61,251	32,066	24,915	26,265
Net interest income	**173,513**	128,739	88,579	67,765	64,028
Provision for loan losses	**6,179**	5,438	4,285	2,631	2,330
Net interest income after provision for loan losses	**167,334**	123,301	84,294	65,134	61,698
Fees and other income	**171,341**	134,587	108,213	65,867	51,868
Operating expense and minority interest	**254,148**	188,781	144,472	100,114	83,007
Income before income taxes	**84,527**	69,107	48,035	30,887	30,559
Income tax expense	**30,154**	25,561	16,802	11,442	9,485
Net income	**$ 54,373**	$ 43,546	$ 31,233	$ 19,455	$ 21,074
Per Share Data:					
Basic earnings per share	**$ 1.53**	$ 1.48	$ 1.14	$ 0.85	$ 0.94
Diluted earnings per share	**$ 1.43**	$ 1.38	$ 1.10	$ 0.82	$ 0.90
Average basic common shares outstanding	**35,452,880**	29,425,157	27,313,171	22,954,937	22,412,665
Average diluted common shares outstanding	**40,089,380**	33,824,717	29,024,520	23,779,934	23,357,066
Cash dividends per share	**$ 0.32**	$ 0.28	$ 0.24	$ 0.20	$ 0.16
Book value	**$ 17.36**	$ 15.50	$ 11.81	$ 9.52	$ 7.59
Selected Operating Ratios:					
Return on average assets	**1.02%**	1.13%	1.10%	0.95%	1.26%
Return on average equity	**9.27%**	11.23%	10.61%	10.84%	13.63%
Interest rate spread(1)	**3.27%**	3.48%	3.33%	3.35%	3.80%
Net interest margin(1)	**3.84%**	3.88%	3.61%	3.64%	4.19%
Total fees and other income/total revenue(2)	**49.69%**	51.11%	54.99%	49.37%	44.75%
Asset Quality Ratios:					
Non-accrual loans to total loans	**0.23%**	0.22%	0.05%	0.08%	0.08%
Non-performing assets to total assets	**0.18%**	0.15%	0.05%	0.06%	0.06%
Other Ratios:					
Dividend payout ratio	**20.92%**	18.92%	21.05%	23.53%	17.02%
Average equity to average assets ratio	**11.04%**	10.02%	10.35%	8.75%	9.24%

* Adjusted to include the impact of stock-based compensation, see Part II, Item 8 "Financial Statements and Supplementary Data in Note 17: Employee Benefits" to the Consolidated Financial Statements of the Company for additional information.

(1) Interest rate spread represents the difference between the weighted average yield on interest-earning assets on a fully-taxable equivalent basis, and the weighted average cost of interest-bearing liabilities, and net interest margin represents net interest income on a fully-taxable equivalent basis as a percent of average interest-earning assets.

(2) Total revenue is defined as net interest income plus fees and other income.

(3) Net income for 2003 was reduced by $3.0 million, or $0.12 per diluted share, for the REIT tax adjustment and the lease accrual described in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's December 31, 2005 Form 10-K. Return on average assets and return on average equity were also reduced.

BOARD OF DIRECTORS

Boston Private Financial Holdings, Inc.

Herbert S. Alexander, CPA
Founder, President and CEO
Alexander, Aronson, Finning & Company

Peter C. Bennett
Private Investor

Eugene S. Colangelo
Chairman
Julio Enterprises

Kathleen M. Graveline
Private Investor

Lynn Thompson Hoffman
Lead Director
Private Investor

Richard I. Morris, Jr.
Private Investor

Walter M. Pressey
President
Boston Private Financial Holdings, Inc.

William J. Shea
Managing Partner
DLB Capital, LLC

Dr. Allen L. Sinai
President & Chief Global Economist
Decision Economics, Inc.

Timothy L. Vaill
Chairman & Chief Executive Officer
Boston Private Financial Holdings, Inc.

Stephen M. Waters
Founding Partner
Compass Advisers

AFFILIATE BOARDS OF DIRECTORS

PRIVATE BANKING

Borel Private Bank & Trust Company

Julie M. Baigent
Deidra Barsotti
Elizabeth Bechtel
Stephen K. Cassidy
John A. Conover
Richard M. DeLuna
Sherie S. Dodsworth
Harold A. Fick
Ronald G. Fick
Susan P. Haney
Roy E. Lave
Oscar E. Lopez-Guerra
Larry Nibbi
Jonathan H. Parker
Kirk Charles Syme
Timothy L. Vaill
Thomas H. Vocker, CPA

Boston Private Bank & Trust Company

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Eugene S. Colangelo
Christopher W. Collins
W. Pearce Coues
J. H. Cromarty
James D. Dawson
Kate S. Flather
Kathleen M. Graveline
Charles T. Grigsby
Susan P. Haney
E. Christopher Palmer, CPA
Michael F. Schiavo
Alan D. Solomont
Mark D. Thompson
Timothy L. Vaill

First Private Bank & Trust

Paula L. Boland
Stanley E. Bryant, Jr.
Michael L. Casey, RPT
Susan P. Haney
Jonathan H. Parker
Richard A. Patterson
Bruce W. Rognlien
Larry N. Stern
Richard C. Taylor
Timothy L. Vaill
Fredrick J. Weitkamp

Gibraltar Private Bank & Trust Company

Gail Birks
J. H. Cromarty
Jorge deCespedes
James T. Dyke
Susan P. Haney
Steven D. Hayworth
David S. Kirkland
Ronald G. Stone
Timothy L. Vaill

INVESTMENT MANAGEMENT

Anchor Capital Holdings LLC
(Anchor Capital Advisors LLC and
Anchor/Russell Capital Advisors LLC)

Stephen C. Brown
J. H. Cromarty
Walter M. Pressey
William P. Rice
Mark V. Rickabaugh

Boston Private Value Investors, Inc.

Martha E. Cottrill
J. H. Cromarty
Timothy G. Dalton Jr., CFA
C. Michael Hazard
Christopher M. Pope
Sherwood T. Small
John S. Tamagni
Timothy L. Vaill

Coldstream Holdings, Inc.
(Coldstream Capital Management, Inc.)

Kevin M. Fitzwilson
Donald L. Gher
Geoffrey W. Holmes
W. Thomas Porter
Roger C. Reynolds
Walter M. Pressey

Dalton, Greiner, Hartman, Maher & Co., LLC

Jeffrey C. Baker
Timothy G. Dalton Jr., CFA
Bruce H. Geller, CFA
C. Michael Hazard
Timothy L. Vaill

Sand Hill Advisors, Inc.

Gary K. Conway
Jonathan H. Parker
Timothy L. Vaill
Jane H. Williams

Westfield Capital Management Co., LLC

Arthur J. Bauernfeind
Karen A. DiGravio
C. Michael Hazard
William A. Muggia
Timothy L. Vaill

WEALTH ADVISORY

Bingham, Osborn & Scarborough, LLC

Carol L. Benz
Robert D. Bingham
Jeffrey D. Lancaster
Earl D. Osborn
Jonathan H. Parker

KLS Professional Advisors Group, LLC

Alan J. Brod
Margaret W. Chambers
J. H. Cromarty
Carlton B. Klapper
Arthur N. Langhaus
Robert M. Schorr

RINET Company, LLC

J. H. Cromarty
Valerio Iannalfo
Patrick B. Maraghy
Walter M. Pressey
Brian Rivotto
Gary P. Savage
Richard N. Thielen
Kathleen Wallace

ADVISORY BOARD

Boston Private Bank & Trust Company

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John B. Coleman
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Jeremy M. Hubball
John T. McCarthy
Christopher W. Parker, Esq.
Frederick G. Pfannenstiehl
Peter Read
Michael A. Ruane
Stephan C. Schram
Sergio Speroni
Raymond C.P. Tang

ANNUAL MEETING

The Company's Annual Stockholder Meeting
will be held on Wednesday, April 25, 2007
at 10:00 am at:
Boston Private Financial Holdings, Inc.
Ten Post Office Square
Boston, Massachusetts 02109

FORM 10-K AND OTHER REPORTS

Our Annual Report to the Securities and
Exchange Commission (Form 10-K)
and quarterly reports (Form 10-Q)
may be obtained from:
Boston Private Financial Holdings, Inc.
Ten Post Office Square
Boston, Massachusetts 02109
or on the Company's website at
www.bostonprivate.com

TRANSFER AGENT

Computershare
P.O. Box 43078
Providence, RI 43078
1-866-820-0121
www.computershare.com

FINANCIAL INFORMATION

Analysts, stockholders and investors
interested in additional information may contact:
Investor Relations
Boston Private Financial Holdings, Inc.
Ten Post Office Square
Boston, Massachusetts 02109
617-912-3799
or on the Company's website at
www.bostonprivate.com

"Boston Private is building a wealth management company, broadly recognized as the preferred choice among discriminating clients, by creating an environment that attracts the very best professionals in the industry."

Enduring Excellence

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