BOSTON PRIVATE FINANCIAL HOLDINGS INC
Form 10-Q
November 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2010

Or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______.

Commission File Number: 0-17089

BOSTON PRIVATE FINANCIAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One)

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of October 29, 2010:

Common Stock-Par Value $1.00 **(class)**	**76,480,398** **(outstanding)**

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BOSTON PRIVATE FINANCIAL HOLDINGS, INC.

FORM 10-Q

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

BOSTON PRIVATE FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Unaudited)

	September 30, 2010	December 31, 2009
	(In thousands, except share and per share data)	
Assets:		
Cash and due from banks	$ 370,978	$ 446,916
Federal funds sold	504	544
Cash and cash equivalents	371,482	447,460
Investment securities:		
Available-for-sale (amortized cost of $723,225 and $876,910, respectively)	736,777	888,032
Held-to-maturity (fair value of $3,021 and $4,511, respectively)	3,005	4,501
Total investment securities	739,782	892,533
Loans held for sale	22,290	12,714
Loans:		
Total loans	4,530,274	4,307,040
Less: allowance for loan losses	100,010	68,444
Net loans	4,430,264	4,238,596
Other real estate owned (OREO)	13,069	16,600
Stock in Federal Home Loan Banks	46,393	47,490
Premises and equipment, net	26,781	28,349
Goodwill	108,696	108,692
Intangible assets, net	37,457	41,425
Fees receivable	7,338	7,320
Accrued interest receivable	18,783	19,292
Income tax receivable and deferred	81,414	52,267
Other assets	127,517	136,527
Total assets	$ 6,031,266	$ 6,049,265
Liabilities:		
Deposits	$ 4,492,516	$ 4,255,219
Securities sold under agreements to repurchase	108,575	243,377
Federal Home Loan Bank borrowings	584,521	555,012
Junior subordinated debentures	193,645	193,645
Other liabilities	99,526	99,008
Total liabilities	5,478,783	5,346,261
Redeemable noncontrolling interests	18,721	51,850

The Company s Stockholders equity:				
Preferred stock, $1.00 par value; authorized: 2,000,000 shares;				
Series B, issued and outstanding (contingently convertible): 401 shares at September 30, 2010 and December 31, 2009; liquidation value: $100,000 per share		**58,089**		58,089
Series C, issued and outstanding: 0 shares at September 30, 2010 and 154,000 shares at December 31, 2009; liquidation value $1,000 per share		**-**		146,012
Common stock, $1.00 par value; authorized: 170,000,000 shares; issued and outstanding: 76,592,233 shares at September 30, 2010 and 68,666,263 shares at December 31, 2009		**76,592**		68,666
Additional paid-in capital		**652,832**		629,001
Accumulated deficit		**(259,196)**		(258,186)
Accumulated other comprehensive income		**5,445**		7,572
Total stockholders equity		**533,762**		651,154
Total liabilities, redeemable noncontrolling interests and stockholders equity	**$**	**6,031,266**	$	6,049,265

See accompanying notes to unaudited consolidated financial statements.

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BOSTON PRIVATE FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(In thousands, except share and per share data)			
Interest and dividend income:				
Loans	**$ 58,036**	$ 58,658	**$ 173,337**	$ 174,284
Taxable investment securities	**1,613**	1,399	**4,742**	5,238
Non-taxable investment securities	**1,283**	1,298	**3,869**	4,696
Mortgage-backed securities	**1,902**	3,278	**6,228**	10,660
Federal funds sold and other	**223**	389	**943**	741
Total interest and dividend income	**63,057**	65,022	**189,119**	195,619
Interest expense:				
Deposits	**8,710**	15,049	**28,721**	46,001
Federal Home Loan Bank borrowings	**4,870**	6,329	**15,358**	19,204
Junior subordinated debentures and other long-term debt	**2,511**	3,072	**7,505**	9,473
Other short-term borrowings	**522**	855	**1,763**	2,513
Total interest expense	**16,613**	25,305	**53,347**	77,191
Net interest income	**46,444**	39,717	**135,772**	118,428
Provision for loan losses	**32,050**	9,099	**54,627**	31,155
Net interest income after provision for loan losses	**14,394**	30,618	**81,145**	87,273
Fees and other income:				
Investment management and trust fees	**14,311**	13,732	**44,341**	39,489
Wealth advisory fees	**9,525**	8,927	**28,087**	25,696
Other banking fee income	**1,678**	1,317	**4,320**	4,403
Gain on repurchase of debt	**-**	-	**-**	407
Gain on sale of investments, net	**1,147**	1,064	**3,566**	5,459
Gain on sale of loans, net	**713**	754	**1,670**	2,182
Gain on sale of non-strategic loans portfolios, net	**-**	30	**-**	2,465
Gain/ (loss) on sale or write-downs of OREO, net	**(626)**	(466)	**(2,645)**	1,776
Other	**551**	1,165	**1,021**	2,208
Total fees and other income	**27,299**	26,523	**80,360**	84,085
Operating expense:				
Salaries and employee benefits	**38,662**	32,868	**107,164**	95,272
Occupancy and equipment	**7,036**	6,731	**20,519**	19,837
Professional services	**4,857**	4,429	**14,025**	14,362

Marketing and business development		**1,677**		1,447		**5,229**		4,860
Contract services and data processing		**1,290**		1,323		**4,052**		3,920
Amortization of intangibles		**1,299**		2,024		**3,968**		5,940
FDIC insurance		**2,137**		2,619		**6,490**		7,734
Other		**4,021**		4,495		**12,231**		13,294
Total operating expense		**60,979**		55,936		**173,678**		165,219
Income/ (loss) before income taxes		**(19,286)**		1,205		**(12,173)**		6,139
Income tax expense/ (benefit)		**(12,412)**		815		**(11,278)**		1,629
Net income/ (loss) from continuing operations		**(6,874)**		390		**(895)**		4,510
Net income/ (loss) from discontinued operations		**267**		(30,614)		**1,812**		(39,006)
Net income/ (loss) before attribution to noncontrolling interests		**(6,607)**		(30,224)		**917**		(34,496)
Less: Net income attributable to noncontrolling interests		**629**		1,136		**1,929**		2,481
Net income/ (loss) attributable to the Company	**$**	**(7,236)**	$	(31,360)	**$**	**(1,012)**	$	(36,977)
Adjustments to net income/ (loss) attributable to the Company to arrive at net income/ (loss) attributable to common shareholders		**163**		(9,852)		**(9,466)**		(26,357)
Net income/ (loss) attributable to common shareholders for earnings/ (loss) per share calculation	**$**	**(7,073)**	$	(41,212)	**$**	**(10,478)**	$	(63,334)
Basic and diluted earnings/ (loss) per share attributable to the Company s common shareholders:								
From continuing operations	**$**	**(0.10)**	$	(0.15)	**$**	**(0.18)**	$	(0.37)
From discontinued operations	**$**	**0.00**	$	(0.45)	**$**	**0.03**	$	(0.58)
Total attributable to the Company s common shareholders	**$**	**(0.10)**	$	(0.60)	**$**	**(0.15)**	$	(0.95)
Weighted average basic and diluted common shares outstanding		**74,153,623**		68,551,527		**70,293,324**		67,033,585

See accompanying notes to unaudited consolidated financial statements.

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BOSTON PRIVATE FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders Equity

(Unaudited)

	Common Stock	Preferred Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Non-controlling Interests	Total
			(In thousands, except share data)				
Balance at December 31, 2008	$ 63,874	$ 178,345	$ 654,903	$ (263,417)	$ 11,471	$ 3,500	$ 648,676
Comprehensive Income:							
Net income/ (loss) attributable to the Company	-	-	-	(36,977)	-	-	(36,977)
Other comprehensive income/(loss), net:							
Change in unrealized gain on securities available-for-sale, net	-	-	-	-	1,043	-	1,043
Change in unrealized loss on cash flow hedge, net	-	-	-	-	(945)	-	(945)
Change in unrealized gain on other, net	-	-	-	-	17	-	17
Total comprehensive income/ (loss) attributable to the Company, net							(36,862)
Dividends paid to common shareholders	-	-	(2,002)	-	-	-	(2,002)
Dividends paid to preferred shareholders	-	-	(5,864)	-	-	-	(5,864)
Net proceeds from issuance of 4,016,683 shares of common stock	4,017	-	7,389	-	-	-	11,406
Accretion of Series B Preferred stock Beneficial Conversion Feature	-	14,696	(14,696)	-	-	-	-
Accretion of discount on Series C Preferred stock	-	1,024	(1,024)	-	-	-	-
Net issuance of 605,181 shares of incentive common stock	605	-	(605)	-	-	-	-
Amortization of incentive stock grants	-	-	2,699	-	-	-	2,699
Amortization of stock options and employee stock purchase plan	-	-	2,800	-	-	-	2,800
Stock options exercised	75	-	250	-	-	-	325
Other equity adjustments	-	(309)	(1,693)	-	-	-	(2,002)
Balance at September 30, 2009	$ 68,571	$ 193,756	$ 642,157	$ (300,394)	$ 11,586	$ 3,500	$ 619,176
Balance at December 31, 2009	**$ 68,666**	**$ 204,101**	**$ 629,001**	**$ (258,186)**	**$ 7,572**	**$ -**	**$ 651,154**
Comprehensive Income:							
Net income/ (loss) attributable to the Company	**-**	**-**	**-**	**(1,012)**	**-**	**-**	**(1,012)**
Other comprehensive income/(loss), net:							
Change in unrealized gain on securities available-for-sale, net	**-**	**-**	**-**	**-**	**1,106**	**-**	**1,106**
Change in unrealized loss on cash flow hedges, net	**-**	**-**	**-**	**-**	**(3,235)**	**-**	**(3,235)**
Change in unrealized gain on other, net	**-**	**-**	**-**	**-**	**2**	**-**	**2**
Total comprehensive income/ (loss) attributable to the Company, net							**(3,139)**
Dividends paid to common shareholders	**-**	**-**	**(2,139)**	**-**	**-**	**-**	**(2,139)**
Dividends paid to preferred shareholders	**-**	**-**	**(3,027)**	**-**	**-**	**-**	**(3,027)**

Net proceeds from issuance of 692,569 shares of common stock	693	-	3,684	-	-	-	4,377
Net proceeds from issuance of 4,715,000 shares of common stock in June 2010 public offering	4,715	-	22,025	-	-	-	26,740
Net proceeds from issuance of 1,084,450 shares of common stock in June 2010 private placement, as settled in July 2010	1,084	-	5,183	-	-	-	6,267
Repurchase of 154,000 shares of Series C Preferred stock	-	(154,000)	-	-	-	-	(154,000)
Accretion of discount on Series C Preferred stock	-	7,988	(7,988)	-	-	-	-
Net issuance of 1,337,506 shares of incentive common stock	1,338	-	(1,338)	-	-	-	-
Amortization of incentive stock grants	-	-	3,097	-	-	-	3,097
Amortization of stock options and employee stock purchase plan	-	-	1,270	-	-	-	1,270
Stock options exercised	96	-	369	-	-	-	465
Tax deficiency from certain stock compensation awards	-	-	(1,206)	-	-	-	(1,206)
Other equity adjustments	-	-	3,901	2	-	-	3,903
Balance at September 30, 2010	$ 76,592	$ 58,089	$ 652,832	$ (259,196)	$ 5,445	$ -	$ 533,762

See accompanying notes to unaudited consolidated financial statements.

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BOSTON PRIVATE FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2010	2009
	(In thousands)	
Cash flows from operating activities:		
Net income/ (loss) attributable to the Company	$ (1,012)	$ (36,977)
Adjustments to arrive at net income/ (loss) from continuing operations		
Net income attributable to noncontrolling interests	1,929	2,481
(Gain)/ loss from operating activities of discontinued operations, net of tax	(1,812)	39,006
Net income/ (loss) from continuing operations	(895)	4,510
Adjustments to reconcile net income/ (loss) from continuing operations to net cash provided by/ (used for) operating activities:		
Depreciation and amortization	13,073	12,937
Net income attributable to noncontrolling interests	(1,929)	(2,481)
Equity issued as compensation	4,367	5,499
Provision for loan losses	54,627	31,155
Loans originated for sale	(153,622)	(241,035)
Proceeds from sale of loans held for sale	145,022	247,701
Gain on the repurchase of debt	-	(407)
(Increase)/ decrease in income tax receivable and deferred	(29,147)	58,101
Net (increase)/ decrease in other operating activities	2,436	20,178
Net cash provided by operating activities - continuing operations	33,932	136,158
Net cash provided by operating activities - discontinued operations	1,812	34,765
Net cash provided by operating activities	35,744	170,923
Cash flows from investing activities:		
Investment securities available-for-sale:		
Purchases	(570,834)	(394,970)
Sales	407,515	272,898
Maturities, redemptions, and principal payments	315,970	285,069
Investment securities held-to-maturity:		
Purchases	(5,993)	(6,026)
Maturities and principal payments	7,489	6,017
Investments in trusts, net	(130)	(867)
Redemption of Federal Home Loan Bank stock	1,097	-
Net increase in portfolio loans	(273,449)	(241,358)
Proceeds from sale of OREO	10,450	22,396
Proceeds from sale of portfolio loans	18,434	-
Proceeds from sale and repayments of non-strategic loan portfolio, net of advances	276	11,642
Capital expenditures, net of sale proceeds	(2,937)	(4,362)

Acquisition of remaining 19% interest in KLS	**(29,691)**	-
Cash paid for acquisitions, including deferred acquisition obligations, net of cash acquired	**-**	(645)
Sale of discontinued operations, net of cash divested	**-**	103,305
Net cash provided by/ (used in) investing activities - continuing operations	**(121,803)**	53,099
Net cash provided by/ (used in) investing activities - discontinued operations	**-**	39,626
Net cash provided by/ (used in) investing activities	**(121,803)**	92,725

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BOSTON PRIVATE FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

(Unaudited)

Cash flows from financing activities:				
Net increase in deposits		**237,297**		392,111
Net decrease in securities sold under agreements to repurchase		**(134,802)**		(154,976)
Net decrease in short-term Federal Home Loan Bank borrowings		**-**		(134,300)
Advances of long-term Federal Home Loan Bank borrowings		**166,040**		24,127
Repayments of long-term Federal Home Loan Bank borrowings		**(136,531)**		(56,151)
Repurchase of debt		**-**		(52,033)
Repurchase of Series C Preferred stock		**(154,000)**		-
Dividends paid to common stockholders		**(2,139)**		(2,002)
Dividends paid to preferred stockholders		**(3,027)**		(5,864)
Tax deficiency from certain stock compensation awards		**(1,206)**		-
Proceeds from stock option exercises		**465**		325
Proceeds from issuance of common stock, net		**1,074**		781
Proceeds from issuance of common stock from 2010 public and private offering, net		**33,007**		-
Other equity adjustments		**3,903**		(2,002)
Net cash provided by/ (used in) financing activities - continuing operations		**10,081**		10,016
Net cash provided by/ (used in) financing activities - discontinued operations		**-**		(76,106)
Net cash provided by/ (used in) financing activities		**10,081**		(66,090)
Net increase/ (decrease) in cash and cash equivalents		**(75,978)**		197,558
Cash and cash equivalents at beginning of year		**447,460**		281,275
Cash and cash equivalents at end of period	**$**	**371,482**	$	478,833
Supplementary schedule of non-cash investing and financing activities:				
Cash paid for interest	**$**	**56,274**	$	78,329
Cash paid for income taxes, net of (refunds received)		**21,135**		(74,005)
Change in unrealized gain/ (loss) on securities available-for-sale, net of tax		**1,106**		1,043
Change in unrealized loss on cash flow hedges, net of tax		**(3,235)**		(945)
Change in unrealized gain on other, net of tax		**2**		17
Non-cash transactions:				
Loans transferred to other real estate owned from portfolio or held for sale		**9,131**		24,312
Loans transferred to/ (from) held for sale from/ (to) portfolio, net		**18,360**		(412)
Equity issued for acquisitions, including deferred acquisition obligations		**3,303**		10,625

See accompanying notes to unaudited consolidated financial statements.

BOSTON PRIVATE FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

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

Boston Private Financial Holdings, Inc. (the Company or BPFH), is a holding company with three reportable segments, Private Banking, Investment Management, and Wealth Advisory. The Private Banking segment has four consolidated affiliate partners, consisting of Boston Private Bank & Trust Company (Boston Private Bank), Borel Private Bank & Trust Company (Borel), First Private Bank & Trust (FPB), and Charter Private Bank (formerly Charter Bank) (Charter) (together, the Banks). The Investment Management segment has two consolidated affiliate partners, consisting of Dalton, Greiner, Hartman, Maher & Co., LLC (DGHM), and Anchor Capital Holdings, LLC (Anchor) (together, the Investment Managers). The Wealth Advisory segment has three consolidated affiliate partners, consisting of KLS Professional Advisors Group, LLC (KLS), Bingham, Osborn & Scarborough, LLC (BOS), and Davidson Trust Company (DTC) (together, the Wealth Advisors). In addition, the Company also holds a minority interest investment in Coldstream Holdings, Inc. (Coldstream Holdings).

During 2009, BPFH divested its interests in Gibraltar Private Bank & Trust Company (Gibraltar), RINET Company, LLC (RINET), Boston Private Value Investors, Inc. (BPVI) and Sand Hill Advisors, LLC (Sand Hill). The Company also entered into an agreement with the management team of Westfield Capital Management Company, LP (Westfield) that enabled them to complete the purchase of Westfield during the fourth quarter of 2009, instead of in 2014 as contemplated in a previously announced agreement. Accordingly, the results of operations for the five divested affiliates are included in the results from discontinued operations for prior periods, and gain or loss on sale related to the divestitures are included in the interim periods in which the affiliates were divested. See Part II. Item 8. Financial Statements and Supplementary Data Note 2: Divestitures and Acquisitions in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 for further detail on the divestitures.

The Company conducts substantially all of its business through its three reportable segments. All significant intercompany accounts and transactions have been eliminated in consolidation. The minority investment in Coldstream Holdings is accounted for using the equity method and is included in other assets.

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

The information in this report should be read in conjunction with the consolidated financial statements and accompanying notes included in the Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission (SEC). Prior periods amounts are reclassified whenever necessary to conform to the current periods presentation.

The Company s significant accounting policies are described in Part II. Item 8. Financial Statements and Supplementary Data - Note 3: Summary of Significant Accounting Policies in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC. For interim reporting purposes, the Company follows the same significant accounting policies.

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(2) Earnings Per Share

The computations of basic and diluted earnings per share (EPS) are set forth below:

	For the three months ended September 30, 2010	For the three months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
	(In thousands, except share and per share data)			
Basic earnings/ (loss) per share				
Numerator:				
Net income/ (loss) from continuing operations	**$ (6,874)**	$ 390	**$ (895)**	$ 4,510
Less: Net income attributable to noncontrolling interests	**629**	1,136	**1,929**	2,481
Net income/ (loss) from continuing operations attributable to the Company	**(7,503)**	(746)	**(2,824)**	2,029
(Increase)/ decrease in noncontrolling interests redemption value (1)	**236**	(2,002)	**1,549**	(4,773)
Accretion of Series B Preferred stock Beneficial Conversion Feature (2)	**-**	(5,450)	**-**	(14,696)
Accretion of discount on Series C Preferred stock (3)	**-**	(402)	**(7,988)**	(1,024)
Dividends on preferred stock	**(73)**	(1,998)	**(3,027)**	(5,864)
Total adjustments to income/ (loss) attributable to common shareholders	**163**	(9,852)	**(9,466)**	(26,357)
Net income/ (loss) from continuing operations attributable to common shareholders	**(7,340)**	(10,598)	**(12,290)**	(24,328)
Net income/ (loss) from discontinued operations	**267**	(30,614)	**1,812**	(39,006)
Net income/ (loss) attributable to common shareholders	**$ (7,073)**	$ (41,212)	**$ (10,478)**	$ (63,334)
Denominator:				
Weighted average basic and diluted common shares outstanding (4)	**74,153,623**	68,551,527	**70,293,324**	67,033,585
Basic and diluted earnings/ (loss) per share attributable to the Company s common shareholders:				
From continuing operations	**$ (0.10)**	$ (0.15)	**$ (0.18)**	$ (0.37)
From discontinued operations	**$ 0.00**	$ (0.45)	**$ 0.03**	$ (0.58)
Total attributable to the Company s common shareholders	**$ (0.10)**	$ (0.60)	**$ (0.15)**	$ (0.95)
Dividends declared on common stock	**$ 0.01**	$ 0.01	**$ 0.03**	$ 0.03

(1) See Part I. Item 1. Notes to the Unaudited Consolidated Financial Statements Note 10: Noncontrolling Interests for a description of the redemption values related to the redeemable noncontrolling interests. In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 480, *Distinguishing Liabilities from Equity* (ASC 480), an increase in redemption value from period to period reduces income attributable to common shareholders. Decreases in redemption value from period to period increase income attributable to common shareholders, but only to the extent that the cumulative change in redemption value remains a cumulative increase since adoption of this standard in the first quarter of 2009.

(2) See the Company s Annual Report on Form 10-K for the year ended December 31, 2009, Part II. Item 8. Financial Statements and Supplementary Data Note 16: Equity for a description of the preferred stock that gave rise to the beneficial conversion feature. In accordance with ASC 480, the beneficial conversion feature is accounted for similar to a preferred stock dividend and reduces income attributable to common shareholders. The beneficial conversion feature on the Series B Preferred stock was fully accreted as of December 31, 2009.

(3) See the Company s Annual Report on Form 10-K for the year ended December 31, 2009, Part II. Item 8. Financial Statements and Supplementary Data Note 16: Equity for a description of the preferred stock that gave rise to the accretion of discount. In accordance with ASC 480, the accretion of the discount on the Series C Preferred stock is accounted for similar to a preferred stock dividend and reduces income attributable to common shareholders. The Company repurchased $50.0 million of the Series C Preferred stock in January, 2010, and repurchased the remaining $104.0 million in June, 2010. The discount on the Series C Preferred stock was therefore fully accreted as of June 30, 2010.

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(4) The diluted EPS computation for the three and nine months ended September 30, 2010 and 2009 does not assume conversion of the convertible trust preferred securities or the Series B Preferred stock, exercise or contingent issuance of options or other dilutive securities, or the exercise of the warrants issued to an affiliate of The Carlyle Group (Carlyle), because the result would have been anti-dilutive. As a result of the anti-dilution, the potential common shares excluded from the diluted EPS computation are as follows:

	For the three months ended September 30, 2010	For the three months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
	(In thousands)			
Potential common shares from:				
Convertible trust preferred securities (a)	**1,860**	3,229	**1,860**	3,229
Conversion of the Series B Preferred stock (b)	**7,261**	7,261	**7,261**	7,261
Exercise or contingent issuance of options or other dilutive securities (c)	**1,416**	464	**1,581**	699
Total potential common shares (d)	**10,537**	10,954	**10,702**	11,189

(a) If the effect of the conversion of the trust preferred securities would have been dilutive, interest expense, net of tax, related to the convertible trust preferred securities of $0.4 million and $1.3 million for the three and nine month periods ended September 30, 2010, respectively, and $0.7 million and $2.2 million for the three and nine month periods ended September 30, 2009, respectively, would have been added back to net loss attributable to common shareholders for diluted EPS computations for the periods presented.

(b) If the effect of the conversion of the Series B Preferred stock would have been dilutive, preferred dividends related to the Series B Preferred stock of $0.1 million and $0.2 million for the three and nine month periods ended September 30, 2010 and 2009, respectively, would have been added back to net loss attributable to common shareholders for diluted EPS computations for the periods presented.

(c) Stock options and unvested restricted stock outstanding at period end whose respective exercise prices and grant prices were greater than the average market price of the common shares during the reported periods were not included in the computation of diluted EPS or in the above anti-dilution table. Shares excluded from the diluted EPS computation amounted to 5.1 million and 4.6 million for the three and nine month periods ended September 30, 2010, respectively. Shares excluded from the diluted EPS computation amounted to 5.4 million and 5.5 million for the three and nine month periods ended September 30, 2009, respectively.

(d) A warrant to purchase approximately 2.9 million shares of common stock (the TARP warrant) was outstanding at September 30, 2010, but was not included in the computation of diluted EPS because the warrant s exercise price was greater than the average market price of the common shares for the three and nine month periods ended September 30, 2010.

(3) Reportable segments

Management Reporting

The Company has three reportable segments (Private Banking, Investment Management, and Wealth Advisory) and the parent company (the Holding Company). The financial performance of the Company is managed and evaluated by these three areas. The segments are managed separately as a result of the concentrations in each function.

Measurement of Segment Profit and Assets

The accounting policies of the segments are the same as those described in Part II. Item 8. Financial Statements and Supplementary Data - Note 1: Basis of Presentation and Summary of Significant Accounting Policies in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. Revenues, expenses, and assets are recorded by each segment, and separate financial statements are reviewed by their management and the Company s Segment Chief Executive Officers.

Reconciliation of Reportable Segment Items

The following tables provide a reconciliation of the revenues, profits, assets, and other significant items of reportable segments as of and for the three and nine months ended September 30, 2010 and 2009. Interest expense on junior subordinated debentures is reported at the Holding Company.

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	For the three months ended September 30,					
	Net interest income		Non-interest income		Total revenues	
	2010	2009	2010	2009	2010	2009
	(In thousands)					
Total Banks	**$ 48,841**	$ 42,321	**$ 8,701**	$ 8,391	**$ 57,542**	$ 50,712
Total Investment Managers	**35**	46	**8,712**	8,362	**8,747**	8,408
Total Wealth Advisors	**2**	17	**9,525**	8,928	**9,527**	8,945
Total Segments	**48,878**	42,384	**26,938**	25,681	**75,816**	68,065
Holding Company and Eliminations	**(2,434)**	(2,667)	**361**	842	**(2,073)**	(1,825)
Total Company	**$ 46,444**	$ 39,717	**$ 27,299**	$ 26,523	**$ 73,743**	$ 66,240

	For the three months ended September 30,					
	Non-interest expense		Income tax expense/ (benefit)		Net income/ (loss) from continuing operations	
	2010	2009	2010	2009	2010	2009
	(In thousands)					
Total Banks	**$ 37,451**	$ 36,643	**$ (6,442)**	$ 1,291	**$ (5,517)**	$ 3,679
Total Investment Managers	**7,217**	7,104	**517**	744	**1,013**	560
Total Wealth Advisors	**7,432**	5,851	**796**	1,027	**1,299**	2,067
Total Segments	**52,100**	49,598	**(5,129)**	3,062	**(3,205)**	6,306
Holding Company and Eliminations	**8,879**	6,338	**(7,283)**	(2,247)	**(3,669)**	(5,916)
Total Company	**$ 60,979**	$ 55,936	**$ (12,412)**	$ 815	**$ (6,874)**	$ 390

	For the three months ended September 30,					
	Net income attributable to noncontrolling interests		Net income/ (loss) attributable to the Company (1)		Amortization of intangibles	
	2010	2009	2010	2009	2010	2009
	(In thousands)					
Total Banks	**$ -**	$ -	**$ (5,517)**	$ 3,679	**$ 56**	$ 675
Total Investment Managers	**316**	371	**697**	189	**869**	949
Total Wealth Advisors	**313**	765	**986**	1,302	**347**	373
Total Segments	**629**	1,136	**(3,834)**	5,170	**1,272**	1,997
Holding Company and Eliminations	**-**	-	**(3,402)**	(36,530)	**27**	27
Total Company	**$ 629**	$ 1,136	**$ (7,236)**	$ (31,360)	**$ 1,299**	$ 2,024

	As of September 30,			
	Assets		AUM	
	2010	2009	2010	2009
	(In thousands)		(In millions)	
Total Banks	**$ 5,821,542**	$ 5,619,555	**$ 3,561**	$ 3,421

Total Investment Managers	**111,533**	112,289	**7,521**	6,972
Total Wealth Advisors	**75,011**	76,625	**7,553**	6,928
Total Segments	**6,008,086**	5,808,469	**18,635**	17,321
Holding Company and Eliminations	**23,180**	61,120	**(18)**	(18)
Total Company	**$ 6,031,266**	$ 5,869,589	**$ 18,617**	$ 17,303

	For the nine months ended September 30,					
	Net interest income		Non-interest income		Total revenues	
	2010	2009	2010	2009	2010	2009
	(In thousands)					
Total Banks	**$ 142,727**	$ 126,308	**$ 24,770**	$ 33,179	**$ 167,497**	$ 159,487
Total Investment Managers	**107**	138	**27,283**	24,152	**27,390**	24,290
Total Wealth Advisors	**(13)**	52	**28,086**	25,691	**28,073**	25,743
Total Segments	**142,821**	126,498	**80,139**	83,022	**222,960**	209,520
Holding Company and Eliminations	**(7,049)**	(8,070)	**221**	1,063	**(6,828)**	(7,007)
Total Company	**$ 135,772**	$ 118,428	**$ 80,360**	$ 84,085	**$ 216,132**	$ 202,513

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	For the nine months ended September 30,					
	Non-interest expense		Income tax expense/ (benefit)		Net income/ (loss) from continuing operations	
	2010	2009	2010	2009	2010	2009
			(In thousands)			
Total Banks	**$ 108,861**	$ 108,254	**$ (2,557)**	$ 5,979	**$ 6,566**	$ 14,099
Total Investment Managers	**22,004**	21,285	**1,929**	1,474	**3,457**	1,531
Total Wealth Advisors	**22,081**	18,067	**2,252**	2,565	**3,740**	5,111
Total Segments	**152,946**	147,606	**1,624**	10,018	**13,763**	20,741
Holding Company and Eliminations	**20,732**	17,613	**(12,902)**	(8,389)	**(14,658)**	(16,231)
Total Company	**$ 173,678**	$ 165,219	**$ (11,278)**	$ 1,629	**$ (895)**	$ 4,510

	For the nine months ended September 30,					
	Net income attributable to noncontrolling interests		Net income/ (loss) attributable to the Company (1)		Amortization of intangibles	
	2010	2009	2010	2009	2010	2009
			(In thousands)			
Total Banks	**$ -**	$ -	**$ 6,566**	$ 14,099	**$ 229**	$ 1,841
Total Investment Managers	**1,019**	581	**2,438**	950	**2,608**	2,886
Total Wealth Advisors	**910**	1,900	**2,830**	3,211	**1,051**	1,132
Total Segments	**1,929**	2,481	**11,834**	18,260	**3,888**	5,859
Holding Company and Eliminations	**-**	-	**(12,846)**	(55,237)	**80**	81
Total Company	**$ 1,929**	$ 2,481	**$ (1,012)**	$ (36,977)	**$ 3,968**	$ 5,940

(1) Net income/ (loss) from discontinued operations for the three months ended September 30, 2010 and 2009 of $0.3 million and $(30.6) million, respectively, and for the nine months ended September 30, 2010 and 2009 of $1.8 million and $(39.0) million, respectively, are included in Holding Company and Eliminations in the calculation of net loss attributable to the Company.

(4) Investments

Available-for-sale and held-to-maturity securities are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(In thousands)		
At September 30, 2010:				
Available-for-sale securities at fair value:				
U.S. government and agencies	**$ 13,100**	**$ 61**	**$ (43)**	**$ 13,118**
Government-sponsored entities	**254,809**	**2,035**	**(9)**	**256,835**
Corporate bonds	**18,956**	**79**	**(21)**	**19,014**

Municipal bonds		207,888		5,525		(65)		213,348
Mortgage-backed securities (1)		225,292		6,218		(326)		231,184
Other		3,180		144		(46)		3,278
Total	$	723,225	$	14,062	$	(510)	$	736,777
Held-to-maturity securities at amortized cost:								
U.S. government and agencies	$	522	$	-	$	-	$	522
Government-sponsored entities		1,983		16		-		1,999
Other		500		-		-		500
Total	$	3,005	$	16	$	-	$	3,021

(1) Most mortgage-backed securities are guaranteed by U.S. agencies or government-sponsored entities.

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	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(In thousands)		
At December 31, 2009:				
Available-for-sale securities at fair value:				
U.S. government and agencies	$ 184,719	$ 3	$ -	$ 184,722
Government-sponsored entities	187,557	1,400	(563)	188,394
Corporate bonds	15,961	-	(18)	15,943
Municipal bonds	179,008	5,680	(144)	184,544
Mortgage-backed securities (1)	306,761	5,909	(1,159)	311,511
Other	2,904	65	(51)	2,918
Total	$ 876,910	$ 13,057	$ (1,935)	$ 888,032
Held-to-maturity securities at amortized cost:				
U.S. government and agencies	$ 4,001	$ 10	$ -	$ 4,011
Other	500	-	-	500
Total	$ 4,501	$ 10	$ -	$ 4,511

(1) Most mortgage-backed securities are guaranteed by U.S. agencies or government-sponsored entities.

The following table sets forth the maturities of investment securities available-for-sale and held-to-maturity, based on contractual maturity, at September 30, 2010:

	Available-for-sale (1) Amortized Cost	Available-for-sale (1) Market Value	Held-to-maturity Amortized Cost	Held-to-maturity Market Value
		(In thousands)		
Within one year	**$ 85,359**	**$ 86,006**	**$ 522**	**$ 522**
After one, but within five years	**349,545**	**355,242**	**1,708**	**1,721**
After five, but within ten years	**90,043**	**91,926**	**775**	**778**
Greater than ten years	**198,278**	**203,603**	**-**	**-**
Total	**$ 723,225**	**$ 736,777**	**$ 3,005**	**$ 3,021**

(1) Mortgage-backed securities are shown based on their final maturity, but due to prepayments they are expected to have shorter lives.

The following table sets forth the proceeds from sales of available-for-sale securities and the resulting gains and losses realized using the specific identification method.

	For the three months ended September 30, 2010	For the three months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
	(In thousands)		(In thousands)	
Proceeds from sales	**$ 40,879**	$ 134,043	**$ 407,515**	$ 272,898
Realized gains	**1,152**	1,135	**3,663**	5,612
Realized losses	**(5)**	(71)	**(97)**	(153)

The following table sets forth information regarding securities at September 30, 2010 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. There were no held-to-maturity securities in an unrealized loss position at September 30, 2010.

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Available-for-sale securities	Less than 12 months Fair value	Unrealized losses	12 months or longer Fair value	Unrealized losses	Total Fair value	Unrealized losses	# of securities
	(In thousands, except number of securities)						
U.S. government and agencies	$ 3,398	$ (43)	$ -	$ -	$ 3,398	$ (43)	3
Government-sponsored entities	16,773	(9)	-	-	16,773	(9)	3
Corporate bonds	4,956	(21)	-	-	4,956	(21)	1
Municipal bonds	20,928	(65)	-	-	20,928	(65)	17
Mortgage-backed securities	52,940	(326)	-	-	52,940	(326)	21
Other	52	(8)	80	(38)	132	(46)	24
Total	$ 99,047	$ (472)	$ 80	$ (38)	$ 99,127	$ (510)	69

The U.S. government and agencies security, government-sponsored entities securities, and mortgage backed securities in the table above had a Moody s credit rating of AAA or a Standard and Poor s credit rating of Aaa. The corporate bond in the table above had Moody s credit ratings of BBB. Most of the municipal bonds in the table above had a Moody s credit ratings of at least Aa3 or Standard and Poor s credit rating of at least AA-, while two of the municipal bonds had a Moody s credit rating of A1, and one municipal bond was not rated. The other securities consisted of equity securities.

These investments are not considered other-than-temporarily impaired for the following reasons: the decline in fair value on investments is primarily attributed to changes in interest rates and not credit quality, the Company has no current intent to sell these securities nor is it more likely than not that they will have to sell these securities before recovery of their amortized cost basis. Decisions to hold or sell securities are influenced by the need for liquidity at the Banks, alternative investments, risk assessment, and asset liability management.

No impairment losses were recognized through earnings related to available-for-sale or held-to-maturity securities during the three and nine month periods ended September 30, 2010 and 2009.

Cost method investments, which are included in other assets, can be temporarily impaired when the fair market values decline below the amortized costs of the individual investments. There were no cost method investments with unrealized losses at September 30, 2010. The Company invests primarily in low income housing partnerships which generate tax credits. The Company also holds partnership interests in venture capital funds formed to provide financing to small businesses and to promote community development. The Company had $25.8 million and $26.3 million in cost method investments included in other assets at September 30, 2010 and December 31, 2009, respectively.

(5) Fair Value Measurements

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

The following table presents the Company s assets and liabilities measured at fair value on a recurring basis as of September 30, 2010 and December 31, 2009, aggregated by the level in the fair value hierarchy within which those measurements fall.

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Description	At September 30, 2010	Fair value measurements at reporting date using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(In thousands)		
Assets:				
Available-for-sale securities:				
U.S. government and agencies	**$ 13,118**	**$ 3,017**	**$ 10,101**	**$ -**
Government-sponsored entities	**256,835**	**-**	**256,835**	**-**
Corporate bonds	**19,014**	**-**	**19,014**	**-**
Municipal bonds	**213,348**	**-**	**213,348**	**-**
Mortgage-backed securities	**231,184**	**-**	**231,184**	**-**
Other	**3,278**	**454**	**2,074**	**750**
Total available-for-sale securities	**736,777**	**3,471**	**732,556**	**750**
Derivatives - interest rate floor	**308**	**-**	**308**	**-**
Derivatives - interest rate customer swaps	**6,280**	**-**	**6,280**	**-**
Derivatives - customer foreign exchange forward	**353**	**-**	**353**	**-**
Other investments	**10,165**	**4,306**	**5,859**	**-**
Liabilities:				
Derivative - interest rate customer swaps (1)	**$ 6,567**	**$ -**	**$ 6,567**	**$ -**
Derivatives - customer foreign exchange forward (1)	**353**	**-**	**353**	**-**
Derivatives - junior subordinated debenture interest rate swap (1)	**4,241**	**-**	**4,241**	**-**

(1) Derivatives - interest rate customer swaps and customer foreign exchange forward (liabilities) are netted with the derivative assets within other assets on the consolidated balance sheets.

Description	At December 31, 2009	Fair value measurements at reporting date using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(In thousands)		
Assets:				
Available-for-sale securities:				
U.S. government and agencies	$ 184,722	$ 178,048	$ 6,674	$ -
Government-sponsored entities	188,394	-	188,394	-
Corporate bonds	15,943	-	15,943	-
Municipal bonds	184,544	-	184,544	-

Mortgage-backed securities	311,511	-	308,360	3,151
Other	2,918	412	2,006	500
Total available-for-sale securities	888,032	178,460	705,921	3,651
Derivatives - interest rate floor	2,646	-	2,646	-
Derivatives - interest rate customer swaps	4,924	-	4,924	-
Other investments	9,628	4,176	5,452	-
Liabilities:				
Derivatives - interest rate customer swaps (1)	$ 5,053	$ -	$ 5,053	$ -

(1) Derivatives - interest rate customer swaps (liabilities) is netted with the derivative assets within other assets on the consolidated balance sheets.

At September 30, 2010, available-for-sale securities consist primarily of U.S. government and agency securities, government-sponsored entities, corporate bonds, municipal bonds, mortgage-backed securities (primarily residential), and other available-for-sale securities. The U.S. government securities, and equities and mutual funds (which are categorized as

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other available-for-sale securities) are valued with prices quoted in active markets. Therefore, they have been categorized as a Level 1 measurement. The government-sponsored entities, corporate bonds, municipal bonds, mortgage-backed securities, and certain investments in SBA loans (which are categorized as U.S. government and agencies available-for-sale securities) generally have quoted prices but are traded less frequently than exchange-traded securities and can be priced using market data from similar assets. Therefore, they have been categorized as a Level 2 measurement. The remaining investments three Community Reinvestment Act (CRA) loan funds (which are categorized as other available-for-sale securities) had unobservable inputs and are not actively traded. The value for these securities is determined by third party pricing models. Therefore, they have been categorized as a Level 3 measurement.

At December 31, 2009, available-for-sale securities consisted primarily of U.S. government and agency securities, government-sponsored entities, corporate bonds, municipal bonds, mortgage-backed securities (primarily residential), and other available-for-sale securities. The U.S. government securities, and equities and mutual funds (which are categorized as other available-for-sale securities) are valued with prices quoted in active markets. Therefore, they have been categorized as a Level 1 measurement. The government-sponsored entities, corporate bonds, municipal bonds, most of the mortgage-backed securities, and certain investments in SBA loans (which are categorized as U.S. government and agencies available-for-sale securities) generally have quoted prices but are traded less frequently than exchange-traded securities and can be priced using market data from similar assets. Therefore, they have been categorized as a Level 2 measurement. The remaining investments one mortgage-backed security and two CRA loan funds (which are categorized as other available-for-sale securities) have unobservable inputs and are not actively traded. The value for these securities is determined by third party pricing models. Therefore, they have been categorized as a Level 3 measurement.

Currently, the Company uses an interest rate floor, interest rate customer swaps, and a junior subordinated debenture interest rate swap to manage its interest rate risk, and customer foreign exchange forward contracts to manage its foreign exchange risks. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. Therefore, they have been categorized as a Level 2 measurement. See Part I. Item 1. Notes to Unaudited Consolidated Financial Statements Note 8: Derivatives and Hedging Activities for further details.

To comply with the provisions of ASC 820, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

The Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, although the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Other investments, which are not considered available-for-sale investments, consist of deferred compensation trusts for the benefit of certain employees, which consist of publicly traded mutual fund investments that are valued at prices quoted in active markets. Therefore, they have been categorized as a Level 1 measurement.

The following table presents a rollforward of the Level 3 assets for the three and nine months ended September 30, 2010:

	Balance at June 30, 2010	Purchases, (sales), issuances and (settlements), net	Transfers into (out of) Level 3	Unrealized gains (losses)	Amortization	Balance at September 30, 2010
			(In thousands)			
Other available-for-sale investments	$ 500	$ 250	$ -	$ -	$ -	$ 750
Total Level 3 assets	$ 500	$ 250	$ -	$ -	$ -	$ 750

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	Balance at December 31, 2009	Purchases, (sales), issuances and (settlements), net	Transfers into (out of) Level 3 (1)	Unrealized gains (losses)	Amortization	Balance at September 30, 2010
			(In thousands)			
Mortgage-backed securities (1)	$ 3,151	$ -	$ (3,151)	$ -	$ -	$ -
Other available-for-sale investments	500	250	-	-	-	750
Total Level 3 assets	$ 3,651	$ 250	$ (3,151)	$ -	$ -	$ 750

(1) One Mortgage-backed security was originally categorized as a Level 3 measurement because its value was being determined by a third party pricing matrix. During the first quarter of 2010, the Company was able to obtain pricing information and market data from similar assets, and therefore the security was changed to a Level 2 measurement.

The following tables present the Company s assets and liabilities measured at fair value on a non-recurring basis for which there was an adjustment to fair value during the three and nine months ended September 30, 2010 and during the year ended December 31, 2009, aggregated by the level in the fair value hierarchy within which those measurements fall.

		Fair value measurements recorded during the three months ended:		
Description	September 30, 2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(In thousands)		
Assets:				
Impaired loans (1)	$ 65,166	$ -	$ -	$ 65,166
OREO (2)	893	-	-	893
	$ 66,059	$ -	$ -	$ 66,059

(1) Collateral-dependent impaired loans that had write-downs in fair value or whose specific reserve changed during the third quarter of 2010.

(2) Three OREO properties had write downs during the third quarter of 2010.

		Fair value measurements recorded during the nine months ended:		
Description	September 30, 2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(In thousands)		

Assets:								
Impaired loans (1)	**$**	**71,817**	**$**	**-**	**$**	**-**	**$**	**71,817**
OREO (2)		**4,460**		**-**		**-**		**4,460**
	$	**76,277**	**$**	**-**	**$**	**-**	**$**	**76,277**

(1) Collateral-dependent impaired loans that had write-downs in fair value or whose specific reserve changed during the first nine months of 2010.

(2) Seven OREO properties had write downs during the first nine months of 2010.

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Description	December 31, 2009	Fair value measurements recorded during the year ended: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(In thousands)		
Assets:				
Impaired loans (1)	$ 25,650	$ -	$ -	$ 25,650
Loans held for sale (2)	473	-	-	473
OREO (3)	6,129	-	-	6,129
Goodwill and identifiable intangible assets (4)	3,654	-	-	3,654
	$ 35,906	$ -	$ -	$ 35,906

(1) Collateral-dependent impaired loans held at December 31, 2009 that had write-downs in fair value or whose specific reserve changed during 2009.
(2) Two loans held for sale at December 31, 2009 had write downs during 2009.
(3) Six OREO properties held at December 31, 2009 had write downs during 2009.
(4) Goodwill and identifiable intangible assets at one affiliate partner had write downs during 2009.

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

The loans held for sale in the table above represent the portfolio of loans in Southern California transferred to the held for sale category in the third quarter of 2008, as discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, which had an adjustment to fair value during the year ended December 31, 2009. The fair value of these loans held for sale was based on appraised value, and as necessary on broker quotes, comparable market transactions and information from the Company s agent hired to assist with the sale of the portfolio. Therefore they have been categorized as a Level 3 measurement.

The OREO in the tables above includes those properties that had an adjustment to fair value during the three and nine months ended September 30, 2010 and during the year ended December 31, 2009. The Company uses appraisals, which management may adjust to reflect estimated fair value declines, or apply other discounts to appraised values for unobservable factors resulting from its knowledge of the property or consideration of broker quotes. Therefore they have been categorized as a Level 3 measurement.

The goodwill and identifiable intangible assets in the table above includes the goodwill and identifiable intangible assets at one affiliate that had an adjustment to fair value during the year ended December 31, 2009. The Company utilized a weighted average of the income and market approaches, with 80% from the income and 20% from the market approach, to determine fair value. Therefore they have been categorized as a Level 3 measurement. See Part II. Item 8. Financial Statements and Supplementary Data Note 10: Goodwill and Other Intangible Assets of the Company s Annual Report on Form 10-K for the year ended December 31, 2009 for a detailed discussion of the fair value measurement techniques employed.

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The following table presents the carrying values and fair values of the Company s financial instruments that are not measured at fair value on a recurring basis (other than certain loans, as noted below):

	September 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
FINANCIAL ASSETS:				
Cash and cash equivalents	**$ 371,482**	**$ 371,482**	$ 447,460	$ 447,460
Held-to-maturity securities	**3,005**	**3,021**	4,501	4,511
Loans, net (including loans held for sale)	**4,452,554**	**4,588,973**	4,251,310	4,314,744
Other financial assets	**123,432**	**123,432**	123,979	123,979
FINANCIAL LIABILITIES:				
Deposits	**4,492,516**	**4,502,860**	4,255,219	4,265,309
Securities sold under agreements to repurchase	**108,575**	**112,994**	243,377	246,592
Federal Home Loan Bank borrowings	**584,521**	**615,295**	555,012	577,705
Junior subordinated debentures	**193,645**	**168,689**	193,645	156,568
Other financial liabilities	**12,837**	**12,837**	15,588	15,588

The estimated fair values 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.

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.

Held-to-maturity securities

The fair value presented for securities are based on quoted market prices received from third party pricing services, where available. If quoted market prices were not available, fair values were based on quoted market prices of comparable instruments, quotations, or analysis of estimated future cash flows.

Loans, net (including loans held for sale)

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 estimates for home equity and other loans are based on outstanding loan terms and pricing in each Bank s local market. The method of estimating the fair value of the loans disclosed in the table above does not incorporate the exit price concept in the presentation of the fair value of these financial instruments.

Other financial assets

Other financial assets consist primarily of accrued interest and fees receivable, stock in Federal Home Loan Banks (FHLBs), and the cash surrender value of bank-owned life insurance, for which the carrying amount approximates fair value.

The Company carries the FHLB stock at the original cost basis (par value). Each of our Banks is a member of its local FHLB located in either Boston, Seattle, or San Francisco. At each period end, the Company evaluates its investment in the respective FHLB s stock for other-than-temporary impairment. The Company has not recognized an other-than-temporary impairment loss with respect to stock in the FHLBs, based on the following considerations: the Company s evaluation of the underlying investment, including the long-term nature of the asset; the liquidity position of the respective FHLBs; the actions being taken by the respective FHLBs to address their regulatory situations; the third quarter 2010 net income reported by the respective FHLBs; and the second and third quarter 2010 redemptions at par of a portion of FHLB stock held by the Company s Northern California and Southern California Banks (both of whom are members of the San Francisco FHLB).

Deposits

The fair values reported for transaction accounts (demand, NOW, savings, and money market) 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.

Securities sold under agreements to repurchase

The fair value of securities sold under agreements to repurchase are estimated based on contractual cash flows discounted at the Company s incremental borrowing rate for FHLB borrowings with similar 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 September 30, 2010 and December 31, 2009. 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, Gibraltar, and Charter acquisitions approximates book value because of the floating rate nature of the securities.

Other financial liabilities

Other financial liabilities consist of accrued interest payable and deferred compensation 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, the carrying amount approximates fair value.

(6) Loans Receivable

The following table presents a summary of the loan portfolio based on the geography of the lender. The concentration of the Private Banking loan data is based on the location of the lender. Net loans from the Holding Company to certain principals of the Company s affiliate partners, loans at the Company s non-banking segments, and inter-company loan eliminations are identified as Eliminations and other, net .

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	September 30, 2010	December 31, 2009
	(In thousands)	
Commercial loans:		
New England	**$ 1,082,877**	$ 943,740
Northern California	**935,994**	927,074
Southern California	**233,383**	231,684
Pacific Northwest	**134,337**	111,039
Eliminations and other, net	**(213)**	(517)
Total commercial loans	**$ 2,386,378**	$ 2,213,020
Construction and land loans:		
New England	**$ 97,585**	$ 117,817
Northern California	**97,791**	161,839
Southern California	**1,869**	7,719
Pacific Northwest	**13,670**	28,286
Total construction and land loans	**$ 210,915**	$ 315,661
Residential mortgage loans:		
New England	**$ 1,154,671**	$ 1,113,842
Northern California	**277,321**	219,394
Southern California	**159,321**	124,212
Pacific Northwest	**43,645**	37,255
Total residential mortgage loans	**$ 1,634,958**	$ 1,494,703
Home equity and other consumer loans:		
New England	**$ 201,569**	$ 179,792
Northern California	**72,152**	74,192
Southern California	**15,529**	20,947
Pacific Northwest	**6,567**	5,278
Eliminations and other, net	**2,206**	3,447
Total home equity and other consumer loans	**$ 298,023**	$ 283,656
Total loans	**$ 4,530,274**	$ 4,307,040

At September 30, 2010, non-accrual loans were $143.1 million, an increase of $52.8 million, or 58%, from $90.3 million at December 31, 2009. Included with non-accrual loans at September 30, 2010 are $2.9 million of the Southern California non-strategic loans held for sale, compared to $3.6 million at December 31, 2009.

There were no loans past due 90 days or more and still accruing interest at September 30, 2010 or December 31, 2009.

Impaired loans are generally included within the balance of non-accrual loans. At September 30, 2010, impaired loans totaled $141.6 million, an increase of $58.4 million, or 70%, from $83.2 million at December 31, 2009. At September 30, 2010, $65.9 million of the impaired loans had $9.8 million in specific allocations to the general reserve. The remaining $75.7 million of impaired loans did not have specific allocations due primarily to the adequacy of the collateral or prior charge-offs taken. At December 31, 2009, $20.7 million of impaired loans had $5.0 million in specific allocations to the general reserve and the remaining $62.5 million of impaired loans did not have specific allocations.

(7) Allowance for Loan Losses

The allowance for loan losses is reported as a reduction of outstanding loan balances, and totaled $100.0 million and $68.4 million at September 30, 2010 and December 31, 2009, respectively.

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The following table summarizes the changes in the allowance for loan losses for the three and nine months ended September 30, 2010 and 2009:

	At and for the three months ended September 30, 2010	At and for the three months ended September 30, 2009	At and for the nine months ended September 30, 2010	At and for the nine months ended September 30, 2009
	(In thousands)			
Allowance for loan losses, beginning of period	**$ 79,073**	$ 71,002	**$ 68,444**	$ 64,091
Provision for loan losses	**32,050**	9,099	**54,627**	31,155
Charge-offs	**(14,204)**	(7,416)	**(29,779)**	(23,234)
Recoveries	**3,091**	325	**6,718**	998
Allowance for loan losses, end of period	**$ 100,010**	$ 73,010	**$ 100,010**	$ 73,010

The balance for the reserve for unfunded loan commitments, which is included in the consolidated balance sheets in other liabilities, totaled $3.0 million at September 30, 2010 and December 31, 2009.

(8) Derivatives and Hedging Activities

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

The table below presents the fair value of the Company s derivative financial instruments as well as their classification on the consolidated balance sheet as of September 30, 2010 and December 31, 2009.

	September 30, 2010				December 31, 2009			
	Asset derivatives		Liability derivatives		Asset derivatives		Liability derivatives	
	Balance sheet location	Fair value	Balance sheet location	Fair value	Balance sheet location	Fair value	Balance sheet location	Fair value
	(In thousands)							
Derivatives designated as hedging instruments:								
Interest rate products	Other assets	**$ 308**	Other assets	**$ (4,241)**	Other assets	$ 2,646	Other assets	$ -
Derivatives not designated as hedging instruments:								
Interest rate products (1)	Other assets	**6,280**	Other assets	**(6,567)**	Other assets	4,924	Other assets	(5,053)
Foreign exchange contracts (1)	Other assets	**353**	Other assets	**(353)**	Other assets	-	Other assets	-
Total		**$ 6,941**		**$ (11,161)**		$ 7,570		$ (5,053)

(1) Interest rate product and foreign exchange contracts derivative liabilities are netted with interest rate product and foreign exchange contracts derivative assets within other assets on the consolidated balance sheet.

Cash Flow Hedges of Interest Rate Risk

The Company s objective in using derivatives is to add stability to interest income and expense and to manage the risk related to exposure to changes in interest rates. To accomplish this objective, the Company has entered into an interest rate floor and an interest rate swap as part of its interest rate risk management strategy. One of the affiliate Banks entered into a $100 million prime-based interest rate floor (the Floor) to protect against movements in interest rates below the Floor s strike rate of 6.5% over the life of the agreement. The Floor has an effective date of November 1, 2005, and a maturity date of November 1, 2010. The Floor hedges the variable cash flows associated with existing variable-rate loan assets that are based on the prime rate (Prime). For accounting purposes, the Floor is designated as a cash flow hedge of the overall changes in cash flows on the first Prime-based interest payments received by the Bank affiliate each calendar month during the term of the hedge that, in aggregate for each period, are interest payments on principal from specified portfolios equal to the notional amount of the Floor. The Holding Company also entered into one interest rate swap in the second quarter of 2010 with a notional amount of $75 million related to the Holding Company s cash outflows associated with the subordinated debt related to trust preferred securities to protect against rising interest rates. The interest rate swap is a forward starting hedge with an effective date of December 30, 2010 and a term of five years. The swap is forward starting as that is the date the debt is scheduled to switch from a fixed rate of 6.25% to a variable rate of three-month LIBOR plus 1.68%. The interest rate swap will effectively fix the Holding Company s interest rate payments on the $75 million of debt at 4.45%.

The Company uses the Hypothetical Derivative Method described in ASC 815, *Derivatives and Hedging* (ASC 815), for quarterly prospective and retrospective assessments of hedge effectiveness, as well as for measurements of hedge ineffectiveness. Under this method, 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. 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 in interest and dividend income when the hedged transactions affect earnings. Ineffectiveness resulting from the hedge is recorded as a gain or loss in the consolidated statement of operations as part of fees and other income. The Holding Company and the Bank affiliate did not have any hedge ineffectiveness recognized in earnings during the three and nine months ended September 30, 2010 and 2009. The Holding Company and Bank affiliate also monitor the risk of counterparty default on an ongoing basis.

Interest payments received from loans that prepay are included in the hedged portfolio due to the guidance in ASC 815, which allows the designated forecasted transactions to be the variable, Prime-based interest payments on a rolling portfolio of prepayable interest-bearing loans using the first-payments-received technique.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest income or expense as interest payments are made or received on the Company s variable-rate assets or liabilities. During the next twelve months, the Company estimates that $0.3 million will be reclassified as an increase to interest income and $1.3 million will be reclassified as an increase in interest expense.

During the three and nine months ended September 30, 2010 and 2009, the Company accelerated the reclassification of amounts in other comprehensive income to earnings as a result of the hedged forecasted transactions relating to the Company s previously designated interest rate floor becoming probable not to occur. The accelerated amount was an immaterial loss for both the three and nine months ended September 30, 2010 and 2009.

Non-designated Hedges

Derivatives not designated as hedges are not speculative and result from two different services the Bank affiliate provides to qualified commercial clients. The Bank affiliate offers certain derivative products directly to such clients. The Bank affiliate economically hedges derivative transactions executed with commercial clients by entering into mirror-image, offsetting derivatives with third parties. Derivative transactions executed as part of these programs are not designated in ASC 815-qualifying hedging relationships and are, therefore, marked-to-market through earnings each period. Because the derivatives have mirror-image contractual terms, the changes in fair value substantially offset through earnings. Fees earned in connection with the execution of derivatives related to this program are recognized in the consolidated statement of operations in other income. The derivative asset and liability values above include an adjustment related to the consideration of credit risk required under ASC 820 of less than $0.1 million in the three and nine months ended September 30, 2010 and $0.2 million the three and nine months ended September 30, 2009. As of September 30, 2010 and December 31, 2009, the Bank affiliate had 18 interest rate swaps with an aggregate notional amount of $182.8 million and $184.2 million, respectively, related to this program. As of September 30, 2010, the Bank affiliate also had 20 foreign currency exchange contracts with a notional amount of $6.6 million related to this program. There were no foreign currency exchange contracts as of December 31, 2009.

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The tables below present the effect of the Company s derivative financial instruments on the consolidated statement of operations for the three and nine months ended September 30, 2010 and 2009.

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) Three Months Ended September 30, 2010	2009	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended September 30, 2010	2009
Interest rate products	**$ (2,636)**	$ (304)	Interest income	**$ 763**	$ 770
			Other income / expense	**-**	(1)
Total	**$ (2,636)**	$ (304)		**$ 763**	$ 769

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) Nine Months Ended September 30, 2010	2009	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Nine Months Ended September 30, 2010	2009
Interest rate products	**$ (4,114)**	$ (537)	Interest income	**$ 2,269**	$ 2,293
			Other income / expense	**(5)**	(7)
Total	**$ (4,114)**	$ (537)		**$ 2,264**	$ 2,286

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative Three Months Ended September 30, 2010	2009
Interest rate products	Other income / expense	**$ (84)**	$ (173)
Total		**$ (84)**	$ (173)

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative Nine Months Ended September 30, 2010	2009
Interest rate products	Other income / expense	**$ (158)**	$ (179)
Total		**$ (158)**	$ (179)

The Holding Company and Bank affiliate have agreements with its derivative counterparties that contain provisions where, if the Holding Company or Bank affiliate defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Holding Company or Bank affiliate could also be declared in default on its derivative obligations. The Bank affiliate was in compliance with these provisions as of September 30, 2010 and December 31, 2009. The Holding Company, which had no derivative obligations at December 31, 2009, was in compliance with these provisions as of September 30, 2010.

The Holding Company and Bank affiliate also have agreements with certain of its derivative counterparties that contain provisions where, if the Holding Company or Bank affiliate fails to maintain its status as a well- or adequately-capitalized institution, then the counterparty could terminate the derivative positions and the Holding Company or Bank affiliate would be required to settle its obligations under the agreements. The Bank affiliate was in compliance with these provisions as of September 30, 2010 and December 31, 2009. The Holding Company, which had no derivative obligations at December 31, 2009, was in compliance with these provisions as of September 30, 2010.

Certain of the Holding Company and Bank affiliate s agreements with its derivative counterparties contain provisions where if specified events or conditions occur that materially change the Holding Company s or Bank affiliate s creditworthiness in an adverse manner, the Holding Company or Bank affiliate may be required to fully collateralize its obligations under the derivative instruments. The Bank affiliate was in compliance with these provisions as of September 30, 2010 and December 31, 2009. The Holding Company, which had no derivative obligations at December 31, 2009, was in compliance with these provisions as of September 30, 2010.

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As of September 30, 2010 and December 31, 2009, the fair value of derivatives in a liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, was $10.5 million and $2.4 million, respectively. As of September 30, 2010, the Company and Bank affiliate has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $6.0 million and $0.3 million, respectively, against its obligations under these agreements.

(9) Income Taxes

Due to the divestiture of BPVI, Sand Hill, RINET, Gibraltar, and Westfield during the year ended December 31, 2009, the results of operations related to BPVI, Sand Hill, RINET, Gibraltar, and Westfield are included in discontinued operations. The profits and losses attributable to investors other than the Company are reflected under noncontrolling interests in the table below. The components of income tax expense/ (benefit) for continuing operations, discontinued operations, noncontrolling interests and the Company are as follows:

	Nine months ended September 30,	
	2010	**2009**
	(In thousands)	
Income/ (loss) from continuing operations:		
Income/ (loss) before income taxes	**$ (12,173)**	$ 6,139
Income tax expense/ (benefit)	**(11,278)**	1,629
Net income/ (loss) from continuing operations	**$ (895)**	$ 4,510
Effective tax rate, continuing operations	**92.6%**	26.5%
Income/ (loss) from discontinued operations:		
Income/ (loss) before income taxes	**$ 4,214**	$ (42,159)
Income tax expense/ (benefit)	**2,402**	(3,153)
Net income/ (loss) from discontinued operations	**$ 1,812**	$ (39,006)
Effective tax rate, discontinued operations	**57.0%**	7.5%
Income/ (loss) attributable to noncontrolling interests:		
Income/ (loss) before income taxes	**$ 1,929**	$ 2,481
Income tax expense/ (benefit)	**-**	-
Net income attributable to noncontrolling interests	**$ 1,929**	$ 2,481
Effective tax rate, noncontrolling interests	**0.0%**	0.0%
Income/ (loss) attributable to the Company		
Income/ (loss) before income taxes	**$ (9,888)**	$ (38,501)
Income tax expense/ (benefit)	**(8,876)**	(1,524)
Net income/ (loss) attributable to the Company	**$ (1,012)**	$ (36,977)
Effective tax rate, attributable to the Company	**89.8%**	4.0%

Taxes for interim periods are computed based on an estimated annual effective tax rate which is derived, in part, from expected annual pre-tax income. ASC 740-270-30, *Income Taxes, Interim Reporting, Initial Measurement,* paragraphs 30-30 through 30-34 provides a limitation to the estimated annual effective tax rate calculation whereby the tax benefit recognized for the year-to-date loss is limited to the amount that would be recognized if the year-to-date ordinary loss was the anticipated ordinary loss for the fiscal year. The income tax benefit calculated for the nine months ending September 30, 2010 was computed based on year-to-date pre-tax income.

The effective tax rate from continuing operations for the nine months ended September 30, 2010 was 92.6%, with related tax benefit of $11.3 million. The effective tax rate was greater than the statutory rate of 35% due primarily to the tax benefit attributable to earnings from tax-exempt investments, income tax credits, state and local income tax benefits, and income attributable to noncontrolling interests. These items were partially offset by executive compensation expenses, which cannot be deducted for tax purposes due to restrictions under the U.S. Department of the Treasury s (Treasury) Troubled Asset Relief Program s Capital Purchase Program (TARP CPP).

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The effective tax rate for the nine months ended September 30, 2009 was calculated based on a projected 2009 annual effective tax rate. The effective tax rate from continuing operations was 26.5%, with related tax expense of $1.6 million. The effective tax rate was less than the statutory rate of 35% due primarily to the tax benefit attributable to earnings from tax-exempt investments, income tax credits, and income attributable to noncontrolling interests. These items were partially offset by a change in state tax law, state and local income taxes, and executive compensation expenses, which cannot be deducted for tax purposes due to restrictions under the TARP CPP.

As of September 30, 2010, the Company s liability for unrecognized tax benefits associated with uncertain tax positions is approximately $1.4 million and the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is less than $0.1 million. Income tax returns filed for the tax years ended December 31, 2009, 2008, 2007, and 2006 remain subject to examination by the Internal Revenue Service and various other state tax authorities. The Company is currently under examination by the Internal Revenue Service for the tax year ended December 31, 2008. It is reasonably possible that the settlement of this examination will occur within the next twelve months. The final outcome of this examination remains uncertain and the Company cannot estimate the range of possible changes to its unrecognized tax benefits at this time. The Company believes the resolution of this examination will not have a significant impact to the effective tax rate.

(10) Noncontrolling Interests

Noncontrolling interests typically consist of equity owned by management of the Company s respective majority-owned affiliate partners. Net income attributable to noncontrolling interests in the consolidated statements of operations represents the net income allocated to the noncontrolling interest owners of the affiliate partners. The net income allocated to the noncontrolling interest owners was $0.6 million and $1.1 million for the three months ended September 30, 2010 and 2009, respectively, and $1.9 million and $2.5 million for the nine months ended September 30, 2010 and 2009. To the extent that the increase in the estimated maximum redemption amounts exceeds the net income attributable to the noncontrolling interests, such excess reduces net income available to common shareholders for purposes of EPS computation. Decreases in redemption value from period to period increase income attributable to common shareholders for purposes of EPS computation, but only to the extent that the cumulative change in redemption value remains a cumulative increase since adoption of this standard in the first quarter of 2009.

Each affiliate operating agreement provides the Company and/or the noncontrolling interests with contingent call or put redemption features used for the orderly transfer of noncontrolling equity interests between the affiliate minority shareholders and the Company at fair value. Fair value is generally defined in the operating agreements as a multiple of earnings before interest, taxes, depreciation, and amortization. The aggregate amount of such redeemable noncontrolling interests at the estimated maximum redemption amounts of $18.7 million and $51.9 million are included in the accompanying consolidated balance sheets at September 30, 2010 and December 31, 2009, respectively. The Company may pay for the purchases of these noncontrolling interests in cash, shares of the Company s common stock, or other forms of consideration dependent on the operating agreement. These agreements are discussed in Part II. Item 8. Financial Statements and Supplementary Data Note 15: Noncontrolling Interests in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. The following table summarizes the estimated maximum redemption amounts by affiliate:

	At September 30, 2010	At December 31, 2009
	(in thousands)	
Anchor	**$ 10,980**	$ 12,973
BOS	**4,685**	5,159
DGHM	**1,209**	1,843
DTC	**1,847**	1,828
KLS (1)	**-**	30,047
Total	**$ 18,721**	$ 51,850

(1)

In January 2010, the Company increased its investment in KLS to 100% from 81%. The acquisition of the remaining 19% interest of KLS was made pursuant to the Amended and Restated Limited Liability Agreement (Agreement) between the Company and the minority shareholders of KLS dated December 31, 2004. The consideration paid by the Company was approximately $29.7 million which represents the value of the additional 19% interest and additional consideration paid for performance targets negotiated in the original Agreement.

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The following table is an analysis of the Company s redeemable noncontrolling interests for the periods indicated:

	For the nine months ended September 30, 2010	2009
	(In thousands)	
Balance at beginning of year	**$ 51,850**	$ 50,167
Net income attributable to noncontrolling interests	**1,929**	2,481
KLS redemption	**(29,691)**	-
Distributions	**(1,757)**	(526)
Adjustment to redemption value, net	**(3,610)**	(182)
Balance at September 30	**$ 18,721**	$ 51,940

(11) Equity

During 2010, the Company entered into four transactions that had an impact on stockholders equity.

On June 21, 2010, the Company completed a public offering of its common stock in which 4.7 million shares were sold to the public at a price of $6.10 per share, for total net proceeds, after underwriters discount and other related costs, of $26.7 million.

Related to the public offering, on June 18, 2010, the Company entered into an investment agreement (the Investment Agreement) with Carlyle pursuant to which the Company raised approximately $6.3 million. Under the terms of the Investment Agreement, Carlyle agreed to purchase 1.1 million shares of the Company s common stock pursuant to Carlyle s exercise of its gross up option under an investment agreement between the Company and Carlyle dated July 22, 2008. Pursuant to the Investment Agreement, the delayed delivery date for these securities was July 7, 2010, ten business days after the closing date of June 22, 2010.

On June 16, 2010, the Company redeemed $104.0 million of the Company s outstanding Series C Preferred stock that was issued to the Treasury pursuant to the TARP CPP in November of 2008. The Company also paid $0.4 million for accrued and unpaid dividends on the Series C Preferred stock in conjunction with this repurchase. At the date of redemption, the Company accelerated the remaining $5.0 million of the discount on the Series C Preferred stock. The discount accretion was treated as a preferred dividend for earnings per share purposes and thereby reduced net income attributable to common shareholders and earnings per share.

On January 13, 2010, the Company redeemed $50.0 million of the Company s outstanding Series C Preferred stock that was issued to the Treasury pursuant to the TARP CPP in November of 2008. The Company also paid $0.4 million for accrued and unpaid dividends on the Series C Preferred stock in conjunction with this repurchase. At the date of redemption, the Company accreted $2.7 million of the discount on the Series C Preferred stock. The discount accretion was treated as a preferred dividend for earnings per share purposes and thereby reduced net income attributable to common shareholders and earnings per share.

(12) Recent Accounting Developments

In July 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU 2010-20). ASU 2010-20 requires that more information be disclosed about the credit quality of a company s loans and the allowance for loan losses held against those loans. A company will need to disaggregate new and existing disclosures based on how it develops its allowance for loan losses and how it manages credit exposures. Existing disclosures to be presented on a disaggregated basis include a rollforward of the allowance for loan losses and the related recorded investment in such loans. Additional disclosure is also required regarding information about troubled debt restructurings and significant purchases and sales of loans during the reporting period by class. ASU 2010-20 requires certain disclosures as of the end of a reporting period effective for periods ending on or after December 15, 2010. Other required disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. The Company anticipates that the adoption of ASU 2010-20 will lead to additional, more comprehensive disclosures but will not have a material effect on its financial position or results of operations.

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(13) Subsequent Events

The Company evaluated subsequent events through the date the accompanying unaudited interim financial statements were issued. Pursuant to the requirements of ASC 855, *Subsequent Events*, there were no events or transactions during the subsequent event reporting period that required disclosure in the financial statements.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As of and for the three and nine months ended September 30, 2010

Certain statements contained in this Quarterly Report on Form 10-Q that are not historical facts may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties. These statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by the use of the words may, will, should, could, would, plan, potential, estimate, pro intend, anticipate, expect, target and similar expressions. These statements include, among others, statements regarding our strategy, effectiveness of our investment programs, evaluations of future interest rate trends and liquidity, expectations as to growth in assets, deposits and results of operations, receipt of regulatory approval for pending acquisitions, success of acquisitions, future operations, market position, financial position, and prospects, plans and objectives of management. You should not place undue reliance on our forward-looking statements. You should exercise caution in interpreting and relying on forward-looking statements because they are subject to significant risks, uncertainties and other factors which are, in some cases, beyond the Company s control.

Forward-looking statements are based on the current assumptions and beliefs of management and are only expectations of future results. The Company s actual results could differ materially from those projected in the forward-looking statements as a result of, among others, factors referenced herein under the section captioned Risk Factors ; adverse conditions in the capital and debt markets and the impact of such conditions on the Company s private banking, investment management and wealth advisory activities; changes in interest rates; competitive pressures from other financial institutions; the effects of continuing deterioration in general economic conditions on a national basis or in the local markets in which the Company operates, including changes which adversely affect borrowers ability to service and repay our loans; changes in the value of the securities in our investment portfolio; changes in loan default and charge-off rates; the adequacy of loan loss reserves; reductions in deposit levels necessitating increased borrowing to fund loans and investments; increasing government regulation, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010; the risk that goodwill and intangibles recorded in the Company s financial statements will become impaired; risks related to the identification and implementation of acquisitions; and changes in assumptions used in making such forward-looking statements, as well as the other risks and uncertainties detailed in the Company s Annual Report on Form 10-K and other filings submitted to the Securities and Exchange Commission. Forward-looking statements speak only as of the date on which they are made. The Company does not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made.

Executive Summary

The Company offers a full range of wealth management services to high net worth individuals, families, businesses and select institutions through its three reportable segments: Private Banking, Investment Management, and Wealth Advisory. This Executive Summary provides an overview of the most significant aspects of our operating segments and the Company s operations in the third quarter of 2010. Details of the matters addressed in this summary are provided elsewhere in this document and, in particular, in the sections immediately following.

	Three months ended September 30,			
	2010	**2009**	**Change**	**% Change**
	(In thousands, except per share data)			
Total revenues	**$ 73,743**	$ 66,240	$ 7,503	11%
Provision for loan losses	**32,050**	9,099	22,951	nm
Total operating expenses	**60,979**	55,936	5,043	9%
Net income/ (loss) from continuing operations	**(6,874)**	390	(7,264)	nm
Net income attributable to noncontrolling interests	**629**	1,136	(507)	-45%
Net income/ (loss) from discontinued operations	**267**	(30,614)	30,881	101%
Net income/ (loss) attributable to the Company	**(7,236)**	(31,360)	24,124	77%

Earnings/ (loss) per share:				
From continuing operations	**$ (0.10)**	$ (0.15)	$ 0.05	33%
From discontinued operations	**0.00**	(0.45)	0.45	100%
Attributable to the Company	**(0.10)**	(0.60)	0.50	83%

nm not meaningful

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The Company recorded a net loss attributable to the Company of $7.2 million in the three months ended September 30, 2010, compared to a net loss attributable to the Company of $31.4 million in the same period of 2009. The Company recognized a loss per share of $0.10 for the three months ended September 30, 2010, compared to a loss per share of $0.60 for the same period of 2009.

Key items that affected the Company s third quarter 2010 results include:

¡ The $32.1 million provision for loan losses for the three months ended September 30, 2010, primarily a result of net charge-offs of $11.9 million and additional downgrades of $86.5 million in classified loans in Northern California.

¡ Increased operating expenses, primarily due to expenses associated with executive transitions.

¡ A 38 basis point increase in net interest margin (NIM) to 3.42% from 3.04% for the three month periods ended September 30, 2010 and 2009, respectively. This increase was primarily due to decreased volume in borrowings and certificates of deposit rolling over into money market accounts during 2010, which reduced the Company s cost of funds.

¡ Favorable market conditions, which increased assets under management/advisory (AUM) to $18.6 billion at September 30, 2010.

The Company s Private Banking segment reported a net loss attributable to the Company of $5.5 million in the third quarter of 2010, compared to net income attributable to the Company of $3.7 million in the same period of 2009. The $9.2 million decrease in net income was a result of the higher provision for loan losses as described above. The higher provision was partially offset by increased net interest income due primarily to lower rates paid on deposits and an income tax benefit recorded due to pre-tax losses. For two of the Banks, credit quality continued to improve overall during the quarter, as evidenced by decreased loan charge-offs and decreased non-performing assets in the Southern California and Pacific Northwest regions. See Part I. Item 2. Management s Discussion and Analysis - Loan Portfolio and Credit Quality section, below.

The Company s Investment Management segment reported net income attributable to the Company of $0.7 million in the third quarter of 2010, compared to net income attributable to the Company of $0.2 million in the same period of 2009. The $0.5 million increase was primarily due to a $0.4 million, or 4%, increase in investment management and trust fees for the third quarter of 2010 compared to the same period in 2009. The increase in investment management and trust fees was related to a $0.5 billion, or 8%, increase in AUM from September 30, 2009, of which $1.0 billion related to market appreciation, partially offset by $0.5 billion in net outflows.

The Company s Wealth Advisory segment reported net income attributable to the Company of $1.0 million in the third quarter of 2010, compared to net income attributable to the Company of $1.3 million in the same period of 2009. The $0.3 million, or 24%, decrease in net income was primarily due to a $1.3 million, or 32%, increase in compensation expense related to new compensation agreements that went into effect in 2010. This increased expense was partially offset by an increase in wealth advisory fees of $0.6 million, or 7%, due to a $0.6 billion, or 9%, increase in AUM from September 30, 2009, of which $0.4 billion related to net inflows and $0.2 billion related to market appreciation. Also offsetting the increased expense was a $0.5 million decrease in income attributable to noncontrolling interests primarily due to the elimination of a noncontrolling interest at KLS as a result of the Company s acquisition of the remaining 19% interest in KLS in January 2010.

Critical Accounting Policies

Critical accounting policies are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. The Company believes that its most critical accounting policies upon which its financial condition depends, and which involve the most complex or subjective decisions or assessments are the allowance for loan losses, the valuation of goodwill and intangible assets and analysis for impairment, and tax estimates. These policies are discussed in Part II. Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. There have been no changes to these policies through the filing of this Quarterly Report on Form 10-Q.

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Financial Condition

Condensed Consolidated Balance Sheets and Discussion

	September 30, 2010	December 31, 2009	Increase/ (decrease)	% Change
		(In thousands)		
Assets:				
Total cash and investments	**$ 1,157,657**	$ 1,387,483	$ (229,826)	-17%
Loans held for sale	**22,290**	12,714	9,576	75%
Total loans	**4,530,274**	4,307,040	223,234	5%
Less: allowance for loan losses	**100,010**	68,444	31,566	46%
Net loans	**4,430,264**	4,238,596	191,668	5%
Goodwill and intangible assets	**146,153**	150,117	(3,964)	-3%
Other	**274,902**	260,355	14,547	6%
Total assets	**$ 6,031,266**	$ 6,049,265	$ (17,999)	0%
Liabilities and Equity:				
Deposits	**$ 4,492,516**	$ 4,255,219	$ 237,297	6%
Total borrowings	**886,741**	992,034	(105,293)	-11%
Other liabilities	**99,526**	99,008	518	1%
Total liabilities	**5,478,783**	5,346,261	132,522	2%
Redeemable noncontrolling interests	**18,721**	51,850	(33,129)	-64%
Total stockholders equity	**533,762**	651,154	(117,392)	-18%
Total liabilities, redeemable noncontrolling interests and stockholders equity	**$ 6,031,266**	$ 6,049,265	$ (17,999)	0%

Total Assets. Total assets remained relatively flat at $6.0 billion at both September 30, 2010 and December 31, 2009.

Cash and Investments. Total cash and investments (consisting of cash and cash equivalents, investment securities, and stock in the FHLBs) decreased $229.8 million, or 17%, to $1.2 billion, or 19% of total assets at September 30, 2010 from $1.4 billion, or 23% of total assets at December 31, 2009. The decrease was primarily due to the $152.8 million, or 17%, decrease in investment securities and the $76.0 million, or 17%, decrease in cash and cash equivalents. The decreases in cash and cash equivalents and in investment securities are primarily due to the Holding Company liquidating a portion of its investment portfolio during the first nine months of 2010 to fund its $154.0 million repurchase of its Series C Preferred stock and the $29.7 million payment to the minority shareholders of KLS to acquire the remaining 19% interest in KLS along with additional consideration paid for performance targets negotiated in the original agreement with KLS.

The majority of the Company s investments are held by the Banks. The Banks investment policies require management to maintain a portfolio of securities which will provide liquidity necessary to facilitate funding of loans, to cover deposit fluctuations, and to mitigate the Banks overall balance sheet exposure to interest rate risk, while at the same time achieving a satisfactory return on the funds invested. The securities in which the Banks may invest are subject to regulation and are generally limited to securities that are considered investment grade.

Investment maturities, principal payments, and sales of the Company s available-for-sale and held-to-maturity securities provided $0.7 billion of cash proceeds during the first nine months of 2010, and $0.6 billion was deployed on purchases of new investments. The timing of sales and reinvestments is based on various factors, including management s evaluation of interest rate trends and the Company s liquidity. The sale of investments resulted in recognized net gains for the three and nine months ended September 30, 2010 of $1.1 million and $3.6 million, respectively, due to changes in interest rates, the majority of which were previously recorded in unrealized gains within other comprehensive income. The Company s available-for-sale investment portfolio carried a total of $14.1 million of unrealized gains and $0.5 million of unrealized losses at September 30, 2010, compared to $13.1 million of unrealized gains and $1.9 million of unrealized losses at December 31, 2009.

No impairment losses were recognized through earnings related to available-for-sale or held-to-maturity securities during the three and nine month periods ended September 30, 2010 and 2009. The amount of investment securities in an unrealized loss position greater than 12 months as well as the total amount of unrealized losses was not significant and was primarily due to movements in interest rates. The Company has no intent to sell any securities in an unrealized loss position at September 30, 2010, and it is not more likely than not that the Company would be forced to sell any of these securities prior to the full recovery of all unrealized losses.

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

Loans held for sale. Loans held for sale increased $9.6 million to $22.3 million at September 30, 2010 from $12.7 million at December 31, 2009. Included in loans held for sale at September 30, 2010 is $2.9 million of the Company s non-strategic Southern California portfolio loans, compared to $3.6 million at December 31, 2009. Other factors affecting the balance of loans held for sale include the timing and volume of residential loans originated for sale in the secondary market. When mortgage rates are low, the Banks see an increase in the percentage of customer requests for fixed rate mortgage loans as compared to adjustable rate mortgages. The Banks sell the majority of their fixed rate loans in the secondary market to mitigate interest rate risk.

Goodwill and intangible assets, net. Goodwill and intangible assets decreased $4.0 million, or 3%, to $146.2 million at September 30, 2010 from $150.1 million at December 31, 2009. The decrease is primarily due to amortization of intangible assets. The Company tests goodwill for impairment on an annual basis and in between annual dates if events or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value, in accordance with ASC 350, *Intangibles Goodwill and Other*. Management concluded that a triggering event occurred at June 30, 2010, due to the Company s market capitalization decreasing to less than book value as of that date. As a result of the June 30 triggering event and resulting impairment test, management also tested for impairment at September 30, 2010. Management s test consisted of an evaluation of the relationship of aggregate fair values of its reporting units to the Company s overall market capitalization and book value. Upon comparison of the fair values of its reporting units to their respective book values, management concluded that there was no impairment of goodwill or intangible assets at September 30, 2010.

Other. Other assets, consisting of OREO, premises and equipment, fees receivable, accrued interest receivable, income tax receivable and deferred, and other assets, increased $14.5 million, or 6%, to $274.9 million at September 30, 2010 from $260.4 million at December 31, 2009. The increase is primarily due to the change in income taxes receivable and deferred, partially offset by decreases in other assets and OREO.

Income taxes receivable and deferred increased $29.1 million, or 56%, to $81.4 million at September 30, 2010 from $52.3 million at December 31, 2009. The increase is due primarily to income tax payments made during the nine months ended September 30, 2010, as well as an increase in the net deferred tax asset, which is due primarily to the increase in the allowance for loan loss during the nine months ended September 30, 2010. At September 30, 2010, no valuation allowance on the deferred tax asset was required due to the expectation of future taxable income. Should losses continue to occur, there may be a need for a valuation allowance on the deferred tax asset.

OREO decreased $3.5 million, or 21%, to $13.1 million at September 30, 2010 from $16.6 million at December 31, 2009. OREO consisted of 17 properties at September 30, 2010 and 15 properties at December 31, 2009. The decrease is primarily due to additional valuation allowances taken on existing OREO properties, particularly in Northern California, and sales of OREO properties, partially offset by loans transitioning into OREO.

Other assets, which consist primarily of prepaid expenses, investment in partnerships, and other receivables, decreased $9.0 million, or 7%, to $127.5 million at September 30, 2010 from $136.5 million at December 31, 2009. The decrease is primarily due to unrealized losses on derivatives, the settlement of certain receivables, and the recognition of a portion of the prepaid FDIC insurance expense at the Banks.

Deposits. Total deposits increased $237.3 million, or 6%, to $4.5 billion, at September 30, 2010, from $4.3 billion at December 31, 2009. The increase in deposits is primarily due to organic growth of the Banks core deposits and money market accounts, partially offset by a decrease in retail certificates of deposit as they matured and rolled into money market accounts. The Banks participate in the FDIC s Transaction Account Guarantee Program (the TAGP), which is a portion of the FDIC s Temporary Liquidity Guarantee Program. The TAGP insures all of the Company s demand deposit accounts and currently insures certain NOW accounts. The TAGP had been scheduled to expire on December 31, 2010, however, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) provides that the FDIC must fully insure all noninterest-bearing transaction accounts from December 31, 2010 through December 31, 2012. The extension of FDIC insurance coverage for noninterest-bearing transaction accounts does not apply to NOW accounts paying low rates of interest and certain other accounts (generally those paying minimal interest) that are currently covered by the TAGP. The Banks elected to participate in the TAGP extension through December 31, 2010. FDIC insurance coverage for noninterest-bearing transaction accounts under the Dodd-Frank Act covers each FDIC-insured bank, including the Banks, after December 31, 2010, i.e., after December 31, 2010 a bank does not have a right to opt out of such FDIC insurance coverage. In September 2010, the FDIC issued a proposed rule to implement this provision of the Dodd-Frank Act.

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The Dodd-Frank Act also permanently raises deposit insurance levels to $250,000, retroactive to January 1, 2008. Pursuant to modifications under the Dodd-Frank Act, deposit insurance assessments will be calculated based on an insured depository institution s assets rather than its insured deposits and the minimum reserve ratio will be raised to 1.35%.

The following table shows the composition of the Company s deposits at September 30, 2010 and December 31, 2009:

	September 30, 2010		December 31, 2009	
	Balance	**As a % of total**	**Balance**	**As a % of total**
		(In thousands)		
Demand deposits (non-interest bearing)	**$ 929,506**	**21%**	$ 835,676	19%
NOW	**378,003**	**8%**	348,674	8%
Savings	**187,174**	**4%**	158,508	4%
Money market	**1,778,220**	**40%**	1,447,811	34%
Certificates of deposit under $100,000	**303,796**	**7%**	373,360	9%
Certificates of deposit $100,000 or greater	**915,817**	**20%**	1,091,190	26%
Total deposits	**$ 4,492,516**	**100%**	$ 4,255,219	100%

Borrowings. Total borrowings (consisting of FHLB borrowings, securities sold under agreements to repurchase (repurchase agreements), and junior subordinated debentures) decreased $105.3 million, or 11%, to $886.7 million at September 30, 2010 from $992.0 million at December 31, 2009. Repurchase agreements decreased $134.8 million, or 55%, to $108.6 million at September 30, 2010 from $243.4 million at December 31, 2009. Many commercial bank customers who previously chose repurchase agreements in lieu of deposit products have switched to demand deposit accounts as they are 100% insured under the TAGP. Repurchase agreements are generally linked to commercial demand deposit accounts with an overnight sweep feature. FHLB borrowings increased $29.5 million, or 5%, to $584.5 million at September 30, 2010 from $555.0 million at December 31, 2009. FHLB borrowings are generally used to provide additional funding for loan growth when it is in excess of deposit growth, but can also be used as an additional source of liquidity for the Banks. Given current rates at the FHLBs, this source of funds is competitive with rates currently paid on retail certificates of deposit, depending on the term. Also, the Banks do not pay FDIC deposit insurance on FHLB borrowings, which can indirectly add to the cost of funds on the certificates of deposit. Since deposit growth has exceeded loan growth, some of the Banks have reduced the amount of FHLB borrowings.

Other liabilities. Other liabilities, consisting of accrued interest, accrued bonus, and other accrued expenses, remained relatively flat at $99.5 million at September 30, 2010, as compared to $99.0 million at December 31, 2009. Increases in accrued expenses and accrued retirement liabilities were offset by a decrease in accrued interest payable and the reduction in the Company s deferred acquisition obligations to Anchor s minority shareholders as a result of a payment made in the first quarter of 2010 pursuant to the terms of the acquisition agreement.

Loan Portfolio and Credit Quality

Loans. Total portfolio loans increased $223.2 million, or 5%, to $4.5 billion, or 75% of total assets at September 30, 2010, from $4.3 billion, or 71% of total assets at December 31, 2009. Increases in commercial mortgages of $173.4 million, or 8%, and in residential loans of $140.3 million, or 9%, were partially offset by a decrease in construction and land loans of $104.7 million, or 33%. In general, the Company continues to have lower loan growth in 2010 and 2009 than in previous years as economic conditions have reduced the demand for commercial loans and our Banks have generally reduced or stopped originating construction and land loans. The Company has been focusing more on residential loan growth as a source of high quality earning assets. See Part I. Item 1. Notes to Unaudited Consolidated Financial Statements - Note 6: Loans Receivable for a summary of the Company s loan portfolio by geography.

Allowance for Loan Losses. The allowance for loan losses is reported as a reduction of outstanding loan balances, and totaled $100.0 million and $68.4 million at September 30, 2010 and December 31, 2009, respectively.

The allowance for loan losses at September 30, 2010 increased $31.6 million, or 46%, from December 31, 2009. $29.9 million, or 95%, of this increase is attributable to Northern California. The increase in the allowance for loan losses reflects the higher level of classified loans and continued loan charge-offs, particularly in Northern California, other qualitative risk factors, and growth in the loan portfolio, offset slightly by a change in the mix of loan types in the loan portfolio. See Part I. Item 1. Notes to Unaudited Consolidated Financial Statements - Note 7: Allowance for Loan Losses for an analysis of the Company s allowance for loan losses.

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The following table presents a summary by geography of loans charged off, net of recoveries, for the three and nine months ended September 30, 2010 and 2009, respectively. The geography assigned to the Private Banking data is based on the location of the lender.

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	(In thousands)			
Net loans charged off/ (recovered):				
New England	**$ 393**	$ 546	**$ 3,215**	$ 1,938
Northern California	**11,896**	130	**20,901**	1,452
Southern California	**(1,224)**	2,410	**(1,635)**	7,952
Pacific Northwest	**48**	4,005	**580**	10,894
Total net loans charged off	**$ 11,113**	$ 7,091	**$ 23,061**	$ 22,236

The following table presents a summary by loan type of loans charged off, net of recoveries, for the three and nine months ended September 30, 2010 and 2009, respectively:

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	(In thousands)			
Net loans charged off/ (recovered):				
Commercial and industrial (1)	**$ 6,978**	$ 4,484	**$ 7,562**	$ 11,405
Commercial real estate (1)	**6,469**	49	**15,153**	1,684
Construction and land	**(2,376)**	2,387	**121**	8,624
Residential mortgage	**106**	(42)	**362**	208
Home equity and other consumer	**(64)**	213	**(137)**	315
Total net loans charged off	**$ 11,113**	$ 7,091	**$ 23,061**	$ 22,236

(1) Commercial and industrial loans and commercial real estate loans charged off had been included in the commercial loans line item in Notes to Unaudited Consolidated Financial Statements - Note 6: Loans Receivable.

Risk Elements. The Company s non-performing assets include non-accrual loans (including the Southern California non-strategic loans held for sale), and OREO. OREO consists of real estate acquired through foreclosure proceedings and real estate acquired through acceptance of deeds in lieu of foreclosure. In addition, the Company may, under certain circumstances, restructure loans in troubled debt restructurings as a concession to a borrower when the borrower is experiencing financial distress. Such restructured loans are generally included in impaired loans.

Non-performing assets increased $49.3 million, or 46%, to $156.2 million, or 2.59% of total assets at September 30, 2010, from $106.9 million, or 1.77% of total assets at December 31, 2009.

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The following tables are a summary of the Private Banking credit quality and concentration data by geography of the lender, based on the location of the lender.

	September 30, 2010	December 31, 2009
	(In thousands)	
Non-accrual loans:		
New England	**$ 20,872**	$ 8,346
Northern California	**99,573**	37,584
Southern California (1)	**12,585**	21,953
Pacific Northwest	**10,060**	22,455
Total non-accrual loans	**$ 143,090**	$ 90,338
Loans 30-89 days past due and accruing:		
New England	**$ 5,515**	$ 6,658
Northern California	**8,270**	6,799
Southern California	**2,860**	4,259
Pacific Northwest	**226**	3,478
Total loans 30-89 days past due	**$ 16,871**	$ 21,194
Accruing classified loans: (2)		
New England	**$ 19,228**	$ 14,534
Northern California	**66,061**	14,768
Southern California	**11,467**	8,117
Pacific Northwest	**9,308**	15,118
Total accruing classified loans	**$ 106,064**	$ 52,537

(1) Includes loans held for sale of $2.9 million and $3.6 million as of September 30, 2010 and December 31, 2009, respectively.

(2) Accruing classified loans include loans that are classified as substandard but are still accruing interest income. The Banks may classify a loan as substandard where known information about possible credit problems of the related borrowers causes management to have doubts as to the ability of such borrowers to comply with the present repayment terms and which may result in disclosure of such loans as nonperforming at some time in the future.

Of the $143.1 million of loans on non-accrual status at September 30, 2009, 29% were current on payment of principal and interest. In these situations, despite the loan s current payment status, if the Bank has reason to believe it may not collect all principal and interest on the loan, the Bank will discontinue the accrual of interest income and apply any payments received to principal.

There were no loans past due 90 days or more and still accruing interest at September 30, 2010 or December 31, 2009.

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The following tables are a summary of the Private Banking credit quality and concentration data by loan type. The loan type assigned to the Private Banking credit quality data is based on the purpose of the loan.

	September 30, 2010	December 31, 2009
	(In thousands)	
Non-accrual loans: (1)		
Commercial and industrial (2)	**$ 9,092**	$ 10,434
Commercial real estate (2)	**84,038**	37,111
Construction and land	**41,821**	35,406
Residential mortgage	**7,723**	7,017
Home equity and other consumer	**416**	370
Total non-accrual loans	**$ 143,090**	$ 90,338
Loans 30-89 days past due and accruing:		
Commercial and industrial (2)	**$ 3,431**	$ 6,370
Commercial real estate (2)	**7,409**	1,782
Construction and land	**1,325**	3,799
Residential mortgage	**3,486**	8,346
Home equity and other consumer	**1,220**	897
Total loans 30-89 days past due	**$ 16,871**	$ 21,194
Accruing classified loans: (3)		
Commercial and industrial (2)	**$ 17,532**	$ 20,884
Commercial real estate (2)	**83,689**	25,225
Construction and land	**3,452**	6,155
Residential mortgage	**971**	148
Home equity and other consumer	**420**	125
Total accruing classified loans	**$ 106,064**	$ 52,537

(1) Includes loans held for sale of $2.9 million and $3.6 million as of September 30, 2010 and December 31, 2009, respectively.
(2) Commercial and industrial loans and commercial real estate loans are included in the commercial loans line item in Notes to Unaudited Consolidated Financial Statements - Note 6: Loans Receivable .
(3) Accruing classified loans include loans that are classified as substandard but are still accruing interest income. The Banks may classify a loan as substandard where known information about possible credit problems of the related borrowers causes management to have doubts as to the ability of such borrowers to comply with the present repayment terms and which may result in disclosure of such loans as nonperforming at some time in the future.

The balance of non-performing assets and accruing classified loans are affected by many factors including economic and business conditions, such as interest rates and unemployment levels, real estate collateral values, and the bank s underwriting standards at the time of origination. In periods of prolonged economic declines, borrowers may become more severely impacted over time as liquidity levels decline and the borrower s ability to continue to make payments deteriorates. With respect to real estate collateral values, the declines from the peak, as well as the value of the real estate as the time of origination versus the current value, can impact the level of problem loans. For instance, if the loan to value ratio at the time of renewal has increased due to the decline in the real estate value since origination, the loan may no longer meet the bank s underwriting standard and not be renewed.

A rollforward of non-accrual loans is presented in the table below:

	At and for the three months ended September 30,		At and for the nine months ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Non-accrual loans, beginning of period	**$ 100,266**	$ 83,466	$ 90,338	$ 63,990
Transfers into non-accrual status	**73,184**	45,673	**132,663**	117,787
Transfers out to OREO	**(1,752)**	(11,282)	**(9,131)**	(24,312)
Transfers out to accrual status	**(4,450)**	(3,369)	**(14,152)**	(11,877)
Charge offs	**(13,843)**	(6,980)	**(28,773)**	(17,560)
Paid off/paid down/sold	**(10,315)**	(7,670)	**(27,855)**	(28,190)
Non-accrual loans, end of period	**$ 143,090**	$ 99,838	**$ 143,090**	$ 99,838

At September 30, 2010, loans with an aggregate balance of $16.9 million, or 0.37% of total loans, were 30-89 days past due, a decrease of $4.3 million, or 20%, compared to $21.2 million, or 0.49% of total loans, at December 31, 2009. The

Company believes most of these loans are adequately secured at the present time and the payment performance of these borrowers varies from month to month. Further deterioration in the local economy or in the real estate market where the collateral is located could lead to these delinquent loans transferring to non-accrual status with a corresponding downgrade of the loans credit ratings. Downgrades in credit ratings generally result in additional charges to the provision for loan losses.

The Banks general policy is to discontinue the accrual of interest on a loan when the collectability of principal or interest is in doubt. In certain instances, although very infrequent, loans that have become 90 days past due may remain on accrual status if the value of the collateral securing the loan is sufficient to cover principal and interest and the loan is in process of collection. There were no loans 90 days past due, but still accruing, as of September 30, 2010 or December 31, 2009. The Banks general policy for returning a loan to accrual status requires the loan to be brought current and for the customer to show a history of making timely payments (generally six months). For troubled debt restructured loans (TDRs), a return to accrual status requires timely payments for a period of six to nine months, along with meeting other criteria. TDRs are assessed on a case-by-case basis.

Net charge-offs of $23.1 million were recorded in the first nine months of 2010, compared to $22.2 million in the same period of 2009. The Company believes that commercial real estate loans represent the greatest risk of loss due to the size of the portfolio and nature of the commercial real estate market. In times of economic downturns, as businesses downsize, vacancy rates increase which can lead to financial difficulties for the borrower. Commercial real estate loans have been impacted by the current economic climate which has resulted in weakened demand for retail and office space, lower lease rates, and reduced collateral values. For the first nine months of 2010, 91% of the net charge-offs related to the Northern California market. Of the $23.1 million in net charge-offs recorded in 2010, $15.2 million were in commercial real estate loans (73% of which related to the Northern California market), $7.6 million were in commercial and industrial loans, and the balance of $0.3 million was in other loan categories.

Non-performing assets and delinquent loans are affected by factors such as the economic conditions in the Banks geographic regions, and interest rates. These factors are generally not within the Company s control. A decline in the fair values of the collateral for the non-performing assets could result in additional future provision for loan losses depending on the timing and severity of the decline. The Banks continue to evaluate the underlying collateral of each non-accrual loan and pursue the collection of interest and principal. Generally when a loan becomes past due or is adversely classified, an updated appraisal of the collateral is obtained. If the loan has not been updated to a performing status within a reasonable amount of time, the Banks may continue to obtain newer appraisals especially during periods of declining values.

Loans that evidence weakness or potential weakness related to repayment history, the borrower s financial condition, or other factors are reviewed by the Banks management to determine if the loan should be adversely classified. Delinquent loans may or may not be adversely classified depending upon management s judgment with respect to each individual loan. Classified loans are classified as either substandard or doubtful under the rating system adopted by the Banks based on the criteria established by federal bank regulatory authorities.

Substandard-rated loans may be either accruing or non-accruing based on the various credit factors of each individual loan. At September 30, 2010, the Company had accruing classified substandard loans of $106.1 million, an increase of $53.5 million compared to $52.5 million at December 31, 2009. The largest absolute change was in the Northern California region which increased $51.3 million to $66.1 million at September 30, 2010 from $14.8 million at December 31, 2009. Of the $66.1 million accruing classified loans in Northern California, 70% is related to six commercial real estate loans, $33.6 million of which was downgraded in the third quarter. Triggering events for these downgrades include updated appraisal information, inability of borrowers to cover debt service payments, inability of borrowers to sell completed construction projects, and the inability of borrowers to complete the sale of property. Over the same period, the New England region increased $4.7 million and the Southern California region increased $3.4 million, while the Pacific Northwest region decreased $5.8 million. The increase in accruing classified loans consists primarily of commercial real estate loans in Northern California. There are numerous factors which contributed to this increase including the prolonged economic downturn, higher vacancy rates, lower rental rates, and tenants reducing the amount of space they want to rent. These factors negatively affect our borrowers liquidity and, in some cases, our borrowers ability to comply with loan covenants such as debt service coverage. Lastly, declining real estate values due to supply and demand as well as increasing capitalization rates have caused the collateral value of certain commercial real estate properties to be worth less than the loan balance.

When management determines that it is probable that the Bank will not collect all principal and interest on a loan, usually commercial loans, in accordance with the original loan terms, as well as all loans with a TDR, the loan is designated as impaired. Impaired loans are generally included within the balance of non-accrual loans. Impaired loans totaled $141.6 million as of September 30, 2010, an increase of $58.4 million, or 70%, compared to $83.2 million at December 31, 2009. At September 30, 2010, $65.9 million of the impaired loans had $9.8 million in specific allocations to the general reserve. To date, the carrying value of impaired loans held at September 30, 2010 with specific allocations to the general reserve has been written down by $5.0 million. The remaining $75.7 million of impaired loans did not have specific allocations due primarily to the adequacy of the collateral or prior charge-offs taken. To date, the carrying value of impaired loans held at September 30, 2010 with no specific allocations has been written down by $18.6 million. At December 31, 2009, $20.7 million of impaired loans had $5.0 million in specific allocations to the general reserve and the remaining $62.5 million of impaired loans did not have specific allocations.

Loans that are designated as impaired require an analysis to determine the amount of impairment, if any. Impairment would be indicated as a result of the carrying value of the loan exceeding the estimated collateral value, less costs to sell, for collateral dependent loans or the net present value of cash flow, discounted at the loan s contractual effective interest rate, for loans not considered to be collateral dependent. Generally, shortfalls in the analysis on collateral dependent loans would result in the impairment amount being charged off to the allowance for loan losses. Shortfalls on cash flow dependent loans may be carried as specific allocations to the general reserve unless a known loss is determined to have occurred, in which case such known loss is charged off.

Liquidity

Liquidity is defined as the Company s ability to generate adequate cash to meet its needs for day-to-day operations and material long and short-term commitments. Liquidity risk is the risk of potential loss if the Company were unable to meet its funding requirements at a reasonable cost. The Company manages its liquidity based on demand, commitments, specific events and uncertainties to meet current and future financial obligations of a short-term nature. The Company s objective in managing liquidity is to respond to the needs of depositors and borrowers as well as to earnings enhancement opportunities in a changing marketplace.

Management is responsible for establishing and monitoring liquidity targets as well as strategies to meet these targets. At September 30, 2010, consolidated cash and cash equivalents and securities available-for-sale, less securities pledged, amounted to $0.7 billion, or 12% of total assets, compared to $1.0 billion, or 16% of total assets at December 31, 2009. In addition, the Company has access to available borrowings through the FHLB totaling $716.5 million as of September 30, 2010 compared to $789.3 million as of December 31, 2009. Combined, this liquidity totals $1.4 billion, or 24% of assets and 32% of total deposits as of September 30, 2010 compared to $1.8 billion, or 29% of assets and 41% of total deposits as of December 31, 2009.

During the fourth quarter of 2008, the Company received $154.0 million in funding through the Treasury s TARP CPP. In January 2010, the Company repurchased $50.0 million of its Series C Preferred stock, issued under the TARP CPP, and in June 2010, the Company repurchased the remaining $104.0 million of the Series C Preferred stock. Upon repurchase, a proportionate amount of the unamortized discount was accelerated, and reduced per-share income attributable to the common shareholder during 2010. See Part I. Item 1. Notes to Unaudited Consolidated Financial Statements - Note 11: Equity for further details.

Holding Company Liquidity. The Company and some of the Company s majority-owned affiliate partners hold put and call options that would require the Company to purchase (and the majority-owned affiliate partners to sell) the remaining noncontrolling interests in these companies at the then fair value generally as determined by the respective agreements. These put and call options are discussed in detail in Part II. Item 8. Financial Statements and Supplementary Data Note 15: Noncontrolling Interests of the Company s Annual Report on Form 10-K for the year ended December 31, 2009. In January 2010, the Company increased its investment in KLS to 100% from 81%. The acquisition of the remaining 19% interest of KLS was made pursuant to the Amended and Restated Limited Liability Agreement (KLS Agreement) between the Company and the minority shareholders of KLS dated December 31, 2004. The consideration paid by the Company was approximately $29.7 million which represents the value of the additional 19% interest and additional consideration paid for performance targets negotiated in the original KLS Agreement. At September 30, 2010, the estimated maximum redemption value for the remaining affiliates related to outstanding put options was approximately $18.7 million, and is classified on the consolidated balance sheets as redeemable noncontrolling interests.

The Holding Company s primary sources of funds are dividends from its affiliate partners, primarily the Investment Managers and Wealth Advisors, access to the capital and debt markets, and private equity investments. Pursuant to a revenue sharing agreement with Westfield, the Holding Company recognized $4.3 million in revenue during the nine months ended September 30, 2010. Additionally, in the nine months ended September 30, 2010, the Holding Company received $0.2 million in contingent consideration from certain affiliates divested in 2009, and may receive additional contingent consideration in future years. However, other than the revenue sharing agreement with Westfield, divestitures are not ongoing sources of funds for the Holding Company. See Part II. Item 8. Financial Statements and Supplementary Data Note 2: Divestitures and Acquisitions in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 for further details. Dividends from the Banks are limited by various regulatory requirements relating to capital adequacy and retained earnings. See Part II. Item 5. Market for Registrant s Common Equity, Related Stockholders Matters, and Issuers Purchases of Equity Securities in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 for further details.

At September 30, 2010, Holding Company cash and cash equivalents amounted to $100.0 million. Management believes that the Company has adequate liquidity to meet its commitments for the foreseeable future.

The Company is required to pay interest quarterly on its junior subordinated debentures. The estimated cash outlay for the interest payments for the remaining three months of 2010 on the junior subordinated debentures is approximately $2.5 million based on the debt outstanding at September 30, 2010 and estimated interest rates.

The Company presently plans to pay cash dividends on its common stock on a quarterly basis. Based on the current dividend rate and estimated shares outstanding, the Company estimates the amount to be paid out in the remaining three months of 2010 for dividends to common stockholders will be approximately $0.8 million. Based on the Company s preferred stock outstanding at September 30, 2010 and the dividend rate, the Company estimates the amount to be paid out in the remaining three months of 2010 for dividends to preferred stockholders will be approximately $0.1 million.

While the Company believes its current and anticipated capital levels are adequate to support its business, the capital and credit markets have been experiencing prolonged volatility and disruption. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that the Company will not experience an adverse effect, which may be material, on the Company s ability to access capital and on the Company s business, financial condition and results of operations.

Bank Liquidity. Each of the Banks is a member of its regional FHLB, and as such, has access to short and long-term borrowings from those institutions. At September 30, 2010 the Banks had available credit of $716.5 million from the various FHLBs. Liquid assets (i.e., cash and due from banks, federal funds sold, and investment securities available for sale, net of securities pledged) of the Banks totaled $0.7 billion, which equals 13% of the Banks total assets and 16% of the Banks total deposits. The FHLB can change the advance amounts that banks can utilize based on the bank s current financial condition as obtained from publicly available data such as FDIC Call Reports. Decreases in the amount of FHLB borrowings available to the Banks would lower their liquidity and possibly limit the Banks ability to grow in the short term. Management believes that the Banks have adequate liquidity to meet their commitments for the foreseeable future.

In addition to the above liquidity, the Banks have access to the Federal Reserve Board s (FRB) discount window facility, which can provide short-term liquidity as lender of last resort, brokered certificates of deposit, and federal funds lines. The use of non-core funding sources, including brokered deposits and borrowings, by the Banks may be limited by regulatory agencies. Generally, the regulatory agencies prefer that banks rely on core-funding sources for liquidity.

If the Banks were no longer able to utilize the FHLBs for borrowing, collateral currently used for FHLB borrowings could be transferred to other facilities such as the FRB s discount window. In addition, the Banks could increase their usage of brokered certificates of deposit. Other borrowing arrangements may have higher rates than the FHLB would typically charge.

Capital Resources

Total Company s stockholders equity at September 30, 2010 was $533.8 million, compared to $651.2 million at December 31, 2009, a decrease of $117.4 million, or 18%. The decrease in stockholders equity was primarily the result of the repurchase of the Company s Series C Preferred stock in January 2010, for $50.0 million, and June 2010, for the remaining $104.0 million. At the dates of the repurchases, the remaining un-accreted discount on the Series C Preferred stock was accreted. This Series C Preferred stock was issued in November 2008 to the Treasury in conjunction with the Company s participation in the TARP CPP. This decrease was partially offset by the $33.0 million issuance of common stock via the public offering in June 2010 and the related private placement with the Carlyle Group which settled in July 2010. See Part I. Item 1. Notes to Unaudited Consolidated Financial Statements - Note 11: Equity for further detail.

As a bank holding company, the Company is subject to various regulatory capital requirements administered by federal agencies. Failure to meet minimum capital requirements can result in certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company s financial statements.

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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 Bank s assets and certain off-balance sheet items as calculated under regulatory guidelines. 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 FRB with respect to certain nonbanking activities, including adjustments in connection with off-balance sheet items.

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. In addition, the Company and the Banks cannot be subject to any written agreement, order or capital directive or prompt corrective action to be considered well capitalized.

Although the Company and all of the Banks within the segment maintain capital at levels that would otherwise be considered well capitalized under the applicable regulations, for supervisory reasons, the Southern California and Pacific Northwest Banks, and therefore the Company, are not deemed well capitalized.

The following table presents the Company s and the Banks amount of regulatory capital and related ratios as of September 30, 2010 and December 31, 2009. Also presented are the capital guidelines established by the FRB, which pertain to the Company, and by the FDIC, which pertain to the Banks. To be categorized as adequately capitalized or well capitalized , the Company and the Banks must be in compliance with these ratios as long as the Company and/or the Banks are not subject to any written agreement, order, capital directive, or prompt corrective action directive. The FRB, the FDIC, and applicable state banking regulators may impose higher capital ratios than those listed below based on the results of regulatory exams.

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	Actual Amount	Actual Ratio	For capital adequacy purposes Amount	For capital adequacy purposes Ratio	To be well capitalized under prompt corrective action provisions Amount	To be well capitalized under prompt corrective action provisions Ratio
			(In thousands)			
As of September 30, 2010						
Total risk-based capital						
Company	**$ 621,669**	**14.92 %**	**$ 333,239**	**>8.0 %**	**$ 416,549**	**>10.0 %**
Boston Private Bank	**260,340**	**11.61**	**179,358**	**8.0**	**224,198**	**10.0**
Borel	**139,211**	**10.76**	**103,479**	**8.0**	**129,349**	**10.0**
FPB	**54,279**	**15.17**	**28,618**	**8.0**	**35,773**	**10.0**
Charter	**35,914**	**17.09**	**16,808**	**8.0**	**21,011**	**10.0**
Tier I risk-based capital						
Company	**565,812**	**13.58**	**166,619**	**4.0**	**249,929**	**6.0**
Boston Private Bank	**232,267**	**10.36**	**89,679**	**4.0**	**134,519**	**6.0**
Borel	**122,579**	**9.48**	**51,740**	**4.0**	**77,609**	**6.0**
FPB	**49,702**	**13.89**	**14,309**	**4.0**	**21,464**	**6.0**
Charter	**33,233**	**15.82**	**8,404**	**4.0**	**12,606**	**6.0**
Tier I leverage capital						
Company	**565,812**	**9.70**	**233,221**	**4.0**	**291,527**	**5.0**
Boston Private Bank	**232,267**	**6.99**	**132,855**	**4.0**	**166,068**	**5.0**
Borel	**122,579**	**7.59**	**64,607**	**4.0**	**80,759**	**5.0**
FPB	**49,702**	**10.02**	**19,840**	**4.0**	**24,799**	**5.0**
Charter	**33,233**	**9.99**	**13,311**	**4.0**	**16,638**	**5.0**
As of December 31, 2009						
Total risk-based capital						
Company	$ 759,807	18.95 %	$ 320,763	>8.0 %	$ 400,954	>10.0 %
Boston Private Bank	245,367	12.03	163,202	8.0	204,002	10.0
Borel	159,459	11.73	108,754	8.0	135,943	10.0
FPB	60,241	16.80	28,695	8.0	35,868	10.0
Charter	38,984	19.50	15,995	8.0	19,994	10.0
Tier I risk-based capital						
Company	709,417	17.69	160,381	4.0	240,572	6.0
Boston Private Bank	219,851	10.78	81,601	4.0	122,401	6.0
Borel	142,412	10.48	54,377	4.0	81,566	6.0
FPB	55,663	15.52	14,347	4.0	21,521	6.0
Charter	36,397	18.20	7,998	4.0	11,996	6.0
Tier I leverage capital						
Company	709,417	11.62	244,189	4.0	305,236	5.0
Boston Private Bank	219,851	6.54	134,537	4.0	168,171	5.0
Borel	142,412	8.66	65,784	4.0	82,230	5.0
FPB	55,663	10.59	21,028	4.0	26,286	5.0
Charter	36,397	9.93	14,660	4.0	18,325	5.0

As of September 30, 2010, the Company has sponsored the creation of, or assumed sponsorship of, five statutory trusts for the sole purpose of issuing trust preferred securities and investing the proceeds in junior subordinated debentures of the Company. These statutory trusts created by the Company are not consolidated into the Company s financial statements; however, the Company reflects the amounts of junior subordinated debentures payable to the preferred stockholders of statutory trusts as debt in its financial statements. As of September 30, 2010, $183.4 million of the net balance of these trust preferred securities qualified as Tier I capital and $3.1 million qualified as Tier II capital. As of December 31, 2009, all $186.5 million of the net balance of these trust preferred securities qualified as Tier I capital.

In 2005, the FRB issued a final rule that would retain trust preferred securities in Tier I capital of bank holding companies, but with stricter quantitative limits and clearer standards. In 2009, the FRB announced the adoption of a final rule that delays until March 31, 2011, the effective date of new limits whereby the aggregate amount of trust preferred securities would be limited to 25% of Tier I capital elements, net of goodwill. The Company has evaluated the impact that the new limits would have and has concluded that it would still be in compliance with all required regulatory capital ratios.

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Financial Regulatory Reform Legislation

On July 21, 2010, the Dodd-Frank Act, which comprehensively reforms the regulation of financial institutions, products and services, was signed into law. Among other things, the Dodd-Frank Act grants the FRB increased supervisory authority and codifies the source of strength doctrine. The Dodd-Frank Act also provides for new capital standards that eliminate the treatment of trust preferred securities as Tier 1 capital, however existing trust preferred securities are grandfathered for banking entities with less than $15 billion of assets, such as the Company. The Dodd-Frank Act establishes the Bureau of Consumer Financial Protection (CFPB) as an independent bureau of the FRB. The CFPB has the exclusive authority to prescribe rules governing the provision of consumer financial products and services. The Banks will continue to be examined by their primary federal regulator for compliance with such rules. The Dodd-Frank Act also modifies certain deposit insurance requirements, as discussed in Part I. Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Condensed Consolidated Balance Sheets and Discussion Deposits. The payment of interest on business demand deposit accounts is permitted by the Dodd-Frank Act. The Dodd-Frank Act authorizes the FRB to regulate interchange fees for debit card transactions and establishes new minimum mortgage underwriting standards for residential mortgages.

In addition, the Dodd-Frank Act grants the SEC express authority to adopt rules granting proxy access for shareholder nominees, and grants shareholders a non-binding vote on executive compensation and golden parachute payments. Pursuant to modifications of the proxy rules under the Dodd-Frank Act, the Company will be required to disclose the relationship between executive pay and financial performance, the ratio of the median pay of all employees to the pay of the chief executive officer, and employee and director hedging activities. The Dodd-Frank Act requires that stock exchanges change their listing rules to require that each member of a listed company s compensation committee be independent and be granted the authority and funding to retain independent advisors and to prohibit the listing of any security of an issuer that does not adopt policies governing the claw back of excess executive compensation based on inaccurate financial statements.

Because many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, it is difficult to forecast the impact that such rulemaking will have on the Company, its customers or the financial industry. Certain provisions of the Dodd-Frank Act that affect deposit insurance assessments, the payment of interest on demand deposits and interchange fees could increase the costs associated with the Company s deposit-generating activities, as well as place limitations on the revenues that those deposits may generate.

Results of operations for the three and nine months ended September 30, 2010 versus September 30, 2009

Net Income/ (Loss). The Company recorded net losses from continuing operations for the three and nine months ended September 30, 2010 of $6.9 million and $0.9 million respectively, compared to net income of $0.4 million and $4.5 million for the three and nine months ended September 30, 2009, respectively. Net losses attributable to the Company, which include income/ (loss) from both continuing and discontinued operations, for the three and nine months ended September 30, 2010 were $7.2 million and $1.0 million respectively, compared to net losses of $31.4 million and $37.0 million for the same periods in 2009.

The Company recognized losses per share from continuing operations for the three and nine months ended September 30, 2010 of $0.10 per share and $0.18 per share, respectively, compared to losses of $0.15 per share and $0.37 per share for the same periods in 2009. Losses per share attributable to the common shareholders, which includes both continuing and discontinued operations, for the three and nine months ended September 30, 2010 were $0.10 per share and $0.15 per share, respectively, compared to losses of $0.60 per share and $0.95 per share for the same periods in 2009. Net income/ (loss) from continuing operations in both 2010 and 2009 was offset by charges that reduce income available to common shareholders. Charges that reduce income available to common shareholders include preferred dividends and charges that are accounted for as preferred dividends such as the accretion of discounts and beneficial conversion features on preferred stock and the amounts related to the change in redemption value of noncontrolling interests. These charges decreased $10.0 million to a benefit of $0.2 million in the third quarter of 2010 from a charge of $9.9 million for the same period in 2009. For the nine months ended September 30, 2010, these charges decreased $16.9 million to a charge of $9.5 million from a charge of $26.4 million for the same period in 2009. The decreases for both the three and nine month periods were primarily due to the 2009 accretion of the beneficial conversion feature of the Series B Preferred stock, which was fully accreted as of December 31, 2009, and the acquisition of the remaining 19% interest in KLS in early 2010, which affected the change in redemption value of noncontrolling interests. These decreases were partially offset by the 2010 accelerated accretion of the discount on the Series C Preferred stock in conjunction with its repurchase during the first half of 2010. The discount on the Series C Preferred stock was fully accreted as of June 30, 2010. See Part I. Item 1. Notes to Unaudited Consolidated Financial Statements - Note 2: Earnings Per Share for further detail on these charges to income available to common shareholders.

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The following discussions are based on the Company s continuing operations, unless otherwise stated.

Selected financial highlights are presented in the table below:

	Three months ended September 30,			Nine months ended September 30,		
	2010	**2009**	**% Change**	**2010**	**2009**	**% Change**
	(In thousands)			**(In thousands)**		
Net interest income	**$ 46,444**	$ 39,717	17%	**$ 135,772**	$ 118,428	15%
Fees and other income	**27,299**	26,523	3%	**80,360**	84,085	-4%
Total revenue	**73,743**	66,240	11%	**216,132**	202,513	7%
Provision for loan losses	**32,050**	9,099	nm	**54,627**	31,155	75%
Operating expense	**60,979**	55,936	9%	**173,678**	165,219	5%
Income tax expense/ (benefit)	**(12,412)**	815	nm	**(11,278)**	1,629	nm
Net income/ (loss) from continuing operations	**(6,874)**	390	nm	**(895)**	4,510	nm
Net income/ (loss) from discontinued operations	**267**	(30,614)	nm	**1,812**	(39,006)	nm
Net income/ (loss) before attribution to noncontrolling interests	**(6,607)**	(30,224)	78%	**917**	(34,496)	nm
Less: net income attributable to noncontrolling interests	**629**	1,136	-45%	**1,929**	2,481	-22%
Net income/ (loss) attributable to the Company	**$ (7,236)**	$ (31,360)	77%	**$ (1,012)**	$ (36,977)	97%

nm = not meaningful

Net interest income. Net interest income represents the difference between interest earned, primarily on loans and investments, and interest paid on funding sources, primarily deposits and borrowings. Interest rate spread is the difference between the average rate earned on total interest earning assets and the average rate paid on total interest-bearing liabilities. Net Interest Margin (NIM) is the amount of net interest income, on a fully taxable-equivalent (FTE) basis, expressed as a percentage of average interest-earning assets. The average rate earned on earning assets is the amount of annualized taxable equivalent interest income expressed as a percentage of average earning assets. The average rate paid on interest-bearing liabilities is equal to annualized interest expense as a percentage of average interest-bearing liabilities. When credit quality declines and loans are placed on non-accrual status, NIM can decrease since the same assets are earning less income. Loans that are classified as substandard but are still accruing interest income at September 30, 2010 could be placed on non-accrual status if their credit quality declines further.

Net interest income for the three months ended September 30, 2010 was $46.4 million, an increase of $6.7 million, or 17%, compared to the same period in 2009. Net interest income for the nine months ended September 30, 2010 was $135.8 million, an increase of $17.3 million, or 15%, compared to the same period in 2009. The increases for both the three and nine month periods are primarily due to increased business volumes (change in average balance multiplied by the prior year average rate) which increased net interest income by $4.0 million and $14.4 million for the three and nine month periods, respectively, and decreases in rates paid on borrowings and deposits (change in average interest rate multiplied by the prior year average balance), which increased net interest income by $6.8 million and $19.2 million for the three and nine month periods, respectively. These increases were partially offset by decreases in rates earned on interest-bearing assets, which decreased net interest income by $4.1 million and $16.2 million for the three and nine month periods, respectively. The NIM was 3.42% for the three months ended September 30, 2010, an increase of 38 basis points compared to the same period in 2009. For the nine months ended September 30, 2010, NIM was 3.31%, an increase of 18 basis points compared to the same period in 2009. The increase in the Company s NIM for the three and nine month periods compared to the same periods in 2009 is a result of several factors including: decreases in rates paid on deposits, a higher percentage of interest-bearing liabilities that have been raised in the form of lower cost deposits rather than borrowed funds, and certificates of deposit maturing and rolling into money market accounts.

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The following tables set forth the composition of the Company s NIM on a FTE basis for the three and nine months ended September 30, 2010 and 2009, however the discussion following these tables reflects non-FTE data.

	Three months ended September 30,					
	Average balance		Interest earned/ paid		Average rate	
	2010	2009	2010	2009	2010	2009
			(In thousands)			
Earning assets:						
Taxable investment securities	**$ 314,636**	$ 181,246	**$ 1,613**	$ 1,399	**2.05%**	3.09%
Non-taxable investment securities (1)	**198,369**	169,000	**1,951**	1,995	**3.93%**	4.72%
Mortgage-backed securities	**219,651**	313,736	**1,902**	3,278	**3.46%**	4.18%
Federal funds sold and other	**351,850**	461,584	**223**	389	**0.25%**	0.33%
Loans (2)						
Commercial, construction and land (1)	**2,587,847**	2,708,943	**36,481**	39,292	**5.56%**	5.75%
Residential mortgage	**1,637,831**	1,385,723	**19,621**	18,028	**4.79%**	5.20%
Home equity and other consumer	**295,395**	210,366	**3,116**	2,372	**4.16%**	4.43%
Total loans	**4,521,073**	4,305,032	**59,218**	59,692	**5.19%**	5.51%
Total earning assets	**$ 5,605,579**	$ 5,430,598	**64,907**	66,753	**4.59%**	4.89%
Interest-bearing liabilities:						
Deposits	**$ 3,535,464**	$ 3,296,536	**8,710**	15,049	**0.98%**	1.81%
Borrowed funds	**808,104**	1,008,013	**7,903**	10,256	**3.85%**	4.04%
Total interest-bearing liabilities	**$ 4,343,568**	$ 4,304,549	**16,613**	25,305	**1.51%**	2.33%
Net interest income, FTE Basis			**$ 48,294**	$ 41,448		
Less: FTE adjustment			**1,850**	1,731		
Net interest income			**$ 46,444**	$ 39,717		
Interest rate spread					**3.08%**	2.56%
Net interest margin					**3.42%**	3.04%

(1) Interest income on non-taxable investments and loans is presented on a FTE basis using the federal statutory rate. The discussion following these tables reflects non-FTE data.

(2) Includes loans held for sale and non-accrual loans.

	Nine months ended September 30,					
	Average balance		Interest earned/ paid		Average rate	
	2010	2009	2010	2009	2010	2009
			(In thousands)			
Earning assets:						
Taxable investment securities	**$ 293,883**	$ 202,185	**$ 4,742**	$ 5,238	**2.15%**	3.46%
Non-taxable investment securities (1)	**189,991**	191,827	**5,928**	7,207	**4.16%**	5.01%
Mortgage-backed securities	**240,176**	330,641	**6,228**	10,660	**3.46%**	4.34%
Federal funds sold and other	**515,648**	306,243	**943**	741	**0.24%**	0.32%
Loans (2)						
Commercial, construction and land (1)	**2,569,262**	2,693,669	**109,482**	116,962	**5.59%**	5.78%

Residential mortgage	**1,572,909**	1,342,916	**57,758**	53,332	**4.90%**	5.30%
Home equity and other consumer	**278,313**	204,487	**9,418**	6,821	**5.01%**	4.42%
Total loans	**4,420,484**	4,241,072	**176,658**	177,115	**5.30%**	5.56%
Total earning assets	**$ 5,660,182**	$ 5,271,968	**194,499**	200,961	**4.56%**	5.09%
Interest-bearing liabilities:						
Deposits	**$ 3,565,802**	$ 3,084,009	**28,721**	46,001	**1.08%**	1.99%
Borrowed funds	**829,409**	1,100,109	**24,626**	31,190	**3.93%**	3.78%
Total interest-bearing liabilities	**$ 4,395,211**	$ 4,184,118	**53,347**	77,191	**1.62%**	2.46%
Net interest income, FTE Basis			**$ 141,152**	$ 123,770		
Less: FTE adjustment			**5,380**	5,342		
Net interest income			**$ 135,772**	$ 118,428		
Interest rate spread					**2.94%**	2.63%
Net interest margin					**3.31%**	3.13%

(1) Interest income on non-taxable investments and loans is presented on a FTE basis using the federal statutory rate. The discussion following these tables reflects non-FTE data.

(2) Includes loans held for sale and non-accrual loans.

Interest and Dividend Income. Interest and dividend income for the three months ended September 30, 2010 was $63.1 million, a decrease of $2.0 million, or 3%, compared to the same period in 2009. Interest and dividend income for the nine months ended September 30, 2010 was $189.1 million, a decrease of $6.5 million, or 3%, compared to the same period in 2009. The decreases for both the three and nine month periods were primarily due to lower rates, a change in the mix of investments toward short-term liquid investments, which have lower yields, and a greater focus on residential loan growth, where yields are lower than in commercial and industrial loans and commercial real estate.

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Interest income on commercial loans (including construction loans), on a non-FTE basis, for the three months ended September 30, 2010 was $35.3 million, a decrease of $3.0 million, or 8%, compared to the same period in 2009 as a result of a 19 basis point decrease in the average yield and a 4% decrease in the average balance. For the nine months ended September 30, 2010, interest income on commercial loans was $106.2 million, a decrease of $8.0 million, or 7%, compared to the same period in 2009 as a result of a 14 basis point decrease in the average yield and a 5% decrease in the average balance. The decline in the average balances are related to the Banks decreasing their portfolio of construction and land loans as well as reduced commercial real estate and commercial and industrial loan originations due to current economic conditions, as discussed above in Part I. Item 2. Management s Discussion and Analysis Loan Portfolio and Credit Quality. The decrease in the average yield is related to the high level of non accrual loans as well as the low interest rate environment.

Interest income on residential mortgage loans for the three months ended September 30, 2010 was $19.6 million, an increase of $1.6 million, or 9%, compared to the same period in 2009 as a result of an 18% increase in the average balance, partially offset by a 41 basis point decrease in the average yield. For the nine months ended September 30, 2010, residential interest income was $57.8 million, an increase of $4.4 million, or 8%, compared to the same period in 2009 as a result of a 17% increase in the average balance, partially offset by a 40 basis point decrease in the average yield. The increase in the average balances of residential mortgage loans was primarily due to the organic growth of loan portfolios at the Banks and loan purchases by the Banks. The decrease in the yields was primarily due to adjustable rate mortgage (ARM) loans repricing to lower rates. The decline in U.S. Treasury yields, the index to which the ARMs are typically linked, has decreased the yields on mortgage loans.

Interest income on home equity and other consumer loans for the three months ended September 30, 2010 was $3.1 million, an increase of $0.7 million, or 31%, compared to the same period in 2009, as a result of a 40% increase in the average balance, partially offset by a 27 basis point decrease in average yield. For the nine months ended September 30, 2010, home equity and other consumer interest income was $9.4 million, an increase of $2.6 million, or 38%, compared to the same period in 2009, as a result of a 36% increase in the average balance and a 59 basis point increase in average yield. The increase in the average balances and yields of home equity and other consumer loans was primarily due to a reclassification of some consumer loans during 2010, which in turn led to the mix of loans weighted more heavily to consumer loans over lower-yielding home equity loans.

Investment income, on a non-FTE basis, for the three months ended September 30, 2010 was $5.0 million, a decrease of $1.3 million, or 21%, compared to the same period in 2009, as a result of a 41 basis point decrease in the average yield and a 4% decrease in the average balance. For the nine months ended September 30, 2010, investment income was $15.8 million, a decrease of $5.6 million, or 26%, compared to the same period in 2009, as a result of a 106 basis point decrease in the average yield, offset by a 20% increase in the average balance. The changes in the average balances were primarily due to the Banks managing their liquidity levels and, in some cases, adjusting their investment portfolios as well. The decline in the average yield was primarily due to lower yields on short-term liquid investments such as federal funds and lower rates on U.S. Treasury and Agency securities. Investment decisions are made based on anticipated liquidity, loan demand, and asset-liability management considerations.

Interest expense. Interest expense on deposits and borrowings for the three months ended September 30, 2010 was $16.6 million, a decrease of $8.7 million, or 34%, compared to the same period in 2009. For the nine months ended September 30, 2010, interest expense was $53.3 million, a decrease of $23.8 million, or 31%, compared to the same period in 2009. The decrease was attributed to the decreases in the average rate paid on deposits. Additionally, there was a decrease in the average balances outstanding of borrowings primarily due to the repurchase of a portion of the junior subordinated debentures in the fourth quarter of 2009.

Interest expense on deposits for the three months ended September 30, 2010 was $8.7 million, a decrease of $6.3 million, or 42%, compared to the same period in 2009, as a result of an 83 basis point decrease in the average rate, partially offset by a 7% increase in the average balance. For the nine months ended September 30, 2010, interest expense on deposits was $28.7 million, a decrease of $17.3 million, or 38%, compared to the same period in 2009, as a result of a 91 basis point decrease in the average rate, offset by a 16% increase in the average balance. The increase in average deposits was primarily due to organic growth of the Banks core deposits, particularly as certificates of deposit matured and rolled into money market accounts. The Banks participate in the TLGP, which insures all demand deposit checking accounts and certain NOW accounts. The decrease in the average rates paid was primarily due to the Banks ability to lower interest rates on money market accounts and certificates of deposit due to the decline in short-term rates.

Interest paid on borrowings for the three months ended September 30, 2010 was $7.9 million, a decrease of $2.4 million, or 23%, compared to the same period in 2009, as a result of a 20% decrease in the average balance and a 19 basis point decrease in the average rate paid. For the nine months ended September 30, 2010, interest paid on borrowings was

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$24.6 million, a decrease of $6.6 million, or 21%, compared to the same period in 2009, as a result of a 25% decrease in the average balance, partially offset by a 15 basis point increase in the average rate paid. The decrease in the average balances of borrowings was primarily due to some of the Banks reducing their reliance on FHLB borrowings as deposit growth outpaced loan growth, and the partial repurchase of the Company s junior subordinated debentures. The Company repurchased $44.5 million of its junior subordinated debentures during the fourth quarter of 2009.

Provision for loan losses. The provision for loan losses for the three months ended September 30, 2010 was $32.1 million, an increase of $23.0 million compared to the same period in 2009. For the nine months ended September 30, 2010, the provision for loan losses was $54.6 million, an increase of $23.5 million, or 75%, compared to the same period in 2009. The increase for the three months ended September 30, 2010, as compared to the three months ended September 30, 2009, was primarily related to the Northern California Bank. In the third quarter of 2010, the Northern California Bank experienced certain events on a limited number of large loans such as: customer bankruptcies, customer requests for loan modifications or concessions, declining financial strength of the borrowers, and the notification of the borrower s inability to continue making payments. These third quarter 2010 events resulted in loans being downgraded and/or charged off. Due to the increased potential loss on the downgraded loans, actual charge-offs incurred, or loan-level specific reserves established, additional loan loss provision was needed.

The prolonged economic downturn also had a significant impact on the ability of borrowers to continue making payments. The increase for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009 was generally related the increase in problem loan trends and related loan charge-offs or specific reserves, particularly at the Northern California Bank.

The provision for loan losses is determined as a result of the required level of the allowance for loan losses, estimated by management, which reflects the inherent risk of loss in the loan portfolio as of the balance sheet dates. The factors used by management to determine the level of the allowance for loan losses include the trends in problem loans, economic and business conditions, strength of management, real estate collateral values, and underwriting standards. For further details, see Part I. Item 2. Management s Discussion and Analysis - Loan Portfolio and Credit Quality above.

Fees and other income. Fees and other income for the three months ended September 30, 2010 was $27.3 million, a decrease of $0.8 million, or 3%, compared to the same period in 2009. For the nine months ended September 30, 2010, fees and other income was $80.4 million, a decrease of $3.7 million, or 4%, compared to the same period in 2009. The three month increase is primarily due to increases in investment management and trust fees and wealth advisory fees, while the nine month decrease is primarily due to the decrease in gains on sale of loans (including the Southern California non-strategic loan portfolio) and the increase in losses incurred on OREO property including losses on sales and additional valuation allowances taken. These decreases in income were partially offset by the increases in investment management and trust fees and wealth advisory fees.

Investment management and trust fee income for the three months ended September 30, 2010 was $14.3 million, an increase of $0.6 million, or 4%, compared to the same period in 2009. For the nine months ended September 30, 2010, investment management and trust fee income was $44.3 million, an increase of $4.9 million, or 12%, compared to the same period in 2009. The increases are primarily due to the $0.7 billion, or 7% increase in AUM at the Banks and Investment Managers as compared to September 30, 2009, which is composed of $1.1 billion in market appreciation, slightly offset by net outflows of $0.4 billion. AUM as of September 30, 2010 for the Banks and Investment Managers was $11.1 billion. The increasing AUM balance is primarily a result of market conditions recovering from the steep declines experienced in the second half of 2008 and continuing into early 2009. Management fees for the Company s Banks and Investment Management affiliates are typically calculated based on a percentage of AUM.

Wealth advisory fee income for the three months ended September 30, 2010 was $9.5 million, an increase of $0.6 million, or 7%, compared to the same period in 2009. For the nine months ended September 30, 2010, wealth advisory fee income was $28.1 million, an increase of $2.4 million, or 9%, compared to the same period in 2009. The Company s wealth advisory fee income was also affected by the stabilizing market conditions. AUM as of September 30, 2010, managed by the Wealth Advisors was $7.6 billion, an increase of $0.6 billion, or 9%, compared to September 30, 2009. The increase in AUM is composed of $0.2 billion in market appreciation and positive net inflows of $0.4 billion. The Wealth Advisory segment has experienced positive net inflows in 12 of the past 13 quarters.

Gain on sale of investments, net, for each of the three month periods ended September 30, 2010 and 2009 was $1.1 million. For the nine months ended September 30, 2010, gain on sale of investments was $3.6 million, a decrease of $1.9 million, or 35%, compared to the same period in 2009. The Banks periodically sell investments as part of their interest rate risk management programs. The Banks investment portfolios primarily consist of investment grade securities that have increased in fair value as interest rates have fallen.

Gain on sale of loans, net (including the non-strategic loans portfolio in Southern California), for the three months ended September 30, 2010 was $0.7 million, a decrease of $0.1 million, or 9%, compared to the same period in 2009. For the nine months ended September 30, 2010, gain on sale of loans (including the non-strategic loans portfolio in Southern California), was $1.7 million, a decrease of $3.0 million, or 64%, compared to the same period in 2009. In the nine months ended September 30, 2009, the Company recognized gains on sale of the non-strategic loans portfolio in Southern California of $2.5 million. There were no gains or losses recognized on the Southern California non-strategic loans portfolio in the same period of 2010.

Gain/ (loss) on sale of OREO, net for the three months ended September 30, 2010 was a loss of $0.6 million, a decrease of $0.2 million, or 34%, compared to a loss on sale of OREO of $0.5 million for the same period in 2009. For the nine months ended September 30, 2010, loss on sale of OREO was $2.6 million, a decrease of $4.4 million compared to a gain on sale of OREO of $1.8 million for the same period in 2009. The change in gain/ (loss) on sale of OREO properties is primarily related to a higher level of additional valuation allowances taken and losses on disposal of properties during 2010 as the value of these properties continued to decline subsequent to their respective transfers into OREO.

Other income for the three months ended September 30, 2010 was a $0.6 million, a decrease of $0.6 million, or 53%, compared to the same period in 2009. For the nine months ended September 30, 2010, other income was $1.0 million, a decrease of $1.2 million, or 54%, compared to the same period in 2009. The decreases are primarily related to losses on certain of the Company s cost method investments.

Operating Expense. Operating expense for the three months ended September 30, 2010 was $61.0 million, an increase of $5.0 million, or 9%, compared to the same period in 2009. For the nine months ended September 30, 2010, operating expense was $173.7 million, an increase of $8.5 million, or 5%, compared to the same period in 2009. The increases are primarily related to increases in salaries and employee benefits expense, offset by decreases in intangibles amortization and FDIC insurance expense.

Salaries and employee benefits expense, the largest component of operating expense, for the three months ended September 30, 2010 was $38.7 million, an increase of $5.8 million, or 18%, compared to the same period in 2009. For the nine months ended September 30, 2010, salaries and employee benefits expense was $107.2 million, an increase of $11.9 million, or 12%, compared to the same period in 2009. The increase is primarily due to the accrual of certain separation and retirement expenses, increased fixed compensation, and increases in variable and equity compensation as a result of savings recognized in 2009.

Professional services for the three months ended September 30, 2010 was $4.9 million, an increase of $0.4 million, or 10%, compared to the same period in 2009. For the nine months ended September 30, 2010, professional services expense was $14.0 million, a decrease of $0.3 million, or 2%, compared to the same period in 2009. The three month increase was related to increased legal services due to additional loan workouts and increased audit and tax service fees. The year-to-date decrease is primarily due to the non-recurring 2009 expenses related to the divestitures, partially offset in the current quarter by legal and audit fees.

Amortization of intangibles for the three months ended September 30, 2010 was $1.3 million, a decrease of $0.7 million, or 36%, compared to the same period in 2009. For the nine months ended September 30, 2010, amortization of intangibles was $4.0 million, a decrease of $2.0 million, or 33%, compared to the same period in 2009. The decrease is related to the accelerated amortization of core deposit intangibles at Charter, which were completely amortized by the end of 2009.

FDIC insurance expense for the three months ended September 30, 2010 was $2.1 million, a decrease of $0.5 million, or 18%, compared to the same period in 2009. For the nine months ended September 30, 2010, FDIC insurance expense was $6.5 million, a decrease of $1.2 million, or 16%, compared to the same period in 2009. The decrease for the nine month period is primarily due to the $2.5 million special assessment the FDIC levied in the second quarter of 2009. This decrease is partially offset by increases for both periods primarily due to higher assessment rates, increased deposits, and the additional cost for our Banks participating in the TLGP. Participating in the TLGP has helped our Banks increase their deposits as customers with balances in excess of the FDIC insurance coverage of $250 thousand can receive 100% FDIC insurance coverage on certain deposit products covered by the TLGP. The mix of deposits and the FDIC s ratings of our Banks have an effect on the amount of FDIC insurance expense as well.

Income Tax Expense/ (Benefit). Income tax expense/ (benefit) for continuing operations for the three and nine months ended September 30, 2010 was a benefit of $12.4 million and $11.3 million, respectively. The effective tax rate for the nine months ended September 30, 2010 was 89.8%, compared to an effective tax rate for the nine months ended September 30, 2009 of 4.0%. See Part I. Item 1. Notes to Unaudited Consolidated Financial Statements - Note 10: Income Taxes for further detail.

Recent Accounting Developments

In July 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU 2010-20). ASU 2010-20 requires that more information be disclosed about the credit quality of a company s loans and the allowance for loan losses held against those loans. A company will need to disaggregate new and existing disclosures based on how it develops its allowance for loan losses and how it manages credit exposures. Existing disclosures to be presented on a disaggregated basis include a rollforward of the allowance for loan losses and the related recorded investment in such loans. Additional disclosure is also required regarding information about troubled debt restructurings and significant purchases and sales of loans during the reporting period by class. ASU 2010-20 requires certain disclosures as of the end of a reporting period effective for periods ending on or after December 15, 2010. Other required disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. The Company anticipates that the adoption of ASU 2010-20 will lead to additional, more comprehensive disclosures but will not have a material effect on its financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in the Interest Rate Sensitivity and Market Risk as described in Part II. Item 7A. Quantitative and Qualitative Disclosures About Market Risk Interest Rate Sensitivity and Market Risk in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

As required by Rule 13a-15 under the Securities Exchange Act of 1934, the Company has evaluated, with the participation of management, including the Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this report, the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the Company s disclosure controls and procedures, the Company and its management recognize that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures.

Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures were effective as of September 30, 2010 in ensuring that material information required to be disclosed by the Company, including its consolidated subsidiaries, was made known to the certifying officers by others within the Company and its consolidated subsidiaries in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reporting within the time periods specified in the Securities Exchange Commission rules and forms. On a quarterly basis, the Company evaluates the disclosure controls and procedures, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that the Company s systems evolve with its business.

(b) Change in internal controls over financial reporting.

There have been no changes in the Company s internal controls over financial reporting that occurred during the quarter ended September 30, 2010, that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting.

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PART II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Before deciding to invest in us or deciding to maintain or increase your investment, you should carefully consider the risks described in Part I. Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2009 as filed with the SEC. There have been no material changes to these risk factors since the filing of that report.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

Exhibit No.	Description	Incorporated by Reference			Filed or Furnished with this 10-Q
		Form	SEC Filing Date	Exhibit Number	
10.1	Agreement, dated October 8, 2010, by and between the Company and Walter M. Pressey	8-K	10/14/2010	10.1	Filed
10.2	Agreement, dated October 8, 2010, by and between the Company and Joseph H. Cromarty	8-K	10/14/2010	10.2	Filed
10.3	Consulting Agreement, dated October 22, 2010, by and between the Company and Joseph H. Cromarty	8-K	10/27/2010	10.1	Filed
31.1	Certification of Chief Executive Officer pursuant to Rule 13(a)-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934.				Filed
31.2	Certification of Chief Financial Officer pursuant to Rule 13(a)-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934.				Filed
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				Furnished
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				Furnished

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SIGNATURES

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

	Boston Private Financial Holdings, Inc. (Registrant)
November 5, 2010	/s/ Clayton G. Deutsch Clayton G. Deutsch President and Chief Executive Officer
November 5, 2010	/s/ David J. Kaye David J. Kaye Executive Vice President and Chief Financial Officer