

BROOKLINE BANCORP INC  
Form 10-Q  
August 08, 2011  
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

## FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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 0-23695

**Brookline Bancorp, Inc.**

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(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**04-3402944**

(I.R.S. Employer Identification No.)

**160 Washington Street, Brookline, MA**

(Address of principal executive offices)

**02447-0469**

(Zip Code)

**(617) 730-3500**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant (1) 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 (§232.405 of this chapter) 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

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 ☒

As of August 5, 2011, the number of shares of common stock, par value \$0.01 per share, outstanding was 59,203,947.

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**BROOKLINE BANCORP, INC. AND SUBSIDIARIES**

**FORM 10-Q**

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Table of Contents**Part I - Financial Information****Item 1. Financial Statements****BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Consolidated Balance Sheets****(In thousands except share data)**

|                                                                                                                             | June 30,<br>2011 | December 31,<br>2010 |
|-----------------------------------------------------------------------------------------------------------------------------|------------------|----------------------|
|                                                                                                                             | (unaudited)      |                      |
| <b><u>ASSETS</u></b>                                                                                                        |                  |                      |
| Cash and due from banks                                                                                                     | \$ 23,412        | \$ 18,451            |
| Short-term investments                                                                                                      | 93,861           | 47,457               |
| Securities available for sale                                                                                               | 274,448          | 304,540              |
| Restricted equity securities                                                                                                | 39,794           | 36,335               |
| Loans                                                                                                                       | 2,588,923        | 2,253,538            |
| Allowance for loan losses                                                                                                   | (30,847)         | (29,695)             |
| Net loans                                                                                                                   | 2,558,076        | 2,223,843            |
| Accrued interest receivable                                                                                                 | 9,325            | 8,596                |
| Bank premises and equipment, net                                                                                            | 34,727           | 11,126               |
| Deferred tax asset                                                                                                          | 12,541           | 10,206               |
| Prepaid income taxes                                                                                                        | 728              | 78                   |
| Goodwill                                                                                                                    | 45,966           | 43,241               |
| Identified intangible assets, net of accumulated amortization of \$11,831 and \$11,081, respectively                        | 6,034            | 1,871                |
| Other assets                                                                                                                | 15,670           | 14,798               |
| Total assets                                                                                                                | \$ 3,114,582     | \$ 2,720,542         |
| <b><u>LIABILITIES AND EQUITY</u></b>                                                                                        |                  |                      |
| Deposits                                                                                                                    | \$ 2,159,133     | \$ 1,810,899         |
| Federal Home Loan Bank advances                                                                                             | 421,355          | 375,569              |
| Other borrowed funds                                                                                                        | 4,789            | 13,000               |
| Mortgagors' escrow accounts                                                                                                 | 6,847            | 5,843                |
| Accrued expenses and other liabilities                                                                                      | 18,742           | 17,283               |
| Total liabilities                                                                                                           | 2,610,866        | 2,222,594            |
| Equity:                                                                                                                     |                  |                      |
| Brookline Bancorp, Inc. stockholders' equity:                                                                               |                  |                      |
| Preferred stock, \$0.01 par value; 50,000,000 shares authorized; none issued                                                |                  |                      |
| Common stock, \$0.01 par value; 200,000,000 shares authorized; 64,447,889 shares and 64,445,389 shares issued, respectively | 644              | 644                  |
| Additional paid-in capital                                                                                                  | 524,841          | 524,515              |
| Retained earnings, partially restricted                                                                                     | 36,633           | 32,357               |
| Accumulated other comprehensive income                                                                                      | 3,254            | 2,348                |
| Treasury stock, at cost - 5,373,733 shares                                                                                  | (62,107)         | (62,107)             |
| Unallocated common stock held by ESOP - 401,316 shares and 424,422 shares, respectively                                     | (2,188)          | (2,314)              |
| Total Brookline Bancorp, Inc. stockholders' equity                                                                          | 501,077          | 495,443              |

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|                                       |              |              |
|---------------------------------------|--------------|--------------|
| Noncontrolling interest in subsidiary | 2,639        | 2,505        |
| Total equity                          | 503,716      | 497,948      |
| Total liabilities and equity          | \$ 3,114,582 | \$ 2,720,542 |

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Consolidated Statements of Income****(In thousands except share data)**

|                                                                       | <b>Three months ended<br/>June 30,</b> |             | <b>Six months ended<br/>June 30,</b> |             |
|-----------------------------------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                                                       | <b>2011</b>                            | <b>2010</b> | <b>2011</b>                          | <b>2010</b> |
|                                                                       | <b>(unaudited)</b>                     |             |                                      |             |
| Interest income:                                                      |                                        |             |                                      |             |
| Loans                                                                 | \$ 33,617                              | \$ 30,774   | \$ 65,008                            | \$ 61,642   |
| Debt securities                                                       | 1,754                                  | 1,960       | 3,511                                | 3,883       |
| Short-term investments                                                | 26                                     | 29          | 50                                   | 44          |
| Equity securities                                                     | 55                                     | 12          | 92                                   | 36          |
| Total interest income                                                 | 35,452                                 | 32,775      | 68,661                               | 65,605      |
| Interest expense:                                                     |                                        |             |                                      |             |
| Deposits                                                              | 5,138                                  | 5,348       | 10,033                               | 11,259      |
| Borrowed funds                                                        | 2,685                                  | 3,699       | 5,293                                | 7,473       |
| Total interest expense                                                | 7,823                                  | 9,047       | 15,326                               | 18,732      |
| Net interest income                                                   | 27,629                                 | 23,728      | 53,335                               | 46,873      |
| Provision for credit losses                                           | 839                                    | 661         | 1,898                                | 1,928       |
| Net interest income after provision for credit losses                 | 26,790                                 | 23,067      | 51,437                               | 44,945      |
| Non-interest income:                                                  |                                        |             |                                      |             |
| Fees, charges and other income                                        | 1,687                                  | 1,132       | 2,966                                | 1,958       |
| Penalty from prepayment of borrowed funds                             |                                        | (913)       |                                      | (913)       |
| Gain on sales of securities                                           |                                        | 834         | 80                                   | 834         |
| Loss on impairment of securities                                      |                                        |             |                                      | (49)        |
| Total non-interest income                                             | 1,687                                  | 1,053       | 3,046                                | 1,830       |
| Non-interest expense:                                                 |                                        |             |                                      |             |
| Compensation and employee benefits                                    | 7,795                                  | 5,482       | 14,606                               | 11,114      |
| Occupancy                                                             | 1,499                                  | 1,144       | 2,873                                | 2,245       |
| Equipment and data processing                                         | 2,290                                  | 1,886       | 4,365                                | 3,711       |
| Professional services                                                 | 1,458                                  | 995         | 2,247                                | 1,931       |
| FDIC insurance                                                        | 324                                    | 411         | 757                                  | 828         |
| Advertising and marketing                                             | 407                                    | 412         | 729                                  | 541         |
| Amortization of identified intangible assets                          | 455                                    | 306         | 750                                  | 612         |
| Other                                                                 | 1,649                                  | 1,362       | 2,999                                | 2,716       |
| Total non-interest expense                                            | 15,877                                 | 11,998      | 29,326                               | 23,698      |
| Income before income taxes                                            | 12,600                                 | 12,122      | 25,157                               | 23,077      |
| Provision for income taxes                                            | 5,273                                  | 4,876       | 10,281                               | 9,315       |
| Net income                                                            | 7,327                                  | 7,246       | 14,876                               | 13,762      |
| Less net income attributable to noncontrolling interest in subsidiary | 326                                    | 163         | 609                                  | 326         |
| Net income attributable to Brookline Bancorp, Inc.                    | \$ 7,001                               | \$ 7,083    | \$ 14,267                            | \$ 13,436   |

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## Earnings per common share attributable to Brookline Bancorp, Inc.:

|         |    |      |    |      |    |      |    |      |
|---------|----|------|----|------|----|------|----|------|
| Basic   | \$ | 0.12 | \$ | 0.12 | \$ | 0.24 | \$ | 0.23 |
| Diluted |    | 0.12 |    | 0.12 |    | 0.24 |    | 0.23 |

## Weighted average common shares outstanding during the period:

|         |            |            |            |            |
|---------|------------|------------|------------|------------|
| Basic   | 58,629,265 | 58,574,230 | 58,620,467 | 58,564,652 |
| Diluted | 58,630,908 | 58,579,529 | 58,624,699 | 58,569,733 |

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income****(In thousands)**

|                                                                                           | <b>Three months ended<br/>June 30,</b> |             | <b>Six months ended<br/>June 30,</b> |             |
|-------------------------------------------------------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                                                                           | <b>2011</b>                            | <b>2010</b> | <b>2011</b>                          | <b>2010</b> |
|                                                                                           |                                        |             | <b>(unaudited)</b>                   |             |
| Net income                                                                                | \$ 7,327                               | \$ 7,246    | \$ 14,876                            | \$ 13,762   |
| Other comprehensive income, net of taxes:                                                 |                                        |             |                                      |             |
| Unrealized securities holding gains excluding non-credit gain on impairment of securities | 1,970                                  | 1,378       | 1,539                                | 2,508       |
| Non-credit gain (loss) on impairment of securities                                        | 3                                      | (22)        | 5                                    | (22)        |
| Net unrealized securities holding gains before income taxes                               | 1,973                                  | 1,356       | 1,544                                | 2,486       |
| Income tax expense                                                                        | (723)                                  | (500)       | (581)                                | (921)       |
| Net unrealized securities holding gains                                                   | 1,250                                  | 856         | 963                                  | 1,565       |
| Adjustment of accumulated obligation for postretirement benefits                          | (5)                                    | (5)         | (10)                                 | (10)        |
| Income tax benefit                                                                        | 2                                      | 2           | 4                                    | 4           |
| Net adjustment of accumulated obligation for postretirement benefits                      | (3)                                    | (3)         | (6)                                  | (6)         |
| Net unrealized holding gains                                                              | 1,247                                  | 853         | 957                                  | 1,559       |
| Less reclassification adjustment for securities gains (losses) included in net income:    |                                        |             |                                      |             |
| Gain on sales of securities                                                               |                                        | 834         | 80                                   | 834         |
| Impairment loss on securities                                                             |                                        |             |                                      | (49)        |
| Income tax expense                                                                        |                                        | (299)       | (29)                                 | (282)       |
| Net securities gains included in net income                                               |                                        | 535         | 51                                   | 503         |
| Net other comprehensive income                                                            | 1,247                                  | 318         | 906                                  | 1,056       |
| Comprehensive income                                                                      | 8,574                                  | 7,564       | 15,782                               | 14,818      |
| Net income attributable to noncontrolling interest in subsidiary                          | (326)                                  | (163)       | (609)                                | (326)       |
| Comprehensive income attributable to Brookline Bancorp, Inc.                              | \$ 8,248                               | \$ 7,401    | \$ 15,173                            | \$ 14,492   |

See accompanying notes to the unaudited consolidated financial statements.



Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Consolidated Statements of Changes in Equity****Six Months Ended June 30, 2011 and 2010 (Unaudited)****(Dollars in thousands)**

|                                                                                                                                          | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Stock | Unallocated<br>Common Stock<br>Held by<br>ESOP | Total<br>Brookline<br>Bancorp, Inc.<br>Stockholders<br>Equity | Non-<br>Controlling<br>Interest in<br>Subsidiary | Total<br>Equity |
|------------------------------------------------------------------------------------------------------------------------------------------|-----------------|----------------------------------|----------------------|-------------------------------------------------|-------------------|------------------------------------------------|---------------------------------------------------------------|--------------------------------------------------|-----------------|
| Balance at December 31,<br>2009                                                                                                          | \$ 644          | \$ 523,736                       | \$ 25,420            | \$ 2,201                                        | \$ (62,107)       | \$ (2,577)                                     | \$ 487,317                                                    | \$ 2,106                                         | \$ 489,423      |
| Net income attributable to<br>Brookline Bancorp, Inc.                                                                                    |                 |                                  | 13,436               |                                                 |                   |                                                | 13,436                                                        |                                                  | 13,436          |
| Net income attributable to<br>noncontrolling interest in<br>subsidiary                                                                   |                 |                                  |                      |                                                 |                   |                                                |                                                               | 326                                              | 326             |
| Dividend distribution to<br>owners of noncontrolling<br>interest in subsidiary                                                           |                 |                                  |                      |                                                 |                   |                                                |                                                               | (481)                                            | (481)           |
| Issuance of units of<br>ownership to minority<br>owners of subsidiary                                                                    |                 |                                  |                      |                                                 |                   |                                                |                                                               | 111                                              | 111             |
| Other comprehensive<br>income                                                                                                            |                 |                                  |                      | 1,056                                           |                   |                                                | 1,056                                                         |                                                  | 1,056           |
| Common stock dividends<br>of \$0.17 per share                                                                                            |                 |                                  | (9,980)              |                                                 |                   |                                                | (9,980)                                                       |                                                  | (9,980)         |
| Expense of stock options<br>granted                                                                                                      |                 | 172                              |                      |                                                 |                   |                                                | 172                                                           |                                                  | 172             |
| Income tax benefit from<br>vesting of recognition and<br>retention plan shares and<br>dividend distributions on<br>allocated ESOP shares |                 | 130                              |                      |                                                 |                   |                                                | 130                                                           |                                                  | 130             |
| Compensation under<br>recognition and retention<br>plan                                                                                  |                 | 40                               |                      |                                                 |                   |                                                | 40                                                            |                                                  | 40              |
| Common stock held by<br>ESOP committed to be<br>released (24,090 shares)                                                                 |                 | 113                              |                      |                                                 |                   | 132                                            | 245                                                           |                                                  | 245             |

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|                          |    |     |    |         |    |        |    |       |    |          |    |         |    |         |    |       |    |         |
|--------------------------|----|-----|----|---------|----|--------|----|-------|----|----------|----|---------|----|---------|----|-------|----|---------|
| Balance at June 30, 2010 | \$ | 644 | \$ | 524,191 | \$ | 28,876 | \$ | 3,257 | \$ | (62,107) | \$ | (2,445) | \$ | 492,416 | \$ | 2,062 | \$ | 494,478 |
|--------------------------|----|-----|----|---------|----|--------|----|-------|----|----------|----|---------|----|---------|----|-------|----|---------|

(Continued)

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Consolidated Statements of Changes in Equity (Continued)****Six Months Ended June 30, 2011 and 2010 (Unaudited)****(Dollars in thousands)**

|                                                                                                                              | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Stock | Unallocated<br>Common Stock<br>Held by<br>ESOP | Total<br>Brookline<br>Bancorp, Inc.<br>Stockholders<br>Equity | Non-<br>Controlling<br>Interest in<br>Subsidiary | Total<br>Equity |
|------------------------------------------------------------------------------------------------------------------------------|-----------------|----------------------------------|----------------------|-------------------------------------------------|-------------------|------------------------------------------------|---------------------------------------------------------------|--------------------------------------------------|-----------------|
| Balance at December 31, 2010                                                                                                 | \$ 644          | \$ 524,515                       | \$ 32,357            | \$ 2,348                                        | \$ (62,107)       | \$ (2,314)                                     | \$ 495,443                                                    | \$ 2,505                                         | \$ 497,948      |
| Net income attributable to Brookline Bancorp, Inc.                                                                           |                 |                                  | 14,267               |                                                 |                   |                                                | 14,267                                                        |                                                  | 14,267          |
| Net income attributable to noncontrolling interest in subsidiary                                                             |                 |                                  |                      |                                                 |                   |                                                |                                                               | 609                                              | 609             |
| Dividend distribution to owners of noncontrolling interest in subsidiary                                                     |                 |                                  |                      |                                                 |                   |                                                |                                                               | (577)                                            | (577)           |
| Issuance of units of ownership to minority owners of subsidiary                                                              |                 |                                  |                      |                                                 |                   |                                                |                                                               | 102                                              | 102             |
| Other comprehensive income                                                                                                   |                 |                                  |                      | 906                                             |                   |                                                | 906                                                           |                                                  | 906             |
| Common stock dividends of \$0.17 per share                                                                                   |                 |                                  | (9,991)              |                                                 |                   |                                                | (9,991)                                                       |                                                  | (9,991)         |
| Expense of stock options granted                                                                                             |                 | 42                               |                      |                                                 |                   |                                                | 42                                                            |                                                  | 42              |
| Income tax benefit from vesting of recognition and retention plan shares and dividend distributions on allocated ESOP shares |                 | 79                               |                      |                                                 |                   |                                                | 79                                                            |                                                  | 79              |
| Compensation under recognition and retention plan                                                                            |                 | 102                              |                      |                                                 |                   |                                                | 102                                                           |                                                  | 102             |
| Common stock held by ESOP committed to be released (23,106 shares)                                                           |                 | 103                              |                      |                                                 |                   | 126                                            | 229                                                           |                                                  | 229             |

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|                          |    |     |    |         |    |        |    |       |    |          |    |         |    |         |    |       |    |         |
|--------------------------|----|-----|----|---------|----|--------|----|-------|----|----------|----|---------|----|---------|----|-------|----|---------|
| Balance at June 30, 2011 | \$ | 644 | \$ | 524,841 | \$ | 36,633 | \$ | 3,254 | \$ | (62,107) | \$ | (2,188) | \$ | 501,077 | \$ | 2,639 | \$ | 503,716 |
|--------------------------|----|-----|----|---------|----|--------|----|-------|----|----------|----|---------|----|---------|----|-------|----|---------|

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****(In thousands)**

|                                                                                   | <b>Six months ended<br/>June 30,<br/>(unaudited)</b> |             |
|-----------------------------------------------------------------------------------|------------------------------------------------------|-------------|
|                                                                                   | <b>2011</b>                                          | <b>2010</b> |
| Cash flows from operating activities:                                             |                                                      |             |
| Net income attributable to Brookline Bancorp, Inc.                                | \$ 14,267                                            | \$ 13,436   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                                      |             |
| Net income attributable to noncontrolling interest in subsidiary                  | 609                                                  | 326         |
| Provision for credit losses                                                       | 1,898                                                | 1,928       |
| Nonaccretable discount recognized as interest income                              | (100)                                                |             |
| Depreciation and amortization                                                     | 931                                                  | 756         |
| Net amortization of securities premiums and discounts                             | 1,162                                                | 1,106       |
| Amortization of deferred loan origination costs                                   | 4,754                                                | 4,696       |
| Amortization of identified intangible assets                                      | 750                                                  | 612         |
| Net amortization of acquisition fair value adjustments                            | 146                                                  | 3           |
| Amortization of mortgage servicing rights                                         | 11                                                   | 10          |
| Gain on sales of securities                                                       | (80)                                                 | (834)       |
| Loss on impairment of securities                                                  |                                                      | 49          |
| Write-down of assets acquired                                                     | 112                                                  | 133         |
| Compensation under recognition and retention plan                                 | 102                                                  | 40          |
| Release of ESOP shares                                                            | 229                                                  | 245         |
| Deferred income taxes                                                             | (455)                                                | 218         |
| (Increase) decrease in:                                                           |                                                      |             |
| Accrued interest receivable                                                       | 7                                                    | 506         |
| Prepaid income taxes                                                              | (650)                                                | (371)       |
| Other assets                                                                      | 2,549                                                | (697)       |
| Increase (decrease) in:                                                           |                                                      |             |
| Income taxes payable                                                              | 421                                                  | (1,115)     |
| Accrued expenses and other liabilities                                            | (5,156)                                              | (16)        |
| Net cash provided from operating activities                                       | 21,507                                               | 21,031      |
| Cash flows from investing activities:                                             |                                                      |             |
| Proceeds from sales of securities available for sale                              | 124                                                  | 2,537       |
| Proceeds from principal repayments of securities available for sale               | 75,333                                               | 81,850      |
| Proceeds from principal repayments of securities held to maturity                 |                                                      | 2           |
| Purchase of securities available for sale                                         | (29,540)                                             | (96,462)    |
| Net increase in loans                                                             | (137,991)                                            | (15,246)    |
| Acquisition, net of cash and cash equivalents acquired                            | 5,792                                                |             |
| Purchase of restricted equity securities                                          | (182)                                                |             |
| Purchase of bank premises and equipment                                           | (14,960)                                             | (1,580)     |
| Net cash used for investing activities                                            | (101,424)                                            | (28,899)    |

(Continued)



Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows (Continued)****(In thousands)**

|                                                                                                                              | <b>Six months ended<br/>June 30,<br/>2011</b> |             | <b>2010</b> |           |
|------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|-------------|-------------|-----------|
|                                                                                                                              | <b>(unaudited)</b>                            |             |             |           |
| Cash flows from financing activities:                                                                                        |                                               |             |             |           |
| Increase in demand deposits and NOW, savings and money market savings accounts                                               | \$                                            | 164,247     | \$          | 120,105   |
| Decrease in certificates of deposit                                                                                          |                                               | (28,117)    |             | (51,134)  |
| Proceeds from Federal Home Loan Bank of Boston advances                                                                      |                                               | 2,182,500   |             | 186,500   |
| Repayment of Federal Home Loan Bank of Boston advances                                                                       |                                               | (2,151,918) |             | (216,003) |
| Repayment of subordinated debt                                                                                               |                                               | (13,000)    |             |           |
| Decrease in other borrowings                                                                                                 |                                               | (12,542)    |             |           |
| Increase in mortgages escrow accounts                                                                                        |                                               | 457         |             | 141       |
| Income tax benefit from vesting of recognition and retention plan shares and dividend distributions on allocated ESOP shares |                                               | 79          |             | 130       |
| Expense of stock options granted                                                                                             |                                               | 42          |             | 172       |
| Payment of dividends on common stock                                                                                         |                                               | (9,991)     |             | (9,980)   |
| Payment of dividend to owners of noncontrolling interest in subsidiary                                                       |                                               | (577)       |             | (481)     |
| Purchase of additional ownership interest in subsidiary                                                                      |                                               | 102         |             | 111       |
| Net cash provided from financing activities                                                                                  |                                               | 131,282     |             | 29,561    |
| Net increase in cash and cash equivalents                                                                                    |                                               | 51,365      |             | 21,693    |
| Cash and cash equivalents at beginning of period                                                                             |                                               | 65,908      |             | 66,521    |
| Cash and cash equivalents at end of period                                                                                   | \$                                            | 117,273     | \$          | 88,214    |
| Supplemental disclosures of cash flow information:                                                                           |                                               |             |             |           |
| Cash paid during the period for:                                                                                             |                                               |             |             |           |
| Interest on deposits and borrowed funds                                                                                      | \$                                            | 16,836      | \$          | 18,895    |
| Income taxes                                                                                                                 |                                               | 10,880      |             | 10,453    |
| Acquisition of First Ipswich Bancorp:                                                                                        |                                               |             |             |           |
| Assets acquired (excluding cash and cash equivalents)                                                                        | \$                                            | 245,752     | \$          |           |
| Liabilities assumed                                                                                                          |                                               | 251,544     |             |           |

See accompanying notes to the unaudited consolidated financial statements.

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**BROOKLINE BANCORP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**Six Months Ended June 30, 2011 and 2010**

**(Unaudited)**

**(1) Basis of Presentation and Recent Accounting Pronouncements**

*Basis of Presentation*

The consolidated financial statements include the accounts of Brookline Bancorp, Inc. (the Company) and its wholly owned subsidiaries, Brookline Bank ( Brookline ) and Brookline Securities Corp. Brookline includes the accounts of its wholly owned subsidiaries, BBS Investment Corporation and Longwood Securities Corp., and its 84.8% (85.1% prior to April 1, 2011) owned subsidiary, Eastern Funding LLC ( Eastern ). The consolidated financial statements also include the accounts of First Ipswich Bancorp and its subsidiaries which were acquired February 28, 2011. (See note 2).

The Company operates as one reportable segment for financial reporting purposes. All significant intercompany transactions and balances are eliminated in consolidation. Certain amounts previously reported have been reclassified to conform to the current year's presentation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles ( GAAP ) for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation have been included. Results for the six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

*Recent Accounting Pronouncements*

In December 2010, the Financial Accounting Standards Board ( FASB ) issued ASU 2010-29 as an amendment to standards related to business combinations (Topic 805) by (i) providing clarification regarding the acquisition date that should be used for reporting the pro forma financial information disclosures required when comparative financial statements are presented and (ii) requiring entities to provide a description of the nature and amount of material, nonrecurring pro forma adjustments that are directly attributable to the business combination. For Brookline, these amendments are effective for business combinations for which the acquisition date is on or after January 1, 2011.

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In April 2011, the FASB issued an amendment to the Troubled Debt Restructuring topic (Topic 310) of the ASC. This amendment clarifies a creditor's determination of whether a restructuring is a troubled debt restructuring. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following conditions exist: the restructuring constitutes a concession and the debtor is experiencing financial difficulties. This amendment is effective for periods beginning after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirement in U.S. GAAP and IFRSs. This Update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards (IFRSs). The amendments in this Update explain how to measure fair value. They do not require additional fair value measurements and are not intended to result in a change in the application of current fair value measurements requirements. The amendments in this Update are effective during interim and annual periods beginning after December 15, 2011. The adoption of ASU No. 2011-04, in January 2012, is not expected to have a material impact on the Company's financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. The objective of this Update is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. Under the amendments in this Update, a company has the option to present the total of comprehensive income and details of each of its components (net income and other comprehensive income) either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This Update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments in this Update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this Update are effective during interim and annual periods beginning after December 15, 2011. As ASU

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six Months Ended June 30, 2011 and 2010****(Unaudited)**

No. 2011-05 only deals with presentation requirements, the adoption of ASU No. 2011-05 in January 2012, is not expected to have any impact on the Company's financial statements.

**(2) Acquisitions (Dollars in thousands except share data or unless otherwise noted)*****First Ipswich Bancorp***

On February 28, 2011 (the Acquisition Date), the Company acquired First Ipswich Bancorp, the bank holding company for The First National Bank of Ipswich (Ipswich). As part of the acquisition, First Ipswich Bancorp was effectively merged into the Company and no longer exists as a separate entity. Ipswich, a commercial bank with six branches serving individuals and businesses on the north shore of eastern Massachusetts and in the Boston metropolitan area, continues to operate as a separate bank and has become a subsidiary of the Company. The acquisition expands the presence of the Company into a new market area in Massachusetts and provides Ipswich with resources to expand its product offerings to individuals and businesses in its market area.

Total consideration paid in the acquisition consisted of approximately \$19.7 million in cash. The assets acquired and the liabilities assumed in the acquisition were recorded by the Company at their estimated fair values as of the Acquisition Date and the Company's consolidated results of operations for the six months ended June 30, 2011 include the results of Ipswich since the Acquisition Date. Expenses relating to the transaction totaling \$224 were recorded in professional services expense in the six months ended June 30, 2011. The revenue and net income of Ipswich since the Acquisition Date included in the Company's consolidated statement of income for the six months ended June 30, 2011 and the revenue and net income of the combined entity had the acquisition date been January 1, 2010 are as follows:

|                                                        | Revenue  | Net income |
|--------------------------------------------------------|----------|------------|
| Ipswich Actual for the four months ended June 30, 2011 | \$ 4,702 | \$ 308     |
| Supplemental pro forma:                                |          |            |
| Six months ended June 30, 2011                         | 73,986   | 14,208     |
| Six months ended June 30, 2010                         | 74,791   | 11,670     |

Supplemental pro forma net income for the six months ended June 30, 2011 was adjusted to exclude \$1,556 (\$1,124 on an after-tax basis) of acquisition-related expenses incurred in that period and to include \$267 (\$158 on an after-tax basis) of net expense resulting from fair value

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adjustments. Pro forma net income for the six months ended June 30, 2010 was adjusted to include \$1,556 (\$1,124 on an after-tax basis) of acquisition-related expenses and \$783 (\$463 on an after-tax basis) of net expense resulting from fair value adjustments. The goodwill represents the future economic benefits arising from other assets acquired that are not individually identified and separately recognized. None of the goodwill is expected to be deductible for income tax purposes. The supplemental pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the financial results of the combined companies had the acquisition been completed at the beginning of the periods presented, nor is it indicative of future results for any other interim or full year period.

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The excess of the purchase price over the estimated fair value of the net assets acquired has been recorded as goodwill. The acquisition date estimated fair values of the assets acquired and liabilities assumed are summarized as follows:

|                                 |    |         |
|---------------------------------|----|---------|
| <b>Assets:</b>                  |    |         |
| Cash and cash equivalents       | \$ | 25,463  |
| Securities available for sale   |    | 15,392  |
| Restricted equity securities    |    | 3,277   |
| Loans, net                      |    | 203,119 |
| Bank premises and equipment     |    | 9,618   |
| Goodwill                        |    | 2,725   |
| Core deposit intangible         |    | 4,913   |
| Deferred tax asset              |    | 2,428   |
| Other assets                    |    | 4,280   |
| Total assets                    |    | 271,215 |
| <b>Liabilities:</b>             |    |         |
| Deposits                        |    | 212,235 |
| Federal Home Loan Bank advances |    | 15,247  |
| Other borrowings                |    | 17,331  |
| Other liabilities               |    | 6,731   |
| Total liabilities               |    | 251,544 |
| Net assets acquired             | \$ | 19,671  |

Goodwill resulting from the acquisition was determined as follows:

|                                                          |    |        |
|----------------------------------------------------------|----|--------|
| Cash paid in acquisition                                 | \$ | 19,671 |
| Ipswich stockholders' equity at acquisition date         | \$ | 13,605 |
| Adjustments to record assets acquired at fair value:     |    |        |
| Loans                                                    | \$ | 869    |
| Bank premises and equipment                              |    | 1,653  |
| Reversal of existing goodwill                            |    | (628)  |
| Reversal of existing core deposit intangible             |    | (236)  |
| Core deposit intangible                                  |    | 4,913  |
| Other assets                                             |    | (142)  |
|                                                          |    | 6,429  |
| Adjustments to record liabilities assumed at fair value: |    |        |

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|                                      |       |          |
|--------------------------------------|-------|----------|
| Deposits                             | 345   |          |
| Borrowed funds                       | 246   |          |
| Deferred income tax liability        | 2,498 |          |
| Other liabilities                    | (1)   |          |
|                                      | 3,088 |          |
| Net effect of fair value adjustments | 3,341 |          |
| Fair value of net assets acquired    |       | 16,946   |
| Goodwill resulting from acquisition  |       | \$ 2,725 |

A net deferred tax liability totaling \$2,498 was established in connection with recording the related acquisition accounting adjustments (other than goodwill). As of March 31, 2011, the fair value of bank premises and equipment and the core deposit intangible were provisional pending receipt and analysis of final appraisals and valuation reports for those assets from third party valuation experts. Such appraisals and reports were received after March 31, 2011 and, accordingly, the fair value adjustments presented above are based on such appraisals and reports. Fair value adjustments to assets acquired and liabilities assumed are being amortized or accreted on a straight-line basis over periods consistent with the average life, useful life and/or contractual term of the related assets and liabilities. The core deposit intangible is being amortized over 11 years using an accelerated amortization method reflective of the manner in which the related benefit attributable to the deposits will be recognized.

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**BROOKLINE BANCORP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**Six Months Ended June 30, 2011 and 2010**

**(Unaudited)**

Fair values of the major categories of assets acquired and liabilities assumed were determined as follows:

*Loans*

The acquired loans were recorded at fair value without carryover of Ipswich's allowance for loan losses which amounted to \$2,605 at the Acquisition Date. The fair value of the loans was determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected on the loans and then applying a market-based discount rate to those cash flows. In this regard, the acquired loans were segregated into pools by loan classes with common risk characteristics (commercial real estate, multi-family, commercial, construction, residential mortgage, home equity) and maturity and pricing characteristics (fixed rate, adjustable rate, balloon maturities). The resulting fair value of the loans acquired (before consideration of estimated future credit losses) exceeded expected cash flows, creating a premium of \$2,504 to be amortized as an adjustment to interest income over the remaining lives of the loans.

Additionally, an estimate of \$4,240 representing future credit losses expected to be incurred over the life of the loans acquired was recorded as a nonaccretable discount. The estimate was based on segregating the acquired loans into the classes referred to in the preceding paragraph, the risk characteristics and credit quality indicators related to each loan class, and evaluation of the collectability of larger individual non-performing and classified loans. Increases in the estimate of expected future credit losses in subsequent periods will require the Company to record an allowance for loan losses with a corresponding charge to earnings (provision for loan losses). Improvement in expected cash flows in future periods will result in a reduction of the nonaccretable discount with such amount subsequently recognized as interest income over the remaining lives of the related acquired loans. Charge-offs of acquired loans are first applied to the nonaccretable discount and then to any allowance for loan losses established subsequent to the acquisition.

*Deposits*

The fair value of acquired deposits, other than time deposits, was assumed to approximate their carrying value, as such deposits have no stated maturity and are payable on demand. Time deposits were valued based on the present value of the contractual cash flows over the remaining period to maturity using a market rate.

*Federal Home Loan Bank Advances and Other Borrowings*

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The fair value of Federal Home Loan Bank advances and other borrowings represent contractual repayments discounted using interest rates currently available on borrowings with similar characteristics and remaining maturities. The fair value of subordinated debentures included in other borrowings was assumed to equal their carrying values since the Company intended to and did repay the debentures in the second quarter of 2011.

### ***Bancorp Rhode Island, Inc.***

On April 19, 2011, the Company and Bancorp Rhode Island, Inc. ( Bancorp Rhode Island ) entered into a definitive agreement and plan of merger (the Merger Agreement ) pursuant to which Bancorp Rhode Island will merge with and into the Company (the Merger ), whereupon the separate corporate existence of Bancorp Rhode Island will cease and its subsidiary, Bank Rhode Island ( BankRI ) will become a wholly owned subsidiary of the Company. Subject to the approval of the Merger by Bancorp Rhode Island shareholders, regulatory approvals and other customary closing conditions, completion of the Merger is anticipated to occur at the end of the third quarter of 2011 or in the fourth quarter of 2011.

Under the terms of the Merger Agreement, shareholders of Bancorp Rhode Island will receive, for each Bancorp Rhode Island share and at the holder's election, either \$48.25 in cash, or 4.686 shares of the Company common stock or a combination thereof, provided that, subject to certain adjustments, 2,347,000 shares of Bancorp Rhode Island common stock (representing approximately 50% of Bancorp Rhode Island shares outstanding on the date of the Merger Agreement) will be converted into Company common stock and the remaining Bancorp Rhode Island shares will be converted into cash. The total cash consideration will be approximately \$121 million and the total stock consideration will consist of approximately 11.0 million shares of Company common stock. Elections will be subject to allocation procedures that are intended to insure that approximately 50% of the outstanding shares of Bancorp Rhode Island will be converted into Company common stock.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six Months Ended June 30, 2011 and 2010****(Unaudited)**

As of June 30, 2011, Bancorp Rhode Island and its subsidiaries had total assets of approximately \$1.6 billion, including total loans and leases of approximately \$1.2 billion, total deposits of approximately \$1.1 billion and total shareholders' equity of approximately \$134 million. BankRI is a full-service commercial bank with 17 branches in Rhode Island.

**(3) Investment Securities (Dollars in thousands)**

Securities available for sale are summarized below:

|                                                                                        | <b>June 30, 2011</b>      |                                       |                                        |                                 |
|----------------------------------------------------------------------------------------|---------------------------|---------------------------------------|----------------------------------------|---------------------------------|
|                                                                                        | <b>Amortized<br/>cost</b> | <b>Gross<br/>unrealized<br/>gains</b> | <b>Gross<br/>unrealized<br/>losses</b> | <b>Estimated<br/>fair value</b> |
| Securities available for sale:                                                         |                           |                                       |                                        |                                 |
| Debt securities:                                                                       |                           |                                       |                                        |                                 |
| U.S. Government-sponsored enterprises                                                  | \$ 128,765                | \$ 804                                | \$ 62                                  | \$ 129,507                      |
| Municipal obligations                                                                  | 1,245                     | 56                                    | 2                                      | 1,299                           |
| Auction rate municipal obligations                                                     | 2,900                     |                                       | 220                                    | 2,680                           |
| Corporate obligations                                                                  | 49,329                    | 992                                   | 532                                    | 49,789                          |
| Collateralized mortgage obligations issued by U.S.<br>Government-sponsored enterprises | 3,870                     | 55                                    | 5                                      | 3,920                           |
| Mortgage-backed securities issued by U.S.<br>Government-sponsored enterprises          | 82,239                    | 3,793                                 | 7                                      | 86,025                          |
| Private-label mortgage-backed securities                                               | 389                       | 13                                    | 9                                      | 393                             |
| SBA commercial loan asset-backed securities                                            | 493                       |                                       | 1                                      | 492                             |
| Total debt securities                                                                  | 269,230                   | 5,713                                 | 838                                    | 274,105                         |
| Marketable equity securities                                                           | 322                       | 21                                    |                                        | 343                             |
| Total securities available for sale                                                    | \$ 269,552                | \$ 5,734                              | \$ 838                                 | \$ 274,448                      |

|                                       | <b>December 31, 2010</b>  |                                       |                                        |                                 |
|---------------------------------------|---------------------------|---------------------------------------|----------------------------------------|---------------------------------|
|                                       | <b>Amortized<br/>cost</b> | <b>Gross<br/>unrealized<br/>gains</b> | <b>Gross<br/>unrealized<br/>losses</b> | <b>Estimated<br/>fair value</b> |
| Securities available for sale:        |                           |                                       |                                        |                                 |
| Debt securities:                      |                           |                                       |                                        |                                 |
| U.S. Government-sponsored enterprises | \$ 152,036                | \$ 465                                | \$ 736                                 | \$ 151,765                      |
| Municipal obligations                 | 750                       | 41                                    |                                        | 791                             |
| Auction rate municipal obligations    | 3,200                     |                                       | 235                                    | 2,965                           |

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|                                                                                     |            |          |          |            |
|-------------------------------------------------------------------------------------|------------|----------|----------|------------|
| Corporate obligations                                                               | 46,312     | 1,197    | 788      | 46,721     |
| Collateralized mortgage obligations issued by U.S. Government-sponsored enterprises | 1,297      | 8        |          | 1,305      |
| Mortgage-backed securities issued by U.S. Government-sponsored enterprises          | 97,146     | 3,415    |          | 100,561    |
| Total debt securities                                                               | 300,741    | 5,126    | 1,759    | 304,108    |
| Marketable equity securities                                                        | 366        | 66       |          | 432        |
| Total securities available for sale                                                 | \$ 301,107 | \$ 5,192 | \$ 1,759 | \$ 304,540 |

Debt securities of U.S. Government-sponsored enterprises include obligations issued by the Federal National Mortgage Association ( FNMA ), the Federal Home Loan Mortgage Corporation ( Freddie Mac ), the Government National Mortgage Association ( GNMA ), the Federal Home Loan Banks and the Federal Farm Credit Bank. At June 30, 2011, none of those obligations is backed by the full faith and credit of the U.S. Government, except for \$1,951 of GNMA mortgage-backed securities and collateralized mortgage obligations. The SBA commercial loan asset-backed securities are also backed by the full faith and credit of the U.S. Government.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six Months Ended June 30, 2011 and 2010****(Unaudited)**

The maturities of the investments in debt securities at June 30, 2011 are as follows:

|                                | <b>Amortized<br/>cost</b> | <b>Available for sale<br/>Estimated<br/>fair value</b> |
|--------------------------------|---------------------------|--------------------------------------------------------|
| Within 1 year                  | \$ 16,468                 | \$ 16,768                                              |
| After 1 year through 5 years   | 149,173                   | 151,324                                                |
| After 5 years through 10 years | 82,020                    | 85,052                                                 |
| Over 10 years                  | 21,569                    | 20,961                                                 |
|                                | <b>\$ 269,230</b>         | <b>\$ 274,105</b>                                      |

Mortgage-backed securities and collateralized mortgage obligations are included above based on their contractual maturities (primarily 10 years to 15 years at the time of purchase); the remaining lives at June 30, 2011, however, are expected to be much shorter due to anticipated payments.

Investment securities at June 30, 2011 and December 31, 2010 that have been in a continuous unrealized loss position for less than 12 months or 12 months or longer are as follows:

|                                              | <b>Less than 12 months<br/>Fair<br/>value</b> | <b>Unrealized<br/>losses</b> | <b>June 30, 2011<br/>12 months or longer<br/>Fair<br/>value</b> | <b>Unrealized<br/>losses</b> | <b>Total<br/>Fair<br/>value</b> | <b>Unrealized<br/>losses</b> |
|----------------------------------------------|-----------------------------------------------|------------------------------|-----------------------------------------------------------------|------------------------------|---------------------------------|------------------------------|
| <b>Debt securities:</b>                      |                                               |                              |                                                                 |                              |                                 |                              |
| U.S. Government-sponsored enterprises        | \$ 14,087                                     | \$ 62                        | \$                                                              | \$                           | \$ 14,087                       | \$ 62                        |
| Municipal obligations                        | 201                                           | 2                            |                                                                 |                              | 201                             | 2                            |
| Auction rate municipal obligations           |                                               |                              | 2,680                                                           | 220                          | 2,680                           | 220                          |
| <b>Corporate obligations:</b>                |                                               |                              |                                                                 |                              |                                 |                              |
| With other-than-temporary impairment loss    |                                               |                              | 70                                                              | 71                           | 70                              | 71                           |
| Without other-than-temporary impairment loss | 2,829                                         | 19                           | 1,953                                                           | 442                          | 4,782                           | 461                          |
| Collateralized mortgage obligations          | 727                                           | 5                            |                                                                 |                              | 727                             | 5                            |
| Mortgage-backed securities                   | 2,044                                         | 7                            |                                                                 |                              | 2,044                           | 7                            |
| Private-label mortgage-backed securities     | 161                                           | 9                            |                                                                 |                              | 161                             | 9                            |

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|                                             |           |        |          |        |           |        |
|---------------------------------------------|-----------|--------|----------|--------|-----------|--------|
| SBA commercial loan asset-backed securities | 329       | 1      |          |        | 329       | 1      |
| Total debt securities                       | 20,378    | 105    | 4,703    | 733    | 25,081    | 838    |
| Marketable equity securities                |           |        |          |        |           |        |
| Total temporarily impaired securities       | \$ 20,378 | \$ 105 | \$ 4,703 | \$ 733 | \$ 25,081 | \$ 838 |

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six Months Ended June 30, 2011 and 2010****(Unaudited)**

|                                              | Less than 12 months     |                      | December 31, 2010<br>12 months or longer |                      | Total                   |                      |
|----------------------------------------------|-------------------------|----------------------|------------------------------------------|----------------------|-------------------------|----------------------|
|                                              | Estimated<br>fair value | Unrealized<br>losses | Estimated<br>fair value                  | Unrealized<br>losses | Estimated<br>fair value | Unrealized<br>losses |
| <b>Debt securities:</b>                      |                         |                      |                                          |                      |                         |                      |
| U.S. Government-sponsored enterprises        | \$ 82,112               | \$ 736               | \$                                       | \$                   | \$ 82,112               | \$ 736               |
| <b>Municipal obligations</b>                 |                         |                      |                                          |                      |                         |                      |
| Auction rate municipal obligations           |                         |                      | 2,965                                    | 235                  | 2,965                   | 235                  |
| <b>Corporate obligations:</b>                |                         |                      |                                          |                      |                         |                      |
| With other-than-temporary impairment loss    | 65                      | 77                   |                                          |                      | 65                      | 77                   |
| Without other-than-temporary impairment loss | 3,806                   | 27                   | 1,719                                    | 684                  | 5,525                   | 711                  |
| Collateralized mortgage obligations          |                         |                      |                                          |                      |                         |                      |
| <b>Mortgage-backed securities</b>            |                         |                      |                                          |                      |                         |                      |
| Total debt securities                        | 85,983                  | 840                  | 4,684                                    | 919                  | 90,667                  | 1,759                |
| <b>Marketable equity securities</b>          |                         |                      |                                          |                      |                         |                      |
| Total temporarily impaired securities        | \$ 85,983               | \$ 840               | \$ 4,684                                 | \$ 919               | \$ 90,667               | \$ 1,759             |

At June 30, 2011, the Company does not intend to sell any of its debt securities and it is not likely that it will be required to sell the debt securities before the anticipated recovery of their remaining amortized cost. The unrealized losses on all debt securities within the securities portfolio without other-than-temporary impairment loss were considered by management to be temporary in nature. Full collection of those debt securities is expected because the financial condition of the issuers is considered to be sound, there has been no default in scheduled payments and the debt securities are rated investment grade except for \$199 of private-label mortgage-backed securities and one corporate obligation with an estimated fair value of \$307.

At June 30, 2011, corporate obligations included a debt security comprised of a pool of trust preferred securities issued by several financial institutions. Two of the issuers, representing 74% of the pool, announced that they will defer regularly scheduled interest payments. Due to the lack of an orderly market for the debt security, its fair value was determined to be \$70 at June 30, 2011 based on analytical modeling taking into consideration a range of factors normally found in an orderly market. At June 30, 2010, this same debt security had a fair value of \$120 and, based on an analysis of projected cash flows, \$49 was charged to earnings as a credit loss; a further unrealized loss of \$69 on this same debt security had been charged to earnings as a credit loss in the year 2009.

A summary of the portion of impairment loss on debt securities recognized in earnings for which a portion of the other-than-temporary impairment was not recognized follows:

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|                                                                                                                                                                                                      | Six months ended<br>June 30, |     |      |     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-----|------|-----|
|                                                                                                                                                                                                      | 2011                         |     | 2010 |     |
| Beginning balance                                                                                                                                                                                    | \$                           | 118 | \$   | 69  |
| Amount of credit loss related to debt securities for which an<br>other-than-temporary impairment was not previously recognized                                                                       |                              |     |      |     |
| Amount of credit loss related to debt securities for which an<br>other-than-temporary impairment was previously recognized                                                                           |                              |     |      | 49  |
| Balance of the amount related to credit losses on debt securities held at<br>end of period for which a portion of an other-than-temporary impairment<br>was recognized in other comprehensive income | \$                           | 118 | \$   | 118 |

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Restricted equity securities are as follows:

|                                                         | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|---------------------------------------------------------|--------------------------|------------------------------|
| Federal Home Loan Bank of Boston stock                  | \$ 37,915                | \$ 35,960                    |
| Federal Reserve Bank stock                              | 994                      |                              |
| Massachusetts Savings Bank Life Insurance Company stock | 253                      | 253                          |
| Other stock                                             | 632                      | 122                          |
|                                                         | <b>\$ 39,794</b>         | <b>\$ 36,335</b>             |

As a voluntary member of the Federal Home Loan Bank of Boston ( FHLB ), the Company is required to invest in stock of the FHLB in an amount ranging from 3% to 4.5% of its outstanding advances from the FHLB, depending on the maturity of individual advances. Stock is purchased at par value. Upon redemption of the stock, which is at the discretion of the FHLB, the Company would receive an amount equal to the par value of the stock. On December 8, 2008, the FHLB placed a moratorium on all excess stock repurchases. At June 30, 2011, the Company's investment in FHLB stock exceeded its required investment by \$19,113.

On July 28, 2011, the FHLB announced preliminary unaudited financial results for the six months ending June 30, 2011 of \$44.9 million in net income. It previously reported net income of \$106.6 million in the year 2010. At June 30, 2011, the FHLB had retained earnings of \$288.5 million. Previously, the FHLB had set a retained earnings target of \$925.0 million, a target adopted in connection with the FHLB's revised operating plan to preserve capital in light of the various challenges to the FHLB, including the potential for realization of future losses primarily related to the FHLB's portfolio of held-to-maturity private-label mortgage-backed securities. The FHLB monitors its retained earnings target relative to the risks inherent in its balance sheet and operations, and has revised its retained earnings model periodically in an effort to better reflect trends and risks to the FHLB's net income stream that could result in further charges to retained earnings, including, but not limited to, the impact of losses in the FHLB's portfolio of private-label mortgage-backed securities.

The retained earnings target has increased significantly over the last two years particularly as the expected performance of private-label mortgage-backed securities deteriorated beyond prior estimates. Over time, as some unrealized losses become realized losses and the performance of this portfolio begins to stabilize with recovery in the housing markets and in the economy at large, FHLB management has stated that it expects its retained earnings target to begin to decline. However, they expect that the retained earnings target will be sensitive to changes in the FHLB's risk profile, whether favorable or unfavorable. FHLB management stated that they have analyzed the likelihood of the FHLB meeting its retained earnings target over a five-year horizon and projected that the retained earnings target will be met within that time horizon.

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General economic developments more adverse than the FHLB's projections or other factors outside of the FHLB's control, however, could cause the FHLB to require additional time beyond the five year horizon to meet its retained earnings target.

The FHLB's retained earnings target could be superseded by regulatory mandates, either in the form of an order specific to the FHLB or by promulgation of new regulations requiring a level of retained earnings that is different from the FHLB's currently targeted level. Moreover, management and the board of directors at the FHLB may, at any time, change the FHLB's methodology or assumptions for modeling the FHLB's retained earnings target. Either of these changes could result in the FHLB further increasing its retained earnings target.

The ability of the FHLB to pay dividends is subject to statutory and regulatory requirements. The FHLB has adopted a dividend payout restriction under which the FHLB may pay up to 50 percent of a prior quarter's net income while the FHLB's retained earnings are less than its targeted retained earnings level. On July 28, 2011, the FHLB board of directors declared a quarterly dividend equal to an annual yield of 0.27% to be paid on August 2, 2011. Quarterly dividends equal to annual yields of 0.30% and 0.31% were paid on March 2, 2011 and May 3, 2011, respectively. No dividends were paid on FHLB stock in 2010.

At June 30, 2011, the FHLB met its regulatory capital requirements. In the future, if significant unrealized losses on the FHLB's private-label mortgage-backed securities are deemed to be other-than-temporary credit related losses, the associated impairment charges could put into question whether the fair value of the FHLB stock owned by the Company is less than its carrying value. The FHLB has stated that it expects and intends to hold its private-label mortgage-backed securities to maturity. The Company will continue to monitor its investment in FHLB stock.

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A summary of loans follows:

|                                                       | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|-------------------------------------------------------|--------------------------|------------------------------|
| Commercial real estate loans:                         |                          |                              |
| Commercial real estate mortgage                       | \$ 683,944               | \$ 564,275                   |
| Multi-family mortgage                                 | 452,367                  | 420,782                      |
| Construction                                          | 34,571                   | 18,195                       |
| Total commercial real estate loans                    | 1,170,882                | 1,003,252                    |
| Commercial loans:                                     |                          |                              |
| Commercial                                            | 143,458                  | 96,735                       |
| Eastern Funding                                       | 214,332                  | 203,816                      |
| Condominium association                               | 39,711                   | 42,399                       |
| Total commercial loans                                | 397,501                  | 342,950                      |
| Indirect automobile ( auto ) loans                    | 577,453                  | 541,053                      |
| Consumer loans:                                       |                          |                              |
| Residential mortgage                                  | 348,482                  | 287,499                      |
| Home equity                                           | 72,994                   | 58,621                       |
| Other consumer                                        | 5,526                    | 4,966                        |
| Total consumer loans                                  | 427,002                  | 351,086                      |
| Total loans excluding deferred loan origination costs | 2,572,838                | 2,238,341                    |
| Deferred loan origination costs:                      |                          |                              |
| Auto loans                                            | 13,520                   | 12,636                       |
| Eastern Funding loans                                 | 1,094                    | 1,202                        |
| Other loans                                           | 1,471                    | 1,359                        |
| Total loans                                           | \$ 2,588,923             | \$ 2,253,538                 |

**(6) Allowance for Loan Losses (Dollars in thousands)**

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An analysis of the allowance for loan losses for the periods indicated follows:

|                                | Six months ended<br>June 30, |           |
|--------------------------------|------------------------------|-----------|
|                                | 2011                         | 2010      |
| Balance at beginning of period | \$ 29,695                    | \$ 31,083 |
| Provision for loan losses      | 2,223                        | 1,928     |
| Charge-offs                    | (1,566)                      | (2,935)   |
| Recoveries                     | 495                          | 561       |
| Balance at end of period       | \$ 30,847                    | \$ 30,637 |

During the six months ended June 30, 2011, the liability for unfunded credit commitments decreased by \$269 as a result of inclusion of Ipswich's liability for unfunded commitments (\$56), and a credit to the provision for credit losses of \$325. There was no change in the liability for unfunded commitments during the six months ended June 30, 2010. The liability, which is included in other liabilities, was \$814 at June 30, 2011 and \$1,083 at December 31, 2010.

Management has established a methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Company has segmented certain loans in the portfolio by product type into the following pools: (a) commercial real estate loans, (b)

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**(Unaudited)**

commercial loans, (c) auto loans and (d) consumer loans. Portfolio segments are further disaggregated into classes based on the associated risks within the segments. Commercial real estate loans are divided into the following three classes: commercial real estate mortgage loans, multi-family mortgage loans and construction loans. Commercial loans are divided into the following three classes: commercial loans, loans originated by Eastern Funding and loans to condominium associations. The auto loan segment is not divided into classes. Consumer loans are divided into three classes: residential mortgage loans, home equity loans and other consumer loans. For each class of loan, management makes significant judgments in selecting the estimation method that fits the credit characteristics of its class and portfolio segment.

The establishment of the allowance for each portfolio segment is based on a process consistently applied that evaluates the risk characteristics relevant to each portfolio segment and takes into consideration multiple internal and external factors. Internal factors include: (a) historic levels and trends in loan charge-offs, past due loans, risk rated loans, classified loans and impaired loans, (b) the pace of loan growth, (c) underwriting policies and adherence to such policies, (d) changes in credit concentration, (e) the experience of lending personnel and (f) changes in management. External factors include (a) trends in the economy and employment, (b) industry conditions and (c) legislative and regulatory changes.

The following is how management determines the balance of the allowance for loan losses for each segment and class of loans.

***Commercial Real Estate Loans***

Commercial real estate loans are pooled by portfolio class. At June 30, 2011, loans outstanding in the three classes within this segment expressed as a percent of total loans outstanding (excluding deferred loan origination costs) were as follows: commercial real estate mortgage loans 26.6%, multi-family mortgage loans 17.6% and construction loans 1.3%. Loans in this portfolio segment that are on non-accrual status and/or risk rated substandard or worse and which have an outstanding balance of \$500 and over are evaluated on an individual loan basis for impairment. For non-impaired commercial real estate loans, loss factors are applied to outstanding loans by risk rating for each of the three classes in the segment. The factors applied are based primarily on historic loan loss experience and an assessment of the internal and external factors mentioned above. Management has accumulated information on actual loan charge-offs and recoveries by class covering the past 26 years. The Company has a long history of low frequency of loss in these loan classes. As a result, determination of loss factors is based on considerable judgment by management, including evaluation of the risk characteristics related to current internal and external factors. Notable risk characteristics related to the commercial real estate mortgage and multi-family mortgage portfolios are the concentration in those classes of outstanding loans within the greater Boston metropolitan area, industry conditions and the effect the local economy could have on the collectibility of those loans. In the first quarter of 2011, vacancy rates relating to retail and office space in the greater Boston metropolitan area showed some improvement, but in the second quarter of 2011, vacancy rates moved upward.

While unemployment in Massachusetts is not as high as in other parts of the United States of America, it is nonetheless elevated. Further, the medical and education industries are major employers in the greater Boston metropolitan area. Should the number of individuals employed in those industries decline or if total unemployment in the greater Boston metropolitan area remains elevated, the resulting negative consequences could affect occupancy rates in the properties financed by the Company and cause certain borrowers to be unable to service their debt obligations. In the second quarter of 2011, the rate of unemployment in Massachusetts improved to 7.6% from 8.0% in the prior quarter and 8.4% a year ago.

While the Company's construction loan portfolio is small, there are higher risks associated with such loans. The source of repayment for the majority of the construction loans is derived from the sale of constructed housing units. A project that is viable at the outset can experience losses when there is a drop in the demand for housing units. Typically, the level of loss in relation to the amount loaned is high when construction projects run into difficulty.

### ***Commercial Loans***

Commercial loans are pooled by portfolio class. At June 30, 2011, loans outstanding in the three classes within this segment expressed as a percent of total loans outstanding (excluding deferred loan origination costs) were as follows: commercial loans 5.6%, Eastern Funding loans 8.3% and loans to condominium associations 1.6%.

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Loans in this portfolio segment that are on non-accrual status and/or risk rated substandard or worse and which have an outstanding balance of \$500 and over (\$100 and over for Eastern Funding loans) are evaluated on an individual basis for impairment. For non-impaired commercial loans, loss factors are applied to outstanding loans by risk rating for each of the three classes in the segment. The factors applied are based on historic loan loss experience and on an assessment of internal and external factors. Management has accumulated information on actual loan charge-offs and recoveries by class covering 18 years for commercial loans, 5 years for Eastern Funding loans and 11 years for loans to condominium associations.

Commercial loan losses have been infrequent and modest while no losses have been experienced from loans to condominium associations since the Company started originating such loans. The risk characteristics described in the above subsection on commercial real estate loans regarding concentration of outstanding loans within the greater Boston metropolitan area and the status of the local economy are also applicable to the commercial loan and the condominium association loan classes. Also of note regarding commercial loans is that the Company has embarked on growing this class of lending by hiring additional small business lending officers and commercial loan officers during the past year. Until the economy improves, some commercial loan borrowers may have difficulty generating sufficient profitability and liquidity to service their debt obligations.

Regarding loans to condominium associations, loan proceeds are generally used for capital improvements and loan payments are generally derived from ongoing association dues or special assessments. While the loans are unsecured, associations are permitted statutory liens on condominium units when owners do not pay their dues or special assessments. Proceeds from the subsequent sale of an owner unit can sometimes be a source for payment of delinquent dues and assessments. As the economy weakened over the past few years, sales prices and the volume of sales of condominium units have declined. Accordingly, the risk of loss from loans to condominium associations has increased. These factors have been considered in determining the amount of allowance for loan losses established for this loan class.

Eastern Funding specializes in the financing of coin-operated laundry, dry cleaning and convenience store equipment and small businesses primarily in the greater New York/New Jersey metropolitan area, but also in locations throughout the United States of America. The loans are considered to be of higher risk because the borrowers are typically small business owners who operate with limited financial resources and are more likely to experience difficulties in meeting their debt obligations when the economy is weak or unforeseen adverse events arise. Among the factors taken into consideration in establishing the allowance for loan losses for this class were the annualized rate of growth of loans outstanding (23% in 2010 and 10% in the first half of 2011), the decline in loans delinquent over 30 days from \$2.9 million (1.43% of loans outstanding) at December 31, 2010 to \$1.7 million (0.81%) at June 30, 2011, the decrease in the total of loans on watch, restructured loans and non-accrual loans from \$7.2 million at December 31, 2010 to \$6.6 million at June 30, 2011, and the decline in the annualized rate of net charge-offs, combined with write-downs of assets acquired, from 0.68% in the first half of 2010 to 0.38% in the first half of 2011.

***Auto Loans***

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The auto loan portfolio segment is considered to be comprised of one class. At June 30, 2011, auto loans (excluding deferred loan origination costs) equaled 22.4% of the Company's total loan portfolio. Determination of the allowance for loan losses for this segment is based primarily on assessment of trends in loan underwriting, loan loss experience, the economy and industry conditions. Data are gathered on loan originations by year broken down into the following ranges of borrower credit scores: above 700, between 660 and 700, and below 660. Additionally, the migration of loan charge-offs and recoveries are analyzed by year of origination. Based on that data and taking into consideration other factors such as loan delinquencies and economic conditions, projections are made as to the amount of expected losses inherent in the segment.

Deterioration in the economy and rising unemployment caused higher levels of delinquencies and charge-offs in 2009 and 2008. As a result of tightened underwriting criteria, delinquencies and charge-offs declined thereafter. The annualized rate of net auto loan charge-offs based on the average balance of loans outstanding (excluding deferred loan origination costs) declined from 0.59% in the first half of 2010 to 0.27% in the first half of 2011. Auto loans delinquent over 30 days declined from \$7.6 million, or 1.41% of loans outstanding (excluding deferred loan origination costs), at December 31, 2010 to \$5.6 million (0.98%) at June 30, 2011. These favorable trends were the primary reasons for the reduction in the allowance for loan losses for this loan segment throughout 2010 and in the first half of 2011.

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**(Unaudited)**

***Consumer Loans***

Consumer loans are pooled by portfolio class. At June 30, 2011, loans outstanding within the three classes within this segment expressed as a percent of total loans outstanding (excluding deferred loan origination costs) were as follows: residential mortgage loans 13.6%, home equity loans 2.8% and other consumer loans 0.2%. Loans within the three classes that become 90 days or more past due or are placed on non-accrual regardless of past due status are reviewed on an individual basis for impairment by assessing the net realizable value of underlying collateral and the economic condition of the borrower. For non-impaired loans, loss factors are applied to loans outstanding for each class. The factors applied are based primarily on historic loan loss experience, the value of underlying collateral, underwriting standards and trends in loan to value ratios, credit scores of borrowers, sales activity, selling prices, geographic concentrations and employment conditions.

Historically, losses in these classes have been negligible, although within the last year losses have resulted in a few instances resulting from economic difficulties experienced by borrowers coupled with a decline in the value of underlying collateral. Significant risk characteristics related to the residential mortgage and home equity loan portfolios are the geographic concentration of the properties financed within selected communities in the greater Boston metropolitan area and the economic conditions in that area which were previously commented upon in the *Commercial Real Estate Loans* subsection above. Additionally, the risk of loss on a home equity loan is higher since the property securing the loan has often been previously pledged as collateral for a first mortgage loan. Real estate declined in the range of 15% in the past few years. While some rebound in home prices occurred in the latter part of 2010, prices declined in the first and second quarters of 2011. Continuation of reduced home prices, as well as elevated unemployment in the greater Boston metropolitan area, could cause certain borrowers to be unable to service their debt obligations.

***Unallocated Allowance***

Determination of this portion of the allowance is a very subjective process. Management believes the unallocated allowance is an important component of the total allowance because it addresses the probable inherent risk of loss that exists in that part of the Company's loan portfolio with repayment terms extended over many years. It also helps to minimize the risk related to the margin of imprecision inherent with the estimation of the allocated components of the allowance. We have not allocated the unallocated portion of the allowance to the loan segments because such an allocation would imply a degree of precision that does not exist.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six Months Ended June 30, 2011 and 2010****(Unaudited)*****Allowance for Loan Losses and Recorded Investment in Loans***

The following table presents the changes in the allowance for loan losses and the recorded investment in loans by portfolio segment for the six months ended June 30, 2011. The recorded investment represents the unpaid balance of loans outstanding and excludes deferred loan origination costs.

|                                            | Commercial<br>real estate | Commercial | Auto       | Consumer   | Unallocated | Total        |
|--------------------------------------------|---------------------------|------------|------------|------------|-------------|--------------|
| <b><u>Allowance for loan losses</u></b>    |                           |            |            |            |             |              |
| Balance at January 1, 2011                 | \$ 12,398                 | \$ 5,293   | \$ 6,952   | \$ 1,638   | \$ 3,414    | \$ 29,695    |
| Provision (credit) for loan losses         | 601                       | 359        | 113        | (49)       | 29          | 1,053        |
| Charge-offs                                |                           | (339)      | (620)      | (1)        |             | (960)        |
| Recoveries                                 |                           | 89         | 169        | 2          |             | 260          |
| Balance at March 31, 2011                  | \$ 12,999                 | \$ 5,402   | \$ 6,614   | \$ 1,590   | \$ 3,443    | \$ 30,048    |
| Provision (credit) for loan losses         | 1,680                     | (9)        | (300)      | 48         | (249)       | 1,170        |
| Charge-offs                                |                           | (143)      | (463)      |            |             | (606)        |
| Recoveries                                 |                           | 64         | 170        | 1          |             | 235          |
| Balance at June 30, 2011                   | \$ 14,679                 | \$ 5,314   | \$ 6,021   | \$ 1,639   | \$ 3,194    | \$ 30,847    |
| Ending balance:                            |                           |            |            |            |             |              |
| For impaired loans                         | \$                        | \$ 259     | \$         | \$ 35      | \$          | \$ 294       |
| For non-impaired loans                     | \$ 14,679                 | \$ 5,055   | \$ 6,021   | \$ 1,604   | \$ 3,194    | \$ 30,553    |
| Loans acquired with nonaccretable discount | \$                        | \$         | \$         | \$         | \$          | \$           |
| <b><u>Loans</u></b>                        |                           |            |            |            |             |              |
| Ending balance                             | \$ 1,170,882              | \$ 397,501 | \$ 577,453 | \$ 427,002 | \$          | \$ 2,572,838 |
| Ending balance:                            |                           |            |            |            |             |              |
| For impaired loans                         | \$ 1,376                  | \$ 4,024   | \$ 117     | \$ 4,603   | \$          | \$ 10,120    |
| For non-impaired loans                     | \$ 1,064,032              | \$ 360,767 | \$ 577,336 | \$ 365,963 | \$          | \$ 2,368,098 |
| Loans acquired with nonaccretable discount | \$ 105,474                | \$ 32,710  | \$         | \$ 56,436  | \$          | \$ 194,620   |



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The following table presents the allowance for loan losses and the recorded investment in loans by portfolio segment at December 31, 2010. The recorded investment represents the unpaid balance of loans outstanding and excludes deferred loan origination costs.

|                                            | Commercial<br>real estate | Commercial | Auto       | Consumer   | Unallocated | Total        |
|--------------------------------------------|---------------------------|------------|------------|------------|-------------|--------------|
| <u>Allowance for loan losses</u>           |                           |            |            |            |             |              |
| Ending balance                             | \$ 12,398                 | \$ 5,293   | \$ 6,952   | \$ 1,638   | \$ 3,414    | \$ 29,695    |
| Ending balance:                            |                           |            |            |            |             |              |
| For impaired loans                         | \$                        | \$ 413     | \$         | \$ 35      | \$          | \$ 448       |
| For non-impaired loans                     | \$ 12,398                 | \$ 4,880   | \$ 6,952   | \$ 1,603   | \$ 3,414    | \$ 29,247    |
| Loans acquired with nonaccretable discount | \$                        | \$         | \$         | \$         | \$          | \$           |
| <u>Loans</u>                               |                           |            |            |            |             |              |
| Ending balance                             | \$ 1,003,252              | \$ 342,950 | \$ 541,053 | \$ 351,086 | \$          | \$ 2,238,341 |
| Ending balance:                            |                           |            |            |            |             |              |
| For impaired loans                         | \$ 3,439                  | \$ 4,061   | \$ 158     | \$ 4,751   | \$          | \$ 12,409    |
| For non-impaired loans                     | \$ 999,813                | \$ 338,889 | \$ 540,895 | \$ 346,335 | \$          | \$ 2,225,932 |
| Loans acquired with nonaccretable discount | \$                        | \$         | \$         | \$         | \$          | \$           |

***Credit Quality Information***

The following tables present the recorded investment in loans in each class (unpaid balance of loans outstanding excluding deferred loan origination costs) at June 30, 2011 by credit quality indicator.

|                     | Commercial<br>real estate | Multi-<br>family | Construction | Commercial | Eastern<br>Funding | Condominium<br>association | Other<br>consumer |
|---------------------|---------------------------|------------------|--------------|------------|--------------------|----------------------------|-------------------|
| <u>Loan rating:</u> |                           |                  |              |            |                    |                            |                   |
| Pass                | \$ 563,202                | \$ 437,704       | \$ 27,630    | \$ 106,597 | \$ 208,014         | \$ 39,711                  | \$ 4,957          |
| Criticized          | 35,525                    | 1,347            |              | 4,151      | 6,318              |                            |                   |
| Acquired loans      | 85,217                    | 13,316           | 6,941        | 32,710     |                    |                            | 569               |

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|    |         |    |         |    |        |    |         |    |         |    |        |    |       |
|----|---------|----|---------|----|--------|----|---------|----|---------|----|--------|----|-------|
| \$ | 683,944 | \$ | 452,367 | \$ | 34,571 | \$ | 143,458 | \$ | 214,332 | \$ | 39,711 | \$ | 5,526 |
|----|---------|----|---------|----|--------|----|---------|----|---------|----|--------|----|-------|

**Auto**

Credit score:

|               |    |         |
|---------------|----|---------|
| Over 700      | \$ | 484,567 |
| 661-700       |    | 69,401  |
| 660 and below |    | 23,485  |
|               | \$ | 577,453 |

**Residential  
mortgage**

**Home  
equity**

Loan-to-value ratio:

|                |    |         |    |        |
|----------------|----|---------|----|--------|
| Less than 50%  | \$ | 75,192  | \$ | 23,791 |
| 50% - 69%      |    | 118,028 |    | 19,991 |
| 70% - 79%      |    | 94,674  |    | 15,458 |
| 80% and over   |    | 15,130  |    | 3,345  |
| Acquired loans |    | 45,458  |    | 10,409 |
|                | \$ | 348,482 | \$ | 72,994 |

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six Months Ended June 30, 2011 and 2010****(Unaudited)**

The following tables present the recorded investment in loans in each class (unpaid balance of loans outstanding excluding deferred loan origination costs) at December 31, 2010 by credit quality indicator.

|              | Commercial<br>real estate | Multi-<br>family | Construction | Commercial | Eastern<br>Funding | Condominium<br>association | Other<br>consumer |
|--------------|---------------------------|------------------|--------------|------------|--------------------|----------------------------|-------------------|
| Loan rating: |                           |                  |              |            |                    |                            |                   |
| Pass         | \$ 560,505                | \$ 419,818       | \$ 15,720    | \$ 92,828  | \$ 196,583         | \$ 42,399                  | \$ 4,966          |
| Criticized   | 3,770                     | 964              | 2,475        | 3,907      | 7,233              |                            |                   |
|              | \$ 564,275                | \$ 420,782       | \$ 18,195    | \$ 96,735  | \$ 203,816         | \$ 42,399                  | \$ 4,966          |

**Auto**

|               |            |
|---------------|------------|
| Credit score: |            |
| Over 700      | \$ 456,089 |
| 661-700       | 60,421     |
| 660 and below | 24,543     |
|               | \$ 541,053 |

**Residential  
mortgage****Home  
equity**

|                      |            |           |
|----------------------|------------|-----------|
| Loan-to-value ratio: |            |           |
| Less than 50%        | \$ 73,583  | \$ 23,722 |
| 50% - 69%            | 110,205    | 17,423    |
| 70% - 79%            | 88,151     | 14,280    |
| 80% and over         | 15,560     | 3,196     |
|                      | \$ 287,499 | \$ 58,621 |

Loan rating is the credit quality indicator used to monitor several loan classes. At the time of loan origination, a rating is assigned based on the financial strength of the borrower and the value of assets pledged as collateral. The officer responsible for handling each loan is required to initiate changes to risk ratings when changes in facts and circumstances occur that warrant an upgrade or downgrade in a loan rating. The reasonableness of loan ratings is assessed and monitored in several ways, including the periodic review of loans by credit personnel. Loans rated pass are performing in accordance with the terms of the loan and are less likely to result in loss because of the capacity of the borrower to pay and the adequacy of the value of assets pledged as collateral. Criticized loans include loans on watch, troubled debt restructured loans, loans on non-accrual and other impaired loans. These loans have a higher likelihood of loss. Depending on the size of a loan, loss exposure is evaluated on a loan by loan basis. As noted in the tables above, the total of commercial real estate loans classified as criticized increased from \$3,770 at December 31, 2010 to \$35,525 at June 30, 2011. The increase resulted from the downgrading of loans to two borrowers. The downgrades were not because of newly emerging signs of weakness in the collectability of the loans, but rather because of the need to obtain more information about the global condition of the borrowers.

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Credit score is the credit quality indicator used for auto loans. A borrower's credit score is a good indicator of capacity to pay a loan. The Company's loan policy specifies underwriting guidelines based in part on the score of the borrower and includes ceilings on the percent of loans originated that can be to borrowers with credit scores below 660. Generally, the risk of loan loss increases as credit scores decrease. The breakdown of the amounts shown in the above table is based on borrower credit scores at the time of loan origination. Due to the weakening of the economy in the past few years, it is possible that the credit score of certain borrowers may have deteriorated since the time the loan was originated.

Loan-to-value ratio is the credit quality indicator used for residential mortgage loans and home equity loans. Generally, loans are not made when the loan-to-value ratio exceeds 80% unless private mortgage insurance is obtained and/or there is a financially strong guarantor. The loan-to-value ratios for residential mortgage loans originated by Brookline are based on loan balances outstanding at June 30, 2011 and December 31, 2010 expressed as a percent of appraised real estate values at the time of loan origination. The loan-to-value ratios for home equity loans outstanding at June 30, 2011 and December 31, 2010 originated by Brookline are based on the maximum amount of credit available to a borrower plus the balance of other loans secured by the same real estate serving as collateral for the home equity loan at the time the line of credit was established expressed as a percent of the appraised value of the real estate at the time the line of credit was established.

Real estate values have declined in the past few years and, as a result, current loan-to-value ratios are likely higher than those shown in the tables. Nonetheless, the exposure to loss is not considered to be high due to the combination of current property values, the low level of losses experienced in the past few years and the low level of loan delinquencies at June 30, 2011. If the local economy is further weakened, a rise in losses in those loan classes could occur.

The primary credit quality indicator relating to loans acquired in the Ipswich transaction (see note 2) is their underlying cash flows. At June 30, 2011, there was no allowance for loan losses on these loans.

[Table of Contents](#)**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six Months Ended June 30, 2011 and 2010****(Unaudited)*****Age Analysis of Past Due Loans By Class***

The following is a table presenting an aging analysis of the recorded investment in loans (unpaid balance of loans outstanding excluding deferred loan origination costs) by class as of June 30, 2011.

|                                 | 31-60<br>days | 61-90<br>days | Past due<br>Greater<br>than 90<br>days | Total     | Current      | Total loans  | Loans past<br>due greater<br>than 90 days<br>and accruing |
|---------------------------------|---------------|---------------|----------------------------------------|-----------|--------------|--------------|-----------------------------------------------------------|
| Commercial real estate mortgage | \$ 471        | \$ 1,410      | \$ 1,961                               | \$ 3,842  | \$ 594,885   | \$ 598,727   | \$ 1,961                                                  |
| Multi-family mortgage           |               |               | 2,395                                  | 2,395     | 436,656      | 439,051      | 1,019                                                     |
| Construction                    |               |               | 550                                    | 550       | 27,080       | 27,630       | 550                                                       |
| Commercial                      | 133           |               | 122                                    | 255       | 110,493      | 110,748      | 122                                                       |
| Eastern Funding                 | 392           | 127           | 1,220                                  | 1,739     | 212,593      | 214,332      |                                                           |
| Condominium association         |               | 18            |                                        | 18        | 39,693       | 39,711       |                                                           |
| Auto                            | 5,001         | 524           | 117                                    | 5,642     | 571,811      | 577,453      |                                                           |
| Residential mortgage            | 1,245         |               | 1,381                                  | 2,626     | 300,398      | 303,024      |                                                           |
| Home equity                     | 600           |               | 98                                     | 698       | 61,887       | 62,585       |                                                           |
| Other consumer                  | 3             | 1             | 9                                      | 13        | 4,944        | 4,957        |                                                           |
| Acquired loans                  | 67            | 229           | 3,173                                  | 3,469     | 191,151      | 194,620      | 6                                                         |
|                                 | \$ 7,912      | \$ 2,309      | \$ 11,026                              | \$ 21,247 | \$ 2,551,591 | \$ 2,572,838 | \$ 3,658                                                  |

The following is a table presenting an aging analysis of the recorded investment in loans (unpaid balance of loans outstanding excluding deferred loan origination costs) by class as of December 31, 2010.

|                                 | 31-60<br>days | 61-90<br>days | Past due<br>Greater<br>than 90<br>days | Total    | Current    | Total<br>loans | Loans past<br>due greater<br>than 90 days<br>and accruing |
|---------------------------------|---------------|---------------|----------------------------------------|----------|------------|----------------|-----------------------------------------------------------|
| Commercial real estate mortgage | \$ 363        |               | \$ 2,575                               | \$ 2,938 | \$ 561,337 | \$ 564,275     | \$ 2,575                                                  |
| Multi-family mortgage           | 1,017         |               | 1,753                                  | 2,770    | 418,012    | 420,782        | 1,753                                                     |

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|                         |           |          |          |           |              |              |          |  |
|-------------------------|-----------|----------|----------|-----------|--------------|--------------|----------|--|
| Construction            |           |          |          |           | 18,195       | 18,195       |          |  |
| Commercial              |           |          | 1,574    | 1,574     | 95,161       | 96,735       | 1,574    |  |
| Eastern Funding         | 1,264     | 1,062    | 595      | 2,921     | 200,895      | 203,816      |          |  |
| Condominium association |           | 20       |          | 20        | 42,379       | 42,399       |          |  |
| Auto                    | 6,999     | 447      | 158      | 7,604     | 533,449      | 541,053      |          |  |
| Residential mortgage    | 761       |          |          | 761       | 286,738      | 287,499      |          |  |
| Home equity             | 273       |          |          | 273       | 58,348       | 58,621       |          |  |
| Other consumer          | 38        | 6        |          | 44        | 4,922        | 4,966        |          |  |
|                         | \$ 10,715 | \$ 1,535 | \$ 6,655 | \$ 18,905 | \$ 2,219,436 | \$ 2,238,341 | \$ 5,902 |  |

Loans past due greater than 90 days and accruing represent loans that matured and the borrower has continued to make regular principal and interest payments as if the loan had been renewed when, in fact, renewal had not yet taken place. It is expected that the loans will be renewed or paid in full without any loss.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six Months Ended June 30, 2011 and 2010****(Unaudited)*****Impaired Loans***

The following is a summary of originated loans individually evaluated for impairment, by class of loan. The summary includes the recorded investment and unpaid principal balances of impaired loans with the related allowance amount, if applicable. Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on non-accrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on non-accrual status, contractual interest is credited to interest income when received, under the cash basis method. The average balances are calculated based on the month-end balances of the loans in the period reported.

|                                     | At June 30, 2011       |                                |                      | Three months ended<br>June 30, 2011 |                                  | Six months ended<br>June 30, 2011 |                                  |
|-------------------------------------|------------------------|--------------------------------|----------------------|-------------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|                                     | Recorded<br>investment | Unpaid<br>principal<br>balance | Related<br>allowance | Average<br>recorded<br>investment   | Interest<br>income<br>recognized | Average<br>recorded<br>investment | Interest<br>income<br>recognized |
| With no related allowance recorded: |                        |                                |                      |                                     |                                  |                                   |                                  |
| Multi-family mortgage loans         | \$ 1,376               | \$ 1,376                       | \$                   | \$ 1,240                            | \$ 13                            | \$ 1,102                          | \$ 26                            |
| Construction loans                  |                        |                                |                      | 2,843                               |                                  | 2,659                             |                                  |
| Commercial loans                    |                        |                                |                      |                                     |                                  |                                   |                                  |
| Eastern Funding                     | 3,116                  | 4,156                          |                      | 3,292                               | 42                               | 3,513                             | 130                              |
| Auto loans                          | 117                    | 117                            |                      | 127                                 |                                  | 114                               |                                  |
| Residential mortgage loans          | 4,177                  | 4,177                          |                      | 4,074                               | 27                               | 4,265                             | 79                               |
| Home equity loans                   | 73                     | 73                             |                      | 73                                  |                                  | 37                                |                                  |
| Other consumer loans                | 9                      | 9                              |                      | 9                                   | 1                                | 4                                 | 1                                |
|                                     | 8,868                  | 9,908                          |                      | 11,658                              | 83                               | 11,694                            | 236                              |
| With an allowance recorded:         |                        |                                |                      |                                     |                                  |                                   |                                  |
| Commercial loans                    |                        |                                |                      |                                     |                                  |                                   |                                  |
| Eastern Funding                     | 908                    | 1,027                          | 259                  | 767                                 | 14                               | 1,011                             | 33                               |
| Residential mortgage loans          | 319                    | 319                            | 10                   | 319                                 | 2                                | 320                               | 5                                |
| Home equity loans                   | 25                     | 25                             | 25                   | 25                                  |                                  | 25                                | 1                                |
|                                     | 1,252                  | 1,371                          | 294                  | 1,111                               | 16                               | 1,356                             | 39                               |
| Total:                              |                        |                                |                      |                                     |                                  |                                   |                                  |
| Commercial real estate loans        | 1,376                  | 1,376                          |                      | 4,083                               | 13                               | 3,761                             | 26                               |
| Commercial loans                    | 4,024                  | 5,183                          | 259                  | 4,059                               | 56                               | 4,524                             | 163                              |

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|                |    |        |    |        |    |       |    |        |     |    |
|----------------|----|--------|----|--------|----|-------|----|--------|-----|----|
| Auto loans     |    | 117    |    | 117    |    | 127   |    | 114    |     |    |
| Consumer loans |    | 4,603  |    | 4,603  | 35 | 4,500 | 30 | 4,651  | 86  |    |
|                | \$ | 10,120 | \$ | 11,279 | \$ | 294   | \$ | 12,769 | 99  | \$ |
|                |    |        |    |        |    |       |    | 13,050 |     | \$ |
|                |    |        |    |        |    |       |    |        | 275 |    |

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six Months Ended June 30, 2011 and 2010****(Unaudited)**

|                                     |                            | <b>At December 31, 2010</b>     |                          |
|-------------------------------------|----------------------------|---------------------------------|--------------------------|
|                                     | <b>Recorded investment</b> | <b>Unpaid principal balance</b> | <b>Related allowance</b> |
| With no related allowance recorded: |                            |                                 |                          |
| Multi-family mortgage loans         | \$ 964                     | \$ 964                          | \$                       |
| Construction loans                  | 2,475                      | 3,275                           |                          |
| Commercial loans Eastern Funding    | 2,883                      | 3,893                           |                          |
| Auto loans                          | 158                        | 158                             |                          |
| Residential mortgage loans          | 4,403                      | 4,403                           |                          |
|                                     | 10,883                     | 12,693                          |                          |
| With an allowance recorded:         |                            |                                 |                          |
| Commercial loans Eastern Funding    | 1,178                      | 1,318                           | 413                      |
| Residential mortgage loans          | 323                        | 323                             | 10                       |
| Home equity loans                   | 25                         | 25                              | 25                       |
|                                     | 1,526                      | 1,666                           | 448                      |
| Total:                              |                            |                                 |                          |
| Commercial real estate loans        | 3,439                      | 4,239                           |                          |
| Commercial loans                    | 4,061                      | 5,211                           | 413                      |
| Auto loans                          | 158                        | 158                             |                          |
| Consumer loans                      | 4,751                      | 4,751                           | 35                       |
|                                     | \$ 12,409                  | \$ 14,359                       | \$ 448                   |

***Non-accrual Loans***

The unpaid balance of loans on non-accrual by class as of June 30, 2011 and December 31, 2010 follows.

|                                 | <b>June 30, 2011</b> | <b>December 31, 2010</b> |
|---------------------------------|----------------------|--------------------------|
| Commercial real estate mortgage | \$                   | \$                       |
| Multi-family mortgage           | 1,376                | 964                      |
| Construction                    |                      | 2,475                    |
| Commercial                      |                      |                          |
| Eastern Funding                 | 1,757                | 2,478                    |
| Condominium association         |                      |                          |
| Auto                            | 117                  | 158                      |
| Residential mortgage            | 1,381                | 1,363                    |
| Home equity                     | 98                   | 25                       |

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|                |    |       |    |       |
|----------------|----|-------|----|-------|
| Other consumer |    | 9     |    |       |
| Acquired loans |    | 3,167 |    |       |
| Total          | \$ | 7,905 | \$ | 7,463 |

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six Months Ended June 30, 2011 and 2010****(Unaudited)****(7) Deposits (Dollars in thousands)**

A summary of deposits follows:

|                                 | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|---------------------------------|--------------------------|------------------------------|
| Demand checking accounts        | \$ 184,480               | \$ 109,108                   |
| NOW accounts                    | 139,381                  | 120,599                      |
| Savings accounts                | 164,884                  | 114,258                      |
| Money market savings accounts   | 848,468                  | 675,328                      |
| Certificate of deposit accounts | 821,920                  | 791,606                      |
| Total deposits                  | \$ 2,159,133             | \$ 1,810,899                 |

**(8) Borrowed Funds (Dollars in thousands)**

Borrowed funds are comprised of the following:

|                         | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|-------------------------|--------------------------|------------------------------|
| FHLB advances           | \$ 421,355               | \$ 375,569                   |
| Federal funds purchased |                          | 13,000                       |
| Repurchase agreements   | 4,789                    |                              |
| Total borrowed funds    | \$ 426,144               | \$ 388,569                   |

The advances are secured by a blanket security agreement which requires the Bank to maintain as collateral certain qualifying assets, principally mortgage loans and securities in an aggregate amount equal to outstanding advances.

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A \$7,000 subordinated debenture issued by a subsidiary of First Ipswich Bancorp plus interest due thereon was paid in full on April 7, 2011. As of the repayment date, the annual interest rate payable on the debenture was the three-month LIBOR rate plus 3.40%. A \$6,000 subordinated debenture issued by a subsidiary of First Ipswich Bancorp plus interest due thereon was paid in full on June 27, 2011. As of that date, the annual interest rate payable on the debenture was the three-month LIBOR rate plus 1.95%.

### (9) Accumulated Other Comprehensive Income (Dollars in thousands)

Accumulated other comprehensive income at June 30, 2011 was comprised of (a) unrealized gains of \$3,098 (net of income taxes) on securities available for sale and (b) an unrealized gain of \$156 (net of income taxes) related to postretirement benefits. Accumulated other comprehensive income at December 31, 2010 was comprised of an unrealized gain of \$2,186 (net of income taxes) on securities available for sale and an unrealized gain of \$162 (net of income taxes) related to postretirement benefits. Reclassification amounts are determined using the average cost method. At June 30, 2011 and December 31, 2010, the resulting net income tax liability amounted to \$1,911 and \$1,363, respectively.

### (10) Commitments and Contingencies (Dollars in thousands)

#### *Loan Commitments*

At June 30, 2011, the Company had outstanding commitments to originate loans of \$143,916, \$55,266 of which were commercial real estate mortgage loans, \$22,352 were multi-family mortgage loans, \$57,925 were commercial loans and \$8,373 were residential mortgage loans. Unused lines of credit available to customers were \$75,116, of which \$69,847 were equity lines of credit.

#### *Legal Proceedings*

In the normal course of business, there are various outstanding legal proceedings. In the opinion of management, after consulting with legal counsel, the consolidated financial position and results of operations of the Company are not expected to be affected materially by the outcome of such proceedings.

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**BROOKLINE BANCORP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**Six Months Ended June 30, 2011 and 2010**

**(Unaudited)**

**(11) Dividend Declaration**

On July 20, 2011, the Board of Directors of the Company approved and declared a regular quarterly cash dividend of \$0.085 per share payable on August 17, 2011 to stockholders of record on August 1, 2011.

**(12) Share-Based Payment Arrangements (Dollars in thousands, except per share amounts)**

*Recognition and Retention Plan*

On April 20, 2011, the stockholders of the Company approved the 2011 Restricted Stock Plan (the "2011 RRP"). The purpose of the 2011 RRP is to promote the long-term financial success of the Company and its subsidiaries by providing a means to attract, retain and reward individuals who contribute to such success and to further align their interests with those of the Company's stockholders. The maximum number of shares of the Company's common stock that may be awarded is 500,000.

Effective July 1, 2011, 139,791 shares of Company common stock were awarded under the 2011 RRP, 50% of which vest over three years with one-third of such shares vesting at each of the first, second and third anniversary dates of the awards. The remaining 50% of each award will vest three years after the award date based on the level of the Company's achievement of identified performance targets in comparison to the level of achievement of such identified performance targets by a defined peer group comprised of 22 financial institutions. The specific performance measure targets relate to return on assets, return on equity, asset quality and total return to stockholders (share price appreciation from date of award plus dividends paid as a percent of the Company's common stock share price on the date of award). If a participant leaves the Company prior to the third anniversary date of an award, any unvested shares will be forfeited. Dividends declared with respect to shares awarded will be held by the Company and paid to the participant only when the shares vest.

The Company also has a recognition and retention plan, the "2003 RRP". Under the plan, shares of the Company's common stock were reserved for issuance as restricted stock awards to officers, employees and non-employee directors of the Company. On March 16, 2010, 7,470 shares were awarded which vested on March 16, 2011, on August 4, 2010, 25,000 shares were awarded which will vest on August 4, 2012, on October 6, 2010, 8,500 shares were awarded which will vest on October 6, 2012 and on April 20, 2011, 2,500 shares were awarded which will vest on April 20, 2013.

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Total expense for shares awarded under the 2003 RRP amounted to \$43, \$20, \$102 and \$40 for the three months and six months ended June 30, 2011 and 2010, respectively. The compensation cost of non-vested RRP shares at June 30, 2011 is expected to be charged to expense as follows: \$88 during the six months ended December 31, 2011, \$114 in 2012 and \$3 in 2013. As of June 30, 2011, 85,361 shares were available for award under the 2003 RRP.

### *Stock Option Plan*

The Company has a stock option plan, the 2003 Option Plan. Under the plan, shares of the Company's common stock were reserved for issuance to directors, employees and non-employee directors of the Company. Any shares subject to an award which expire or are terminated unexercised will again be available for issuance under the plan.

The exercise price of options awarded is the fair market value of the common stock of the Company on the date the award is made. Certain of the options include a reload feature whereby an optionee exercising an option by delivery of shares of common stock would automatically be granted an additional option at the fair market value of stock when such additional option is granted equal to the number of shares so delivered. If an individual to whom a stock option was granted ceases to maintain continuous service by reason of normal retirement, death or disability, or following a change in control, all options and rights granted and not fully exercisable become exercisable in full upon the happening of such an event and shall remain exercisable for a period ranging from three months to five years. On April 20, 2011, 2,500 options were awarded at an exercise price of \$9.01 per option which will vest on April 20, 2012. As of June 30, 2011, 1,369,155 options were available for award under the Company's 2003 Stock Option Plan.

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**BROOKLINE BANCORP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**Six Months Ended June 30, 2011 and 2010**

**(Unaudited)**

Total expense for the stock option plan amounted to \$5, \$55, \$42 and \$172 for the three months and six months ended June 30, 2011 and 2010, respectively.

Activity under the Company's stock option plan for the six months ended June 30, 2011 was as follows:

|                                                                             |           |
|-----------------------------------------------------------------------------|-----------|
| Options outstanding at January 1, 2011                                      | 1,128,345 |
| Options awarded at 9.01 per option                                          | 2,500     |
| Options forfeited at \$15.02 per option                                     | (20,000)  |
| Options outstanding at June 30, 2011                                        | 1,110,845 |
| Exercisable as of June 30, 2011 at:                                         |           |
| \$9.00 per option                                                           | 72,512    |
| \$10.71 per option                                                          | 52,333    |
| \$10.78 per option                                                          | 45,000    |
| \$11.84 per option                                                          | 50,000    |
| \$12.91 per option                                                          | 4,000     |
| \$15.02 per option                                                          | 876,000   |
|                                                                             | 1,099,845 |
| Aggregate intrinsic value of options outstanding and exercisable            | \$ 20     |
| Weighted average exercise price per option outstanding                      | \$ 14.05  |
| Weighted average exercise price per option exercisable                      | \$ 14.09  |
| Weighted average fair value per option of options granted during the period | \$ 2.04   |
| Weighted average remaining contractual life in years at end of period       | 3.7       |

*Employee Stock Ownership Plan*

The Company maintains an ESOP to provide eligible employees the opportunity to own Company stock. Employees are eligible to participate in the Plan after reaching age twenty-one, completion of one year of service and working at least one thousand hours of consecutive service during the year. Contributions are allocated to eligible participants on the basis of compensation, subject to federal tax law limits.

A loan obtained by the ESOP from the Company to purchase Company common stock is payable in quarterly installments over 30 years and bears interest at 8.50% per annum. The loan can be prepaid without penalty. Loan payments are principally funded by cash contributions from the Bank, subject to federal tax law limits. The outstanding balance of the loan at June 30, 2011 and December 31, 2010, which was \$2,877 and

\$3,002, respectively, is eliminated in consolidation.

Shares used as collateral to secure the loan are released and available for allocation to eligible employees as the principal and interest on the loan is paid. Employees vest in their ESOP account at a rate of 20% annually commencing in the year of completion of three years of credited service or immediately if service is terminated due to death, retirement, disability or change in control. Dividends on released shares are credited to the participants' ESOP accounts. Dividends on unallocated shares are generally applied towards payment of the loan. ESOP shares committed to be released are considered outstanding in determining earnings per share.

At June 30, 2011, the ESOP held 401,316 unallocated shares at an aggregate cost of \$2,188; the market value of such shares at that date was \$3,720. For the six months ended June 30, 2011 and 2010, \$229 and \$245, respectively, was charged to compensation expense based on the commitment to release to eligible employees 23,106 shares and 24,090 shares in those respective periods.

**(13) Postretirement Benefits (Dollars in thousands)**

Postretirement benefits are provided for part of the annual expense of health insurance premiums for retired employees and their dependents. No contributions are made by the Company to invest in assets allocated for the purpose of funding this benefit obligation.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six Months Ended June 30, 2011 and 2010****(Unaudited)**

The following table provides the components of net periodic postretirement benefit costs for the three months and six months ended June 30, 2011 and 2010:

|                            | <b>Three months ended<br/>June 30,</b> |             | <b>Six months ended<br/>June 30,</b> |             |
|----------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                            | <b>2011</b>                            | <b>2010</b> | <b>2011</b>                          | <b>2010</b> |
| Service cost               | \$ 21                                  | \$ 16       | \$ 42                                | \$ 32       |
| Interest cost              | 19                                     | 14          | 38                                   | 28          |
| Prior service cost         | (6)                                    | (6)         | (12)                                 | (12)        |
| Actuarial gain             | (1)                                    | (3)         | (2)                                  | (6)         |
| Net periodic benefit costs | \$ 33                                  | \$ 21       | \$ 66                                | \$ 42       |

Benefits paid amounted to \$8 and \$6 for the six months ended June 30, 2011 and 2010, respectively.

**(14) Stockholders' Equity (Dollars in thousands)***Capital Distributions and Restrictions Thereon*

OTS regulations impose limitations on all capital distributions by savings institutions. Capital distributions include cash dividends, payments to repurchase or otherwise acquire the institution's shares, payments to shareholders of another institution in a cash-out merger and other distributions charged against capital. The regulations establish three tiers of institutions. An institution, such as Brookline, that exceeds all capital requirements before and after a proposed capital distribution ( Tier 1 institution ) may, after prior notice but without the approval of the OTS, make capital distributions during a year up to 100% of its current year net income plus its retained net income for the preceding two years not previously distributed. Any additional capital distributions require OTS approval.

A Formal Agreement between Ipswich and the Office of the Comptroller of the Currency (the OCC ) limits the ability of Ipswich to pay dividends to the Company. Any dividend payments are subject to the approval of the OCC. Dividend payments by Ipswich would be prohibited if the effect thereof would cause Ipswich's capital to be reduced below applicable minimum capital requirements.

*Common Stock Repurchases*

No shares of the Company's common stock were repurchased during the six months ended June 30, 2011. As of June 30, 2011, the Company was authorized to repurchase up to 4,804,410 shares of its common stock. The Board of Directors has delegated to the discretion of the Company's senior management the authority to determine the timing of the repurchases and the prices at which the repurchases will be made.

*Restricted Retained Earnings*

As part of the stock offering in 2002 and as required by regulation, Brookline Bank established a liquidation account for the benefit of eligible account holders and supplemental eligible account holders who maintain their deposit accounts at Brookline Bank after the stock offering. In the unlikely event of a complete liquidation of Brookline Bank (and only in that event), eligible depositors who continue to maintain deposit accounts at Brookline Bank would be entitled to receive a distribution from the liquidation account. Accordingly, retained earnings of the Company are deemed to be restricted up to the balance of the liquidation account. The liquidation account balance is reduced annually to the extent that eligible depositors have reduced their qualifying deposits as of each anniversary date. Subsequent increases in deposit account balances do not restore an account holder's interest in the liquidation account. The liquidation account totaled \$26,028 at December 31, 2010.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six Months Ended June 30, 2011 and 2010****(Unaudited)****(15) Fair Value Disclosures (Dollars in thousands)**

The following is a summary of the carrying values and estimated fair values of the Company's significant financial and non-financial instruments as of the dates indicated:

|                                                        | <b>June 30, 2011</b>      |                                 | <b>December 31, 2010</b>  |                                 |
|--------------------------------------------------------|---------------------------|---------------------------------|---------------------------|---------------------------------|
|                                                        | <b>Carrying<br/>value</b> | <b>Estimated<br/>fair value</b> | <b>Carrying<br/>value</b> | <b>Estimated<br/>fair value</b> |
| <b>Financial assets:</b>                               |                           |                                 |                           |                                 |
| Cash and due from banks                                | \$ 23,412                 | \$ 23,412                       | \$ 18,451                 | \$ 18,451                       |
| Short-term investments                                 | 93,861                    | 93,861                          | 47,457                    | 47,457                          |
| Securities                                             | 314,242                   | 314,242                         | 340,875                   | 340,875                         |
| Loans, net                                             | 2,558,076                 | 2,608,464                       | 2,223,843                 | 2,253,412                       |
| Accrued interest receivable                            | 9,325                     | 9,325                           | 8,596                     | 8,596                           |
| <b>Financial liabilities:</b>                          |                           |                                 |                           |                                 |
| Demand, NOW, savings and money market savings deposits | 1,337,213                 | 1,337,213                       | 1,019,293                 | 1,019,293                       |
| Certificates of deposit                                | 821,920                   | 824,770                         | 791,606                   | 795,210                         |
| Federal Home Loan Bank advances                        | 421,355                   | 429,153                         | 375,569                   | 379,646                         |
| Other borrowed funds                                   | 4,789                     | 4,788                           | 13,000                    | 13,000                          |

The following table presents the balances of certain assets reported at fair value as of June 30, 2011:

|                                                                                     | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|-------------------------------------------------------------------------------------|----------------|----------------|----------------|--------------|
| <b>Assets measured at fair value on a recurring basis:</b>                          |                |                |                |              |
| <b>Securities available for sale:</b>                                               |                |                |                |              |
| U.S. Government-sponsored enterprises                                               | \$             | \$ 129,507     | \$             | \$ 129,507   |
| Municipal obligations                                                               |                | 1,299          |                | 1,299        |
| Auction rate municipal obligations                                                  |                |                | 2,680          | 2,680        |
| Corporate obligations                                                               |                | 48,993         | 796            | 49,789       |
| Collateralized mortgage obligations issued by U.S. Government-sponsored enterprises |                | 3,920          |                | 3,920        |
|                                                                                     |                | 86,025         |                | 86,025       |

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Mortgage-backed securities issued by  
U.S. Government-sponsored enterprises

|                                                         |    |     |     |         |    |         |
|---------------------------------------------------------|----|-----|-----|---------|----|---------|
| Private-label mortgage-backed securities                |    | 393 |     |         |    | 393     |
| SBA commercial loan asset-backed securities             |    |     | 492 |         |    | 492     |
| Marketable equity securities                            |    | 343 |     |         |    | 343     |
| Securities available for sale                           | \$ | 343 | \$  | 270,629 | \$ | 3,476   |
|                                                         |    |     |     |         | \$ | 274,448 |
| Assets measured at fair value on a non-recurring basis: |    |     |     |         |    |         |
| Other real estate owned                                 | \$ |     | \$  | 3,216   | \$ | 3,216   |
| Reposessed vehicles                                     |    |     |     | 461     |    | 461     |
| Reposessed equipment                                    |    |     |     | 192     |    | 192     |

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six Months Ended June 30, 2011 and 2010****(Unaudited)**

The following table presents the balances of certain assets reported at fair value as of December 31, 2010:

|                                                                                     | Carrying Value |            |          |            |
|-------------------------------------------------------------------------------------|----------------|------------|----------|------------|
|                                                                                     | Level 1        | Level 2    | Level 3  | Total      |
| Assets measured at fair value on a recurring basis:                                 |                |            |          |            |
| Securities available for sale:                                                      |                |            |          |            |
| U.S. Government-sponsored enterprises                                               | \$             | \$ 151,765 | \$       | \$ 151,765 |
| Municipal obligations                                                               |                | 791        |          | 791        |
| Auction rate municipal obligations                                                  |                |            | 2,965    | 2,965      |
| Corporate obligations                                                               |                | 46,083     | 638      | 46,721     |
| Collateralized mortgage obligations issued by U.S. Government-sponsored enterprises |                | 1,305      |          | 1,305      |
| Mortgage-backed securities issued by U.S. Government-sponsored enterprises          |                | 100,561    |          | 100,561    |
| Marketable equity securities                                                        | 432            |            |          | 432        |
| Securities available for sale                                                       | \$ 432         | \$ 300,505 | \$ 3,603 | \$ 304,540 |
| Assets measured at fair value on a non-recurring basis:                             |                |            |          |            |
| Collateral dependent impaired loans                                                 | \$             | \$ 2,475   | \$       | \$ 2,475   |
| Reposessed vehicles                                                                 |                | 524        |          | 524        |
| Reposessed equipment                                                                |                | 179        |          | 179        |

The securities comprising the balance in the level 3 column at June 30, 2011 included \$2,900 of auction rate municipal obligations and \$1,081 of pools of trust preferred obligations, all of which lacked quoted prices in active markets. Based on an evaluation of market factors, the fair value of the auction rate municipal obligations was estimated to be \$2,680 and, based on cash flow analyses, the fair value of the pools of trust preferred obligations was estimated to be \$796.

During the six months ended June 30, 2011, the fair value of securities available for sale using significant unobservable inputs (level 3) decreased by \$127 as a result of a \$10 pay down of a trust preferred obligation, a \$300 pay down of an auction rate municipal obligation, a \$168 net increase in the estimated fair value of the pools of trust preferred obligations and a \$15 net increase in the estimated fair value of auction rate municipal obligations.

During the six months ended June 30, 2010, the fair value of securities available for sale using significant unobservable inputs (level 3) increased by \$11. Auction rate municipal obligations increased \$25 due to a market valuation adjustment after a recent tender offer by one of the issuers of the obligations. Corporate obligations decreased as a result of an \$8 pay down of a trust preferred obligation and a \$6 net reduction in

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the estimated fair value of the pools of trust preferred obligations, after inclusion of \$49 which was recognized as a credit loss charged to earnings.

Collateral dependent loans that are deemed to be impaired are valued based upon the fair value of the underlying collateral. The inputs used in the appraisals of the collateral are observable and, therefore, the loans are categorized as level 2.

The following is a further description of the principal valuation methods used by the Company to estimate the fair values of its financial instruments.

### *Securities*

The fair value of securities, other than those categorized as level 3 described above, is based principally on market prices and dealer quotes. Certain fair values are estimated using pricing models or are based on comparisons to market prices of similar securities. The fair value of stock in the FHLB equals its carrying amount since such stock is only redeemable at its par value. (See note 4).

### *Loans*

The fair value of performing loans is estimated by discounting the contractual cash flows using interest rates currently being offered for loans with similar terms to borrowers of similar quality. For non-performing loans where the credit quality of the borrower has deteriorated significantly, fair values are estimated by discounting cash flows at a rate commensurate with the risk associated with those cash flows.

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**BROOKLINE BANCORP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**Six Months Ended June 30, 2011 and 2010**

**(Unaudited)**

*Deposit Liabilities*

The fair values of deposit liabilities with no stated maturity (demand, NOW, savings and money market savings accounts) are equal to the carrying amounts payable on demand. The fair value of certificates of deposit represents contractual cash flows discounted using interest rates currently offered on deposits with similar characteristics and remaining maturities. The fair value estimates for deposits do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of alternative forms of funding ( deposit based intangibles ).

*Federal Home Loan Bank Advances*

The fair value of borrowings from the FHLB represents contractual repayments discounted using interest rates currently available for borrowings with similar characteristics and remaining maturities.

*Other Financial Assets and Liabilities*

Cash and due from banks, short-term investments, accrued interest receivable and other borrowed funds have fair values which approximate the respective carrying values because the instruments are payable on demand or have short-term maturities and present relatively low credit risk and interest rate risk.

*Off-Balance Sheet Financial Instruments*

In the course of originating loans and extending credit, the Company will charge fees in exchange for its commitment. While these commitment fees have value, the Company has not estimated their value due to the short-term nature of the underlying commitments and their immateriality.

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's

various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The accounting guidelines exclude certain financial instruments and all non-financial instruments from its disclosure requirements.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Forward Looking Statements**

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements made by or on behalf of the Company.

The following discussion contains forward-looking statements based on management's current expectations regarding economic, legislative and regulatory issues that may impact the Company's earnings and financial condition in the future. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Any statements included herein preceded by, followed by or which include the words "may", "could", "should", "will", "would", "believe", "expect", "anticipate", "estimate", "intend", "plan", "assume" or similar words constitute forward-looking statements.

Forward-looking statements, implicitly and explicitly, include assumptions underlying the statements. While the Company believes the expectations reflected in its forward-looking statements are reasonable, the statements involve risks and uncertainties that are subject to change based on various factors, some of which are outside the control of the Company. The following factors, among others, could cause the Company's actual performance to differ materially from the expectations, forecasts and projections expressed in the forward-looking statements: general and local economic conditions, changes in interest rates, demand for loans, real estate values, deposit flows, regulatory considerations, competition, technological developments, retention and recruitment of qualified personnel, and market acceptance of the Company's pricing, products and services.

**Executive Level Overview**

The following is a summary of operating and financial condition highlights as of and for the three months and six months ended June 30, 2011 and 2010.

**Operating Highlights**

|                                           | Three months ended<br>June 30,          |           | Six months ended<br>June 30, |           |
|-------------------------------------------|-----------------------------------------|-----------|------------------------------|-----------|
|                                           | 2011                                    | 2010      | 2011                         | 2010      |
|                                           | (In thousands except per share amounts) |           |                              |           |
| Net interest income                       | \$ 27,629                               | \$ 23,728 | \$ 53,335                    | \$ 46,873 |
| Provision for credit losses               | 839                                     | 661       | 1,898                        | 1,928     |
| Fees, charges and other income            | 1,687                                   | 1,132     | 2,966                        | 1,958     |
| Penalty from prepayment of borrowed funds |                                         | (913)     |                              | (913)     |

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|                                                                  |         |         |         |         |  |      |
|------------------------------------------------------------------|---------|---------|---------|---------|--|------|
| Gain on sales of securities                                      |         | 834     |         | 80      |  | 834  |
| Impairment loss on securities                                    |         |         |         |         |  | (49) |
| Non-interest expense                                             | 15,877  | 11,998  | 29,326  | 23,698  |  |      |
| Income before income taxes                                       | 12,600  | 12,122  | 25,157  | 23,077  |  |      |
| Provision for income taxes                                       | 5,273   | 4,876   | 10,281  | 9,315   |  |      |
| Net income attributable to noncontrolling interest in subsidiary | 326     | 163     | 609     | 326     |  |      |
| Net income attributable to Brookline Bancorp, Inc.               | 7,001   | 7,083   | 14,267  | 13,436  |  |      |
| Basic earnings per common share                                  | \$ 0.12 | \$ 0.12 | \$ 0.24 | \$ 0.23 |  |      |
| Diluted earnings per common share                                | 0.12    | 0.12    | 0.24    | 0.23    |  |      |
| Interest rate spread                                             | 3.44%   | 3.31%   | 3.45%   | 3.28%   |  |      |
| Net interest margin                                              | 3.70%   | 3.67%   | 3.72%   | 3.66%   |  |      |

Table of Contents**Financial Condition Highlights**

|                                              | At<br>June 30,<br>2011 | At<br>December 31,<br>2010<br>(In thousands) | At<br>June 30,<br>2010 |
|----------------------------------------------|------------------------|----------------------------------------------|------------------------|
| Total assets                                 | \$ 3,114,582           | \$ 2,720,542                                 | \$ 2,659,418           |
| Net loans                                    | 2,558,076              | 2,223,843                                    | 2,141,828              |
| Deposits                                     | 2,159,133              | 1,810,899                                    | 1,702,658              |
| Borrowed funds                               | 426,144                | 388,569                                      | 439,254                |
| Brookline Bancorp, Inc. stockholders' equity | 501,077                | 495,443                                      | 492,416                |
| Stockholders' equity to total assets         | 16.09%                 | 18.21%                                       | 18.52%                 |
| Allowance for loan losses                    | \$ 30,847              | \$ 29,695                                    | \$ 30,637              |
| Non-performing loans                         | 7,905                  | 7,463                                        | 5,119                  |
| Non-performing assets                        | 11,774                 | 8,166                                        | 6,030                  |
| Restructured loans on accrual                | 4,905                  | 4,946                                        | 6,968                  |

Among the factors that influenced operating and financial condition highlights summarized above were the following:

- Completion of the acquisition of First Ipswich Bancorp and its subsidiaries ( Ipswich ) effective February 28, 2011. As of that date, the acquisition added to the Company's balance sheet total assets of \$271 million, including total loans of \$203 million, total deposits of \$212 million, goodwill of \$2.7 million and a core deposit intangible of \$4.9 million. See note 2 of the Notes to Consolidated Financial Statements presented elsewhere herein for additional information regarding the acquisition.
- On April 19, 2011, the Company and Bancorp Rhode Island, Inc. ( Bancorp Rhode Island ) entered into a Merger Agreement pursuant to which Bancorp Rhode Island will merge with and into the Company (the Merger ). See note 2 of the Notes to Consolidated Financial Statements presented elsewhere herein for information regarding the acquisition.
- Net income for the 2011 second quarter and the first half of 2011 was reduced by \$774,000 (\$0.013 per share on a basic and diluted basis) and \$924,000 (\$0.016 per share on a basic and diluted basis), respectively, as a result of non-tax deductible professional fees relating to the transactions mentioned above.
- Loan growth of \$63.9 million, or 2.5%, in the 2011 second quarter (10.1% on an annualized basis). The growth by segment was as follows: commercial real estate - \$33.0 million (11.6% annualized); commercial - \$8.6 million (8.8% annualized); indirect auto ( auto ) - \$14.9 million (10.3% annualized) and consumer - \$7.4 million (7.0% annualized). Excluding Ipswich, loan growth in the 2011 first quarter was \$68.4 million, an annualized growth rate of 12.1%; growth occurred in all of the segments.

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- Deposit growth of \$40.9 million, or 1.9%, in the 2011 second quarter (7.7% on an annualized basis). Transaction deposit accounts increased \$56.2 million, or 4.4% (17.6% annualized), while higher cost certificates of deposit decreased \$15.3 million, or 1.8% (7.3% annualized). Excluding Ipswich, deposit growth in the 2011 first quarter was \$90.4 million, an annualized growth rate of 20.0%.
- Annualized return on average stockholders' equity: second quarter 5.61% in 2011 (6.23% excluding acquisition related expenses) compared to 5.76% in 2010; first half 5.73% in 2011 (6.10% excluding acquisition related expenses) compared to 5.48% in 2010.
- Annualized return on average assets: second quarter 0.91% in 2011 (1.01% excluding acquisition related expenses) compared to 1.06% in 2010; first half 0.96% in 2011 (1.02% excluding acquisition related expenses) compared to 1.02% in 2010.
- Net interest margin 3.70% in the 2011 second quarter compared to 3.74% in the 2011 first quarter; 3.72% in the first half of 2011 compared to 3.66% in the first half of 2010.
- Provision for credit losses - \$839,000 in the 2011 second quarter compared to \$661,000 in the 2010 second quarter and \$1,898,000 in the 2011 first half compared to \$1,928,000 in the 2010 first half. The provisions reflect lower levels of net charge-offs offset by higher provisions attributable to loan growth and changes in loan risk ratings.

Table of Contents**Average Balances, Net Interest Income, Interest Rate Spread and Net Interest Margin**

The following tables set forth information about the Company's average balances, interest income and rates earned on average interest-earning assets, interest expense and rates paid on interest-bearing liabilities, interest rate spread and net interest margin for the three and six months ended June 30, 2011 and 2010. Average balances are derived from daily average balances and yields include fees and costs which are considered adjustments to yields.

|                                                                     | 2011            |              |                                           | Three months ended June 30, |              |                    | 2010 |  |
|---------------------------------------------------------------------|-----------------|--------------|-------------------------------------------|-----------------------------|--------------|--------------------|------|--|
|                                                                     | Average balance | Interest (1) | Average yield/cost (Dollars in thousands) | Average balance             | Interest (1) | Average yield/cost |      |  |
| <b>Assets</b>                                                       |                 |              |                                           |                             |              |                    |      |  |
| Interest-earning assets:                                            |                 |              |                                           |                             |              |                    |      |  |
| Short-term investments                                              | \$ 69,757       | \$ 26        | 0.15%                                     | \$ 70,586                   | \$ 29        | 0.16%              |      |  |
| Debt securities (2)                                                 | 313,687         | 1,760        | 2.24                                      | 298,168                     | 1,965        | 2.64               |      |  |
| Equity securities (2)                                               | 40,015          | 65           | 0.65                                      | 38,042                      | 16           | 0.17               |      |  |
| Commercial real estate loans (3)                                    | 1,159,065       | 15,194       | 5.24                                      | 931,711                     | 12,540       | 5.38               |      |  |
| Commercial loans (3)                                                | 395,732         | 6,562        | 6.64                                      | 309,108                     | 5,326        | 6.90               |      |  |
| Indirect automobile loans (3)                                       | 587,351         | 7,212        | 4.93                                      | 557,105                     | 8,268        | 5.95               |      |  |
| Consumer loans (3)                                                  | 422,199         | 4,649        | 4.41                                      | 379,619                     | 4,640        | 4.89               |      |  |
| Total interest-earning assets                                       | 2,987,806       | 35,468       | 4.75%                                     | 2,584,339                   | 32,784       | 5.08%              |      |  |
| Allowance for loan losses                                           | (30,074)        |              |                                           | (30,764)                    |              |                    |      |  |
| Non-interest earning assets                                         | 135,763         |              |                                           | 108,260                     |              |                    |      |  |
| Total assets                                                        | \$ 3,093,495    |              |                                           | \$ 2,661,835                |              |                    |      |  |
| <b>Liabilities and Equity</b>                                       |                 |              |                                           |                             |              |                    |      |  |
| Interest-bearing liabilities:                                       |                 |              |                                           |                             |              |                    |      |  |
| Deposits:                                                           |                 |              |                                           |                             |              |                    |      |  |
| NOW accounts                                                        | \$ 137,732      | 60           | 0.17%                                     | \$ 108,768                  | 40           | 0.15%              |      |  |
| Savings accounts                                                    | 165,214         | 266          | 0.65                                      | 102,687                     | 205          | 0.80               |      |  |
| Money market savings accounts                                       | 822,691         | 1,972        | 0.96                                      | 592,012                     | 1,625        | 1.10               |      |  |
| Certificates of deposit                                             | 830,260         | 2,840        | 1.37                                      | 786,834                     | 3,478        | 1.77               |      |  |
| Total interest-bearing deposits (4)                                 | 1,955,897       | 5,138        | 1.05                                      | 1,590,301                   | 5,348        | 1.35               |      |  |
| Federal Home Loan Bank advances                                     | 421,909         | 2,623        | 2.46                                      | 459,278                     | 3,699        | 3.19               |      |  |
| Other borrowings                                                    | 10,242          | 62           | 2.39                                      |                             |              |                    |      |  |
| Total interest bearing liabilities                                  | 2,388,048       | 7,823        | 1.31%                                     | 2,049,579                   | 9,047        | 1.77%              |      |  |
| Non-interest-bearing demand checking accounts (4)                   | 175,994         |              |                                           | 94,946                      |              |                    |      |  |
| Other liabilities                                                   | 27,371          |              |                                           | 23,770                      |              |                    |      |  |
| Total liabilities                                                   | 2,591,413       |              |                                           | 2,168,295                   |              |                    |      |  |
| Brookline Bancorp, Inc. stockholders' equity                        | 499,533         |              |                                           | 491,508                     |              |                    |      |  |
| Noncontrolling interest in subsidiary                               | 2,549           |              |                                           | 2,032                       |              |                    |      |  |
| Total liabilities and equity                                        | \$ 3,093,495    |              |                                           | \$ 2,661,835                |              |                    |      |  |
| Net interest income (tax equivalent basis)/interest rate spread (5) |                 | 27,645       | 3.44%                                     |                             | 23,737       | 3.31%              |      |  |
| Less adjustment of tax exempt income                                |                 | 16           |                                           |                             | 9            |                    |      |  |

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|                         |    |        |    |        |
|-------------------------|----|--------|----|--------|
| Net interest income     | \$ | 27,629 | \$ | 23,728 |
| Net interest margin (6) |    | 3.70%  |    | 3.67%  |

- 
- (1) Tax exempt income on equity securities and debt securities is included on a tax equivalent basis.
  - (2) Average balances include unrealized gains (losses) on securities available for sale. Equity securities include marketable equity securities (preferred and common stocks) and restricted equity securities.
  - (3) Loans on non-accrual status are included in average balances.
  - (4) Including non-interest bearing checking accounts, the average interest rate on total deposits was 0.97% in the three months ended June 30, 2011 and 1.27% in the three months ended June 30, 2010.
  - (5) Interest rate spread represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.
  - (6) Net interest margin represents net interest income (tax equivalent basis) divided by average interest-earning assets.

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|                                                                        | Six months ended June 30, |              |                                                     |                    |              |                           |
|------------------------------------------------------------------------|---------------------------|--------------|-----------------------------------------------------|--------------------|--------------|---------------------------|
|                                                                        | 2011                      |              |                                                     | 2010               |              |                           |
|                                                                        | Average<br>balance        | Interest (1) | Average<br>yield/<br>cost<br>(Dollars in thousands) | Average<br>balance | Interest (1) | Average<br>yield/<br>cost |
| <b>Assets</b>                                                          |                           |              |                                                     |                    |              |                           |
| Interest-earning assets:                                               |                           |              |                                                     |                    |              |                           |
| Short-term investments                                                 | \$ 62,510                 | \$ 50        | 0.16%                                               | \$ 62,400          | \$ 44        | 0.14%                     |
| Debt securities (2)                                                    | 310,249                   | 3,524        | 2.27                                                | 292,202            | 3,894        | 2.67                      |
| Equity securities (2)                                                  | 38,967                    | 105          | 0.54                                                | 38,021             | 49           | 0.26                      |
| Commercial real estate loans (3)                                       | 1,108,233                 | 29,025       | 5.24                                                | 926,124            | 24,992       | 5.40                      |
| Commercial loans (3)                                                   | 378,407                   | 12,731       | 6.74                                                | 305,009            | 10,495       | 6.89                      |
| Indirect automobile loans (3)                                          | 573,799                   | 14,421       | 5.07                                                | 554,002            | 16,668       | 6.07                      |
| Consumer loans (3)                                                     | 398,905                   | 8,831        | 4.43                                                | 384,517            | 9,487        | 4.94                      |
| Total interest-earning assets                                          | 2,871,070                 | 68,687       | 4.80%                                               | 2,562,275          | 65,629       | 5.14%                     |
| Allowance for loan losses                                              | (29,927)                  |              |                                                     | (30,883)           |              |                           |
| Non-interest earning assets                                            | 126,932                   |              |                                                     | 110,250            |              |                           |
| Total assets                                                           | \$ 2,968,075              |              |                                                     | \$ 2,641,642       |              |                           |
| <b>Liabilities and Equity</b>                                          |                           |              |                                                     |                    |              |                           |
| Interest-bearing liabilities:                                          |                           |              |                                                     |                    |              |                           |
| Deposits:                                                              |                           |              |                                                     |                    |              |                           |
| NOW accounts                                                           | \$ 130,405                | 107          | 0.17%                                               | \$ 103,565         | 73           | 0.14%                     |
| Savings accounts                                                       | 149,365                   | 484          | 0.65                                                | 99,914             | 402          | 0.81                      |
| Money market savings accounts                                          | 772,529                   | 3,696        | 0.96                                                | 570,906            | 3,236        | 1.14                      |
| Certificates of deposit                                                | 817,300                   | 5,746        | 1.42                                                | 797,376            | 7,548        | 1.91                      |
| Total deposits (4)                                                     | 1,869,599                 | 10,033       | 1.08                                                | 1,571,761          | 11,259       | 1.44                      |
| Federal Home Loan Bank<br>advances                                     | 405,695                   | 5,192        | 2.55                                                | 462,351            | 7,473        | 3.21                      |
| Other borrowings                                                       | 9,460                     | 101          | 2.15                                                |                    |              |                           |
| Total interest bearing liabilities                                     | 2,284,754                 | 15,326       | 1.35%                                               | 2,034,112          | 18,732       | 1.86%                     |
| Non-interest-bearing demand<br>checking accounts (4)                   | 155,814                   |              |                                                     | 90,967             |              |                           |
| Other liabilities                                                      | 26,631                    |              |                                                     | 23,750             |              |                           |
| Total liabilities                                                      | 2,467,199                 |              |                                                     | 2,148,829          |              |                           |
| Brookline Bancorp, Inc.<br>stockholders' equity                        | 498,281                   |              |                                                     | 490,701            |              |                           |
| Noncontrolling interest in<br>subsidiary                               | 2,595                     |              |                                                     | 2,112              |              |                           |
| Total liabilities and equity                                           | \$ 2,968,075              |              |                                                     | \$ 2,641,642       |              |                           |
| Net interest income (tax equivalent<br>basis)/interest rate spread (5) |                           | 53,361       | 3.45%                                               |                    | 46,897       | 3.28%                     |
| Less adjustment of tax exempt<br>income                                |                           | 26           |                                                     |                    | 24           |                           |
| Net interest income                                                    |                           | \$ 53,335    |                                                     |                    | \$ 46,873    |                           |
| Net interest margin (6)                                                |                           |              | 3.72%                                               |                    |              | 3.66%                     |

(1) Tax exempt income on equity securities and debt securities is included on a tax equivalent basis.

(2) Average balances include unrealized gains (losses) on securities available for sale. Equity securities include marketable equity securities (preferred and common stocks) and restricted equity securities.

(3) Loans on non-accrual status are included in average balances.

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(4) Including non-interest bearing checking accounts, the average interest rate on total deposits was 1.00% in the six months ended June 30, 2011 and 1.37% in the six months ended June 30, 2010.

(5) Interest rate spread represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.

(6) Net interest margin represents net interest income (tax equivalent basis) divided by average interest-earning assets.

Highlights from the above table and the table on the preceding page follows:

- Net interest income was \$3.9 million, or 16.4%, higher in the 2011 second quarter than in the 2010 second quarter as the average balance of interest-earning assets increased \$403.5 million (15.6%), \$243.1 million of which resulted from the Ipswich acquisition, and net interest margin improved from 3.67% to 3.70% between the two quarters. Net interest income was \$6.5 million, or 13.8%, higher in the first half of 2011 than in the first half of 2010 due to a \$308.8 million (12.1%) increase in the average balance of interest-earning assets, \$163.8 million of which resulted from the Ipswich acquisition, and improvement in net interest margin from 3.66% to 3.72% between the two periods.

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- Net interest income was \$1.9 million, or 7.5%, higher in the 2011 second quarter than in the 2011 first quarter as the effect of growth in interest-earning assets between the two quarters of \$234.9 million (8.5%), \$159.6 million of which resulted from the Ipswich acquisition, was partially offset by a decline in net interest margin from 3.74% to 3.70% between the two quarters. The reduction was due in part to a decline in the ratio of the average total of stockholders' equity to the average total of interest-earning assets from 18.1% to 16.7% in those respective periods.
- The average balance of total loans outstanding in the 2011 second quarter was \$211.3 million (9.0%) higher than in the 2011 first quarter and \$386.8 million (17.8%) higher than in the 2010 second quarter. Of the increases, \$134.3 million and \$204.2 million in those respective periods resulted from the Ipswich acquisition. The average balance of loans outstanding in the first half of 2011 was \$289.7 million (13.4%) higher than in the first half of 2010, \$137.4 million of which resulted from the Ipswich acquisition.
- The average balance of non-interest-bearing demand checking accounts was \$176.0 million in the 2011 second quarter, an increase of \$81.0 million (85.4%) over the average balance in the 2010 second quarter. Of the increase, \$53.0 million resulted from the Ipswich acquisition.
- The average balance of interest-bearing transaction accounts in the 2011 second quarter was \$147.5 million (15.1%) million higher than in the 2011 first quarter, \$71.9 million of which resulted from the Ipswich acquisition, while the average balance of higher cost certificates of deposit increased \$26.1 million (3.2%) between those quarterly periods. Excluding the effect of the Ipswich acquisition, certificates of deposit declined \$7.3 million between those quarterly periods.
- The average balance of transaction deposits (including non-interest-bearing checking accounts) expressed as a percent of the average balance of total deposits increased from 53.3% in the 2010 second quarter to 58.1% in the 2011 first quarter and 61.1% in the 2011 second quarter. The improvement is attributable to an increased focus on gathering transaction deposits and the desire of depositors to keep their funds in more liquid accounts during the low interest rate environment that has been in existence for some time.

As mentioned above, net interest margin declined in the 2011 second quarter compared to the 2011 first quarter. Further decline in net interest margin in coming quarters is a possibility. Recently, loan pricing has become more competitive and, in some instances, irrational. Since we do not intend to match unprofitable loan pricing offered by some competitors, our volume of loan originations might be affected.

**Provision for Credit Losses**

The provision for credit losses results from the changes in the allowance for loan losses and the liability for unfunded commitments. See note 6 of the Notes to Consolidated Financial Statements appearing elsewhere herein for a description of how management determined the balance of the allowance for loan losses for each segment and class of loans.

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The provisions for credit losses in the 2011 and 2010 second quarters were \$839,000 and \$661,000, respectively, while net loan charge-offs in those periods were \$371,000 (an annualized rate of 0.06% based on average loans outstanding) and \$874,000 (0.16%), respectively. The provisions for credit losses in the first half of 2011 and 2010 were \$1,898,000 and \$1,928,000, respectively, while net charge-offs in those periods were \$1,071,000 (0.09%) and \$2,374,000 (0.22%), respectively.

The provisions for loan losses for the commercial real estate segment were \$1,680,000 and \$115,000, respectively, in the 2011 and 2010 second quarters, and \$2,281,000 and \$75,000, respectively, in the first half of 2011 and 2010. There were no charge-offs in the first half of 2011 and the second quarter of 2010. A net charge-off of \$300,000 related to one commercial real estate loan for which a specific reserve had been previously established was recorded in the first quarter of 2010. The higher provisions in the 2011 periods were due primarily to loan growth and the downgrading of loans to two borrowers aggregating \$30.6 million. See note 2 of the Notes to Consolidated Financial Statements appearing elsewhere herein for commentary on the downgraded loans.

The provision (credit) for loan losses for the commercial loan segment was (\$9,000) in the 2011 second quarter compared to \$230,000 in the 2010 second quarter; net charge-offs in those periods were \$79,000 and \$153,000, respectively, substantially all of which related to Eastern Funding loans. The small credit to the provision in the 2011 second quarter resulted primarily from improvement in loan quality indicators relating to the Eastern Funding loan portfolio. The provision for loan losses for the commercial loan segment was \$350,000 in the first half of 2011 compared to \$912,000 in the first half of 2010; net charge-offs in those periods were \$329,000 and \$751,000, of which \$289,000 and \$452,000, respectively, related to the Eastern Funding loan portfolio. The annualized rate of Eastern Funding net charge-offs, combined with write-downs of assets acquired, declined from 0.68% in the first half of 2010 to 0.38% in the first half of 2011.

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The provision (credit) for auto loan losses was (\$300,000) in the 2011 second quarter compared to \$322,000 in the 2010 second quarter; net charge-offs in those periods were \$293,000 (an annualized rate of 0.20% based on average loans outstanding during that period excluding deferred loan origination costs) and \$690,000 (0.51%), respectively. The provision (credit) for auto loan losses was (\$187,000) in the first half of 2011 and \$995,000 in the first half of 2010, while net charge-offs in those periods were \$744,000 (0.27%) and \$1,601,000 (0.59%), respectively. Provisions (credits) for auto loan losses differed from net charge-offs in the 2011 and 2010 periods because of the releases of part of the allowance for loan losses designated for auto loans. The releases resulted from the significant reduction in the rate of net charge-offs and improvement in other credit quality metrics related to the auto loan portfolio. The allowance for loan losses allocated to the auto loan portfolio was \$6,021,000, or 1.04% of auto loans outstanding (excluding deferred loan origination costs) at June 30, 2011, compared to \$6,614,000 (1.17%) at March 31, 2011 and \$6,952,000 (1.28%) at December 31, 2010. Auto loans delinquent greater than 30 days declined from \$7.6 million (1.41% of loans outstanding excluding deferred loan origination costs) at December 31, 2010 to \$5.6 million (0.98%) at June 30, 2011.

Regarding the consumer loan segment, a provision of \$48,000 was recorded in the 2011 second quarter compared to a credit of \$7,000 in the 2010 second quarter, and credits of \$1,000 and \$6,000 were recorded in the first half of 2011 and 2010, respectively. The provisions and credits resulted primarily from changes in loans outstanding.

The unallocated portion of the allowance for loan losses was increased by \$29,000 in the 2011 first quarter and reduced by \$249,000 in the 2011 second quarter. In 2010, the unallocated allowance was reduced by \$49,000 in the first quarter and remained unchanged in the second quarter. The changes resulted from consideration of all factors evaluated in arriving at the total allowance for loan losses.

The liability for unfunded commitments was increased by \$6,000 in the 2011 first quarter due to the inclusion of Ipswich and reduced by \$331,000 in the 2011 second quarter; there were no changes in the liability for unfunded commitments in the first half of 2010. The reduction in the 2011 second quarter was due to changes in reserve factors applied to loan segments to better reflect estimated loss exposures related to unfunded loan commitments.

## **Securities Transactions and Prepayment of Borrowings**

The Company sold marketable equity securities in the 2011 first quarter at a gain of \$80,000. In the first quarter of 2010, an impairment loss of \$49,000 was recognized on a debt security comprised of a pool of trust preferred securities.

In the 2010 second quarter, \$24 million of borrowings from the FHLB with a weighted average interest rate of 4.03% and maturing in June 2011 were prepaid resulting in a penalty of \$913,000 (\$534,000 on an after-tax basis) being charged to earnings. In the same quarter, \$24 million was re-borrowed from the FHLB at a weighted average annual interest rate of 2.02% for a weighted average life of 3.26 years. Also in the 2010 second quarter, equity securities with a carrying value of \$427,000 were sold at a gain of \$790,000 and a mortgage-backed security with a carrying value of \$1,276,000 was sold at a gain of \$44,000. On an after-tax basis, these gains amounted to \$535,000.

## **Other Operating Highlights**

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*Fees, Charges and Other Income.* Income from these sources increased from \$1,132,000 in the 2010 second quarter to \$1,687,000 in the 2011 second quarter and from \$1,958,000 in the first half of 2010 to \$2,966,000 in the first half of 2011. The increases resulted primarily from \$210,000 in fees related to the sale of residential mortgage loans in the first half of 2011 and inclusion of fees, charges and other income earned by Ipswich of \$662,000 in the 2011 second quarter and \$874,000 since the acquisition as of the end of February 2011.

*Non-Interest Expense.* Total non-interest expenses were \$15.9 million in the 2011 second quarter compared to \$12.0 million in the 2010 second quarter. The increase was due primarily to inclusion of non-interest expenses of Ipswich (\$2.7 million), higher compensation and benefits expense resulting from added personnel, salary increases, higher bonuses and medical benefits expense, and higher professional service fees. Total non-interest expenses were \$29.3 million in the first half of 2011 compared to \$23.7 million in the first half of 2010. The increase was due primarily to inclusion of non-interest expenses of Ipswich (\$3.5 million), higher compensation and benefits expense, and higher expenses for occupancy, data processing, marketing and professional services. Two new branches were opened in June 2010.

*Provision for Income Taxes.* The effective rate of income taxes was 41.8% in the 2011 second quarter compared to 40.2% in the 2010 second quarter and 40.9% in the first half of 2011 compared to 40.4% in the first half of 2010. The increases resulted primarily from the non-deductibility of expenses related to the Ipswich acquisition and the contemplated acquisition of Bancorp Rhode Island.

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**Commentary on Certain Investment Securities**

*Auction Rate Municipal Obligations*

The auction rate municipal obligations owned by the Company are debt securities issued by county and state entities to be repaid from revenues generated by hospitals and student education loans. The securities are not obligations of the issuing government entity. The obligations are variable rate securities with long-term maturities whose interest rates are set periodically through an auction process. The auction process typically ranges from 7 days to 35 days. The amount invested in such obligations was \$2.9 million at June 30, 2011 compared to \$3.2 million at December 31, 2010 and \$3.4 million at June 30, 2010. The \$500,000 reduction over the past year resulted from partial redemptions at par by an issuer.

The auction rate obligations owned by the Company were rated AAA at the time of purchase due, in part, to the guaranty of third party insurers who would have to pay the obligations if the issuers failed to pay the obligations when they become due. In the 2008 first quarter, public disclosures indicated that certain third party insurers were experiencing financial difficulties and, therefore, might not be able to meet their contractual obligations. As a result, auctions failed to attract a sufficient number of investors and created a liquidity problem for those investors who were relying on the obligations to be redeemed at auction. Since then, there has been no active market for auction rate municipal obligations.

Based on an evaluation of market factors, the estimated fair value of the auction rate municipal obligations owned by the Company at June 30, 2011 was \$2,680,000, or \$220,000 less than their face value. Full collection of the obligations is expected because the financial condition of the issuers is sound, none of the issuers has defaulted on scheduled payments, the obligations are rated investment grade and we have the ability and intent to hold the obligations for a period of time to recover the unrealized losses.

*Corporate Obligations*

Included in corporate obligations are investments in preferred trust securities ( PreTSLs ) that were acquired several years ago. PreTSLs represent investment instruments comprised of a pool of trust preferred securities that are debt obligations issued by a number of financial institutions and insurance companies. The investment instruments are segregated into tranches (segments) that establish priority rights to cash flows from the underlying trust preferred securities. At June 30, 2011, the Company owned two pools of trust preferred securities, PreTSL VI and PreTSL XXVIII.

The book value of PreTSL VI was \$141,000 at June 30, 2011. Two of the issuers, representing 74% of the pool, have deferred regularly scheduled interest payments. Due to the lack of an orderly market for this security, based on an analysis of projected cash flows, \$69,000 was charged to earnings in 2009 and an additional \$49,000 was charged to earnings in the first quarter of 2010. As of June 30, 2011, the fair value of this security was estimated to be \$70,000 based on analytical modeling taking into consideration a range of factors normally found in an orderly market.

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The book value of PreTSL XXVIII was \$940,000 at June 30, 2011 and the estimated fair value (based on factors similar to those used to value the security mentioned in the preceding paragraph) was \$725,000 at that date. The unrealized loss of \$215,000 was not considered to be an other-than-temporary impairment loss because the security is rated investment grade, we have first priority to future cash redemptions and over 40% of the issuers in the pool would have to default before recovery of our investment could be in doubt. None of the 56 issuers in the pool represent more than 4% of the entire pool. Sixteen issuers representing approximately 24% of the remaining aggregate investment pool at June 30, 2011 either were in default or have deferred regularly scheduled interest payments at that date.

At June 30, 2011, the aggregate carrying value of other trust preferred securities owned by the Company was \$2,855,000 and the aggregate estimated fair value was \$2,640,000. The aggregate unrealized loss on these securities of \$215,000 was not considered to be an other-than-temporary impairment loss because of the financial soundness and prospects of the issuers and our ability and intent to hold the securities for a period of time to recover the unrealized losses.

Included in corporate obligations at June 30, 2011 owned by Ipswich is a debt security issued by Lehman Brothers Holdings that is in default and unrated. The \$1,220,000 face amount of the bond had been previously written-down by Ipswich in 2008 as an impairment loss charged to earnings. The carrying value of the bond at June 30, 2011 equaled its estimated fair value of \$307,000.

### *Private-Label Mortgage-Backed Securities*

The private-label mortgage-backed securities at June 30, 2011 are owned by Ipswich. An impairment loss on these securities was charged to earnings in 2008. At June 30, 2011, the aggregate carrying value of the securities was \$389,000 and the aggregate estimated fair value was \$393,000. Of that latter amount, \$199,000 related to securities rated B , or below investment grade.

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The following table sets forth information regarding non-performing assets, restructured loans and the allowance for loan losses:

|                                                       | June 30,<br>2011       | December 31,<br>2010 |
|-------------------------------------------------------|------------------------|----------------------|
|                                                       | (Dollars in thousands) |                      |
| Non-accrual loans:                                    |                        |                      |
| Multi-family                                          | \$ 1,376               | \$ 964               |
| Construction                                          |                        | 2,475                |
| Eastern Funding                                       | 1,757                  | 2,478                |
| Auto                                                  | 117                    | 158                  |
| Residential                                           | 1,381                  | 1,363                |
| Home equity                                           | 98                     | 25                   |
| Other consumer                                        | 9                      |                      |
| Acquired loans                                        | 3,167                  |                      |
| Total non-accrual loans                               | 7,905                  | 7,463                |
| Reposessed vehicles                                   | 461                    | 524                  |
| Reposessed equipment                                  | 192                    | 179                  |
| Other real estate owned                               | 3,216                  |                      |
| Total non-performing assets                           | \$ 11,774              | \$ 8,166             |
| Restructured loans on accrual                         | \$ 4,905               | \$ 4,946             |
| Allowance for loan losses                             | \$ 30,847              | \$ 29,695            |
| Allowance for loan losses as a percent of total loans | 1.19%                  | 1.32%                |
| Non-accrual loans as a percent of total loans         | 0.31%                  | 0.33%                |
| Non-performing assets as a percent of total assets    | 0.38%                  | 0.30%                |

Loans are placed on non-accrual status either when reasonable doubt exists as to the full timely collection of interest and principal or automatically when a loan becomes past due 90 days. Restructured loans represent performing loans for which concessions (such as reductions of interest rates to below market terms and/or extension of repayment terms) were granted due to a borrower's financial condition. Of the restructured loans at June 30, 2011, \$1,790,000 were loans originated by Eastern Funding and \$3,115,000 were residential mortgage loans. Of the restructured loans at December 31, 2010, \$1,583,000 were loans originated by Eastern Funding and \$3,363,000 were residential mortgage loans.

At June 30, 2011 and December 31, 2010, loans past due 90 days or more and still on accrual amounted to \$3,658,000 and \$5,902,000, respectively. The loans were comprised primarily of commercial real estate loans, multi-family mortgage loans and commercial loans that matured and the borrowers continued to make their regular principal and interest payments at amounts as if their loans had been renewed when, in fact, the renewals had not yet taken place. It is expected that the loans will be renewed or paid in full without any loss.

Non-performing assets include reposessed vehicles resulting from non-payment of amounts due on auto loans, reposessed equipment resulting from non-payment of amounts due on Eastern Funding loans and real estate properties acquired through foreclosure. Reposessed vehicles, equipment and real estate properties acquired through foreclosure are recorded at estimated fair value less costs to sell.

## Asset/Liability Management

The Company's Asset/Liability Committee is responsible for managing interest rate risk and reviewing with the Board of Directors on a quarterly basis its activities and strategies, the effect of those strategies on the Company's operating results, the Company's interest rate risk position and the effect changes in interest rates would have on the Company's net interest income.

Generally, it is the Company's policy to reasonably match the rate sensitivity of its assets and liabilities. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within the same time period.

At June 30, 2011, interest-earning assets maturing or repricing within one year amounted to \$1.257 billion and interest-bearing liabilities maturing or repricing within one year amounted to \$1.673 billion, resulting in a cumulative one year negative gap position of \$416 million, or 13.4% of total assets. Ipswich is included in the amounts as of June 30, 2011. At December 31, 2010, the Company had a negative one year cumulative gap position of \$310 million, or 11.4% of total

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assets. The change in the cumulative one year gap position from the end of 2010 resulted primarily from a \$114 million increase in transaction accounts repricing within one year at June 30, 2011 compared to December 31, 2010.

**Liquidity and Capital Resources**

The Company's primary sources of funds are deposits, principal and interest payments on loans and debt securities, and borrowings from the FHLB. While maturities and scheduled amortization of loans and investments are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by interest rate trends, economic conditions and competition.

Based on its monitoring of deposit trends and its current pricing strategy for deposits, management believes the Company will retain a large portion of its existing deposit base. Deposit flows during the remainder of 2011 will depend on several factors, including the interest rate environment and competitor pricing.

The Company utilizes advances from the FHLB to fund growth and to manage part of the interest rate sensitivity of its assets and liabilities. Total advances outstanding at June 30, 2011 amounted to \$421.4 million and the Company had the capacity to increase that amount to \$735.3 million.

The Company's most liquid assets are cash and due from banks, short-term investments and debt securities that generally mature within 90 days. At June 30, 2011, such assets amounted to \$117.4 million, or 3.8% of total assets.

At June 30, 2011, both Brookline and Ipswich exceeded all regulatory capital requirements. Brookline's Tier I capital was \$375.4 million, or 13.7% of adjusted assets, and Ipswich's Tier I capital was \$24.6 million, or 12.6% of adjusted assets. The minimum required Tier I capital ratio is 4.00%.

**Item 3. Quantitative and Qualitative Disclosures about Market Risks**

For a discussion of the Company's management of market risk exposure and quantitative information about market risk, see pages 54 through 56 of the Company's Form 10-K for the fiscal year ending December 31, 2010 filed on February 25, 2011.

**Item 4. Controls and Procedures**

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Under the supervision and with the participation of the Company's management, including its chief executive officer and chief financial officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the chief executive officer and the chief financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to insure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms.

There has been no change in the Company's internal control over financial reporting identified in connection with the quarterly evaluation that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### Part II - Other Information

#### Item 1. Legal Proceedings

In the normal course of business, there are various outstanding legal proceedings. In the opinion of management, after consulting with legal counsel, the consolidated financial position and results of operations of the Company are not expected to be affected materially by the outcome of such proceedings.

#### Item 1A. Risk Factors

There have been no material changes from the risk factors presented in the Company's Form 10-K for the year ended December 31, 2010 filed on February 25, 2011 and in the Company's amended Form 10-K for the year ended December 31, 2010 filed on June 2, 2011.

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

a) Not applicable.

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b) Not applicable.

c) The following table presents a summary of the Company's share repurchases during the quarter ended June 30, 2011.

| Period                        | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid Per<br>Share | Total Number of<br>Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Program (1) (2) (3) | Maximum<br>Number of<br>Shares that May<br>Yet be<br>Purchased<br>Under the<br>Program (1) (2) (3) |
|-------------------------------|-------------------------------------------|---------------------------------------|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| April 1 through June 30, 2011 |                                           | \$                                    | 2,195,590                                                                                         | 4,804,410                                                                                          |

(1) On April 19, 2007, the Board of Directors approved a program to repurchase 2,500,000 shares of the Company's common stock. Prior to January 1, 2010, 2,195,590 shares authorized under this program had been repurchased. At June 30, 2011, 304,410 shares authorized under this program remained available for repurchase.

(2) On July 19, 2007, the Board of Directors approved another program to repurchase an additional 2,000,000 shares of the Company's common stock. At June 30, 2011, all of the 2,000,000 shares authorized under this program remained available for repurchase.

(3) On January 17, 2008, the Board of Directors approved another program to repurchase an additional 2,500,000 shares of the Company's common stock. At June 30, 2011, all of the 2,500,000 shares authorized under this program remained available for repurchase.

The Board of Directors has delegated to the discretion of the Company's senior management the authority to determine the timing of the repurchases and the prices at which the repurchases will be made.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

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

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The results of matters voted on by the stockholders at the Company's Annual Meeting of Stockholders on April 20, 2011 were reported in a Form 8-K filed on April 21, 2011, which is incorporated herein by reference.

### Item 5. Other Information

Not applicable.

### Item 6. Exhibits

#### *Exhibits*

Exhibit 11                      Statement Regarding Computation of Per Share Earnings

Exhibit 31.1                  Certification of Chief Executive Officer

Exhibit 31.2                  Certification of Chief Financial Officer

Exhibit 32.1                  Section 1350 Certification of Chief Executive Officer

Exhibit 32.2                  Section 1350 Certification of Chief Financial Officer

Exhibit 101                  The following materials from Brookline Bancorp, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010, (ii) Consolidated Statements of Income for the three months and six months ended June 30, 2011 and 2010, (iii) Consolidated Statements of Comprehensive Income for the three months and six months ended June 30, 2011 and 2010, (iv) Consolidated Statements of Changes in Equity for the six months ended June 30, 2011 and 2010, (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010 and (vi) Notes to Unaudited Consolidated Financial Statements.

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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 by the undersigned thereunto duly authorized.

**BROOKLINE BANCORP, INC.**

Date: August 8, 2011

By: /s/ Paul A. Perrault  
Paul A. Perrault  
President and Chief Executive Officer

Date: August 8, 2011

By: /s/ Paul R. Bechet  
Paul R. Bechet  
Senior Vice President, Treasurer and Chief Financial Officer