

BROOKLINE BANCORP INC

Form 10-Q

November 08, 2013

[Table of Contents](#)

**UNITED STATES SECURITIES AND EXCHANGE
COMMISSION**

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

Commission file number 0-23695

Brookline Bancorp, Inc.

(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.)

131 Clarendon Street, Boston, MA

(Address of principal executive offices)

02117-9179

(Zip Code)

(617) 425-4600

(Registrant's telephone number, including area code)

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

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 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, a non-accelerated filer, or a smaller reporting company.

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

At November 8, 2013, the number of shares of common stock, par value \$0.01 per share, outstanding was 70,160,550.

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

FORM 10-Q

Index

	Page
<u>Part I</u>	
<u>Financial Information</u>	
<u>Item 1.</u>	
<u>Unaudited Consolidated Financial Statements</u>	
<u>Unaudited Consolidated Balance Sheets at September 30, 2013 and December 31, 2012</u>	1
<u>Unaudited Consolidated Statements of Income for the Three Months and Nine Months Ended September 30, 2013 and 2012</u>	2
<u>Unaudited Consolidated Statements of Comprehensive Income for the Three Months and Nine Months Ended September 30, 2013 and 2012</u>	3
<u>Unaudited Consolidated Statements of Changes in Equity for the Nine Months Ended September 30, 2013 and 2012</u>	4
<u>Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012</u>	6
<u>Notes to Unaudited Consolidated Financial Statements</u>	7
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	53
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	90
<u>Item 4.</u>	
<u>Controls and Procedures</u>	92
<u>Part II</u>	
<u>Other Information</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	93
<u>Item 1A.</u>	
<u>Risk Factors</u>	93
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	93
<u>Item 3.</u>	
<u>Defaults Upon Senior Securities</u>	93
<u>Item 4.</u>	
<u>Mine Safety Disclosures</u>	93
<u>Item 5.</u>	
<u>Other Information</u>	93
<u>Item 6.</u>	
<u>Exhibits</u>	94
<u>Signatures</u>	95

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Unaudited Consolidated Financial Statements****BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Unaudited Consolidated Balance Sheets**

	At September 30, 2013	At December 31, 2012
	(In Thousands Except Share Data)	
ASSETS		
Cash and due from banks	\$ 37,220	\$ 78,441
Short-term investments	58,195	38,656
Total cash and cash equivalents	95,415	117,097
Investment securities available-for-sale (amortized cost of \$488,551 and \$475,946, respectively)	480,402	481,323
Investment securities held-to-maturity (fair value of \$500 and \$502, respectively)	500	500
Total investment securities	480,902	481,823
Loans held-for-sale	200	3,233
Loans and leases:		
Commercial real estate loans	2,118,460	2,005,963
Commercial loans and leases	965,926	847,455
Indirect automobile loans	440,949	542,344
Consumer loans	774,142	779,950
Total loans and leases	4,299,477	4,175,712
Allowance for loan and lease losses	(46,390)	(41,152)
Net loans and leases	4,253,087	4,134,560
Restricted equity securities	66,627	68,661
Premises and equipment, net of accumulated depreciation and amortization of \$42,870 and \$38,985, respectively	79,504	70,791
Deferred tax asset	34,322	27,197
Goodwill, net	137,890	137,890
Identified intangible assets, net of accumulated amortization of \$21,767 and \$18,272, respectively	18,015	21,510
Other real estate owned and repossessed assets, net	1,319	1,491
Other assets	68,948	83,281
Total assets	\$ 5,236,229	\$ 5,147,534
LIABILITIES AND EQUITY		
Deposits:		
Non-interest-bearing deposits:		
Demand checking accounts	\$ 667,181	\$ 623,274
Interest-bearing deposits:		
NOW accounts	204,164	212,858
Savings accounts	512,393	515,367
Money market accounts	1,403,881	1,253,819
Certificate of deposit accounts	950,359	1,010,941
Total interest-bearing deposits	3,070,797	2,992,985

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Total deposits	3,737,978	3,616,259
Borrowed funds:		
Advances from the FHLBB	784,740	790,865
Other borrowed funds	44,062	63,104
Total borrowed funds	828,802	853,969
Mortgagors escrow accounts	8,008	6,946
Accrued expenses and other liabilities	42,820	54,551
Total liabilities	4,617,608	4,531,725
Equity:		
Brookline Bancorp, Inc. stockholders equity:		
Common stock, \$0.01 par value; 200,000,000 shares authorized; 75,744,445 shares and 75,749,825 shares issued, respectively	757	757
Additional paid-in capital	616,968	618,426
Retained earnings, partially restricted	63,210	53,358
Accumulated other comprehensive (loss) income	(4,900)	3,483
Treasury stock, at cost; 5,154,327 shares and 5,373,733 shares, respectively	(59,576)	(62,107)
Unallocated common stock held by ESOP; 302,229 shares and 333,918 shares, respectively	(1,648)	(1,820)
Total Brookline Bancorp, Inc. stockholders equity	614,811	612,097
Noncontrolling interest in subsidiary	3,810	3,712
Total equity	618,621	615,809
Total liabilities and equity	\$ 5,236,229	\$ 5,147,534

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Unaudited Consolidated Statements of Income**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In Thousands Except Share Data)			
Interest and dividend income:				
Loans and leases	\$ 48,462	\$ 53,271	\$ 148,525	\$ 153,049
Debt securities	2,041	1,949	5,827	6,719
Short-term investments	22	71	72	166
Marketable and restricted equity securities	298	103	911	291
Total interest and dividend income	50,823	55,394	155,335	160,225
Interest expense:				
Deposits	4,637	5,375	14,214	16,355
Borrowed funds and subordinated debt	2,774	3,608	8,677	11,065
Total interest expense	7,411	8,983	22,891	27,420
Net interest income	43,412	46,411	132,444	132,805
Provision for credit losses	2,748	2,862	7,042	12,787
Net interest income after provision for credit losses	40,664	43,549	125,402	120,018
Non-interest income:				
Fees, charges and other income	4,011	3,858	11,412	11,759
Loss from investments in affordable housing projects	(558)	(73)	(1,494)	(455)
Gain on sales of securities				797
Total non-interest income	3,453	3,785	9,918	12,101
Non-interest expense:				
Compensation and employee benefits	15,591	14,664	48,586	43,590
Occupancy	3,312	2,673	9,260	7,852
Equipment and data processing	4,061	4,136	12,423	11,548
Professional services	1,329	1,932	4,343	10,939
FDIC insurance	508	973	2,378	3,123
Advertising and marketing	758	689	2,196	2,166
Amortization of identified intangible assets	1,154	1,271	3,495	3,825
Other	2,840	4,098	8,459	8,464
Total non-interest expense	29,553	30,436	91,140	91,507
Income before provision for income taxes	14,564	16,898	44,180	40,612
Provision for income taxes	4,645	5,176	15,156	14,473
Net income before noncontrolling interest in subsidiary	9,919	11,722	29,024	26,139
Less net income attributable to noncontrolling interest in subsidiary	490	321	1,292	860
Net income attributable to Brookline Bancorp, Inc.	\$ 9,429	\$ 11,401	\$ 27,732	\$ 25,279
Earnings per common share:				
Basic	\$ 0.14	\$ 0.16	\$ 0.40	\$ 0.36

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Diluted	0.13	0.16	0.40	0.36
Weighted average common shares outstanding during the period:				
Basic	69,830,953	69,716,283	69,789,737	69,682,741
Diluted	69,913,765	69,754,473	69,860,722	69,718,072
Dividends declared per common share	\$ 0.085	\$ 0.085	\$ 0.255	\$ 0.255

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Unaudited Consolidated Statements of Comprehensive Income**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In Thousands)			
Net income before noncontrolling interest in subsidiary	\$ 9,919	\$ 11,722	\$ 29,024	\$ 26,139
Other comprehensive income (loss), net of taxes:				
Investment securities available-for-sale:				
Unrealized securities holding (losses) gains excluding non-credit gain on impairment of securities	(735)	2,592	(13,526)	3,394
Non-credit gain on impairment of securities				34
Income tax benefit (expense)	276	(992)	5,137	(1,303)
Net unrealized securities holding (losses) gains before reclassification adjustments	(459)	1,600	(8,389)	2,125
Less reclassification adjustments for securities gains included in net income:				
Gain on sales of securities, net				797
Income tax expense				(282)
Net reclassification adjustments for securities gains included in net income				515
Net unrealized securities holding (losses) gains	(459)	1,600	(8,389)	1,610
Postretirement benefits:				
Adjustment of accumulated obligation for postretirement benefits			8	(10)
Income tax (expense) benefit			(2)	6
Net adjustment of accumulated obligation for postretirement benefits			6	(4)
Net other comprehensive (loss) income	(459)	1,600	(8,383)	1,606
Comprehensive income	9,460	13,322	20,641	27,745
Net income attributable to noncontrolling interest in subsidiary	490	321	1,292	860
Comprehensive income attributable to Brookline Bancorp, Inc.	\$ 8,970	\$ 13,001	\$ 19,349	\$ 26,885

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Unaudited Consolidated Statements of Changes in Equity****Nine Months Ended September 30, 2013 and 2012**

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Unallocated Common Stock Held by ESOP	Total Brookline Bancorp, Inc. Stockholders Equity	Noncontrolling Interest in Subsidiary	Total Equity
(In Thousands Except Share Data)									
Balance at December 31, 2012	\$ 757	\$ 618,426	\$ 53,358	\$ 3,483	\$ (62,107)	\$ (1,820)	\$ 612,097	\$ 3,712	\$ 615,809
Net income attributable to Brookline Bancorp, Inc.			27,732				27,732		27,732
Net income attributable to noncontrolling interest in subsidiary								1,292	1,292
Other comprehensive loss				(8,383)			(8,383)		(8,383)
Common stock dividends of \$0.255 per share			(17,880)				(17,880)		(17,880)
Dividend to owners of noncontrolling interest in subsidiary								(1,194)	(1,194)
Compensation under recognition and retention plan		1,073					1,073		1,073
Restricted stock awards issued, net of awards surrendered		(2,531)			2,531				
Common stock held by ESOP committed to be released (31,689 shares)						172	172		172
Balance at September 30, 2013	\$ 757	\$ 616,968	\$ 63,210	\$ (4,900)	\$ (59,576)	\$ (1,648)	\$ 614,811	\$ 3,810	\$ 618,621

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Unaudited Consolidated Statements of Changes in Equity (Continued)****Nine Months Ended September 30, 2013 and 2012**

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Unallocated Common Stock Held by ESOP	Total Brookline Bancorp, Inc. Stockholders Equity	Noncontrolling Interest in Subsidiary	Total Equity
(In Thousands Except Share Data)									
Balance at December 31, 2011	\$ 644	\$ 525,171	\$ 39,993	\$ 1,963	\$ (62,107)	\$ (2,062)	\$ 503,602	\$ 3,400	\$ 507,002
Net income attributable to Brookline Bancorp, Inc.			25,279				25,279		25,279
Net income attributable to noncontrolling interest in subsidiary								860	860
Issuance of shares of common stock (10,997,840 shares)	110	92,712					92,822		92,822
Other comprehensive income				1,606			1,606		1,606
Common stock dividends of \$0.255 per share			(17,821)				(17,821)		(17,821)
Dividend to owners of noncontrolling interest in subsidiary									
Compensation under recognition and retention plan		293					293	(5)	288
Common stock held by ESOP committed to be released (33,219 shares)						181	181		181
Balance at September 30, 2012	\$ 754	\$ 618,176	\$ 47,451	\$ 3,569	\$ (62,107)	\$ (1,881)	\$ 605,962	\$ 4,255	\$ 610,217

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**BROOKLINE BANCORP. INC. AND SUBSIDIARIES****Unaudited Consolidated Statements of Cash Flows**

	Nine Months Ended September 30,	
	2013	2012
	(In Thousands)	
Cash flows from operating activities:		
Net income attributable to Brookline Bancorp, Inc.	\$ 27,732	\$ 25,279
Adjustments to reconcile net income to net cash provided from operating activities:		
Net income attributable to noncontrolling interest in subsidiary	1,292	860
Provision for credit losses	7,042	12,787
Origination of loans and leases to be sold	(25,118)	(65,252)
Proceeds from loans and leases sold	28,798	68,208
Deferred income tax expense	(1,985)	(2,984)
Depreciation of premises and equipment	4,587	2,696
Amortization of securities premiums and discounts, net	2,564	3,549
Amortization of deferred loan and lease origination costs, net	7,749	7,606
Amortization of identified intangible assets	3,495	3,825
Accretion of acquisition fair value adjustments, net	(5,518)	(9,411)
Gain on sales of investment securities		(797)
Gains on sales of loans held for sale	(647)	(434)
Losses on sales of other real estate owned and repossessed assets	35	41
Write-down of other real estate owned and repossessed assets	188	60
Compensation under recognition and retention plans	1,073	288
Loss on investments in affordable housing projects	1,494	455
ESOP shares committed to be released	172	181
Net change in:		
Cash surrender value of bank-owned life insurance	(824)	(886)
Other assets	13,663	(4,213)
Accrued expenses and other liabilities	(11,858)	(2,479)
Net cash provided from operating activities	53,934	39,379
Cash flows from investing activities:		
Proceeds from sales of investment securities available-for-sale		157,225
Proceeds from maturities, calls and principal repayments of investment securities available-for-sale	108,940	158,144
Purchases of investment securities available-for-sale	(124,106)	(251,765)
Proceeds from redemption of restricted equity securities	2,108	2,003
Purchases of restricted equity securities	(74)	(15,505)
Purchases of investment securities held-to-maturity		(500)
Net increase in loans and leases	(137,775)	(297,966)
Acquisitions, net of cash and cash equivalents acquired		(89,258)
Monies in escrow Bancorp Rhode Island, Inc. acquisition		112,983
Purchase of premises and equipment	(13,763)	(24,126)
Sale of premises and equipment	330	
Proceeds from sales of other real estate owned and repossessed assets	7,948	145
Net cash used for investing activities	(156,392)	(248,620)
Cash flows from financing activities:		
Increase in demand checking, NOW, savings and money market accounts	182,301	233,824
Decrease in certificates of deposit	(60,929)	(50,529)
Proceeds from FHLBB advances	2,165,600	2,300,774
Repayment of FHLBB advances	(2,169,090)	(2,305,682)

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Repayment of subordinated debt	(3,000)		
(Decrease) increase in other borrowed funds	(16,094)		19,012
Increase in mortgagors escrow accounts	1,062		553
Payment of dividends on common stock	(17,880)		(17,821)
Payment of dividends to owners of noncontrolling interest in subsidiary	(1,194)		(914)
Net cash provided from financing activities	80,776		179,217
Net decrease in cash and cash equivalents	(21,682)		(30,024)
Cash and cash equivalents at beginning of period	117,097		106,296
Cash and cash equivalents at end of period	\$ 95,415	\$	76,272
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest on deposits, borrowed funds and subordinated debt	\$ 26,345	\$	32,018
Income taxes	14,990		17,055
Non-cash investing activities:			
Transfer from loans to other real estate owned	\$ 7,999	\$	
Acquisition of Bancorp Rhode Island, Inc.:			
Assets acquired (excluding cash and cash equivalents)	\$	\$	1,571,817
Liabilities assumed			1,481,535

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

(1) Basis of Presentation

Overview

Brookline Bancorp, Inc. (the Company) is a bank holding company (within the meaning of the Bank Holding Company Act of 1956, as amended) and the parent of Brookline Bank, a Massachusetts-chartered savings bank; Bank Rhode Island (BankRI), a Rhode Island-chartered bank; and First Ipswich Bank (First Ipswich and formerly known as the First National Bank of Ipswich), a Massachusetts-chartered trust company (collectively referred to as the Banks). The Banks are all members of the Federal Reserve System. The Company is also the parent of Brookline Securities Corp. (BSC). The Company's primary business is to provide commercial, business and retail banking services to its corporate, municipal and individual customers through its banks and non-bank subsidiaries.

Brookline Bank, which includes its wholly-owned subsidiaries BBS Investment Corp. and Longwood Securities Corp., and its 84.8%-owned subsidiary, Eastern Funding LLC (Eastern Funding), operates 23 full-service banking offices in Brookline, Massachusetts, and the greater Boston metropolitan area. BankRI, which includes its wholly-owned subsidiaries BRI Investment Corp., Macrolease Corporation (Macrolease), Acorn Insurance Agency and BRI Realty Corp., operates 18 full-service banking offices in Providence County, Kent County and Washington County, Rhode Island. First Ipswich, which includes its wholly-owned subsidiaries First Ipswich Securities II Corp., First Ipswich Insurance Agency and FNBI Realty, operates six full-service banking offices on the north shore of eastern Massachusetts and in the Boston metropolitan area.

The Company's activities include acceptance of commercial, municipal and retail deposits, origination of mortgage loans on commercial and residential real estate located principally in Massachusetts and Rhode Island, origination of commercial loans and leases to small- and mid-sized businesses, origination of indirect automobile loans, investment in debt and equity securities, and the offering of cash management and investment advisory services. The Company also provides specialty equipment financing through its subsidiaries Eastern Funding, which is based in New York City, and Macrolease, which is based in Plainview, New York.

The Company and the Banks are supervised, examined and regulated by the Board of Governors of the Federal Reserve System (FRB). As Massachusetts-chartered member banks, Brookline Bank and First Ipswich are also subject to regulation under the laws of the Commonwealth of Massachusetts and the jurisdiction of the Massachusetts Division of Banks. BankRI is subject to regulation under the laws of the State of Rhode Island and the jurisdiction of the Banking Division of the Rhode Island Department of Business Regulation.

The Federal Deposit Insurance Corporation (FDIC) offers insurance coverage on all deposits up to \$250,000 per depositor for all three Banks. As FDIC-insured depository institutions, all three Banks are also secondarily subject to supervision, examination and regulation by the FDIC. Additionally, as a Massachusetts-chartered savings bank, Brookline Bank is also insured by the Depositors Insurance Fund (DIF), a private

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

industry-sponsored insurance company. The DIF insures savings bank deposits in excess of the FDIC insurance limits. As such, Brookline Bank offers 100% insurance on all deposits as a result of a combination of insurance from the FDIC and the DIF. Brookline Bank is required to file reports with the DIF.

Basis of Financial Statement Presentation

The unaudited consolidated financial statements of the Company presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC) for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by U.S. generally accepted accounting principles (GAAP). In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures considered necessary for the fair presentation of the accompanying consolidated financial statements have been included. Interim results are not necessarily reflective of the results of the entire year. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

The unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances are eliminated in consolidation.

In preparing these consolidated financial statements, management is required to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and disclosure of contingent assets and

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

liabilities. Actual results could differ from those estimates based upon changing conditions, including economic conditions and future events. Material estimates that are particularly susceptible to significant change in the near-term include the determination of the allowance for loan and lease losses, the determination of fair market values of assets and liabilities, including acquired loans, the review of goodwill and intangibles for impairment, income tax accounting and status of contingencies.

The judgments used by management in applying these critical accounting policies may be affected by a further and prolonged deterioration in the economic environment, which may result in changes to future financial results. For example, subsequent evaluations of the loan and lease portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for loan and lease losses in future periods, and the inability to collect outstanding principal may result in increased loan and lease losses.

Reclassification

Certain previously reported amounts have been reclassified to conform to the current year's presentation.

(2) Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. This ASU clarifies the scope of offsetting disclosure requirements in ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. Under ASU 2013-01, the disclosure requirements would apply to derivative instruments accounted for in accordance with ASC 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending arrangements that are either offset on the balance sheet or subject to an enforceable master netting arrangement or similar agreement. Entities with other types of financial assets and financial liabilities subject to a master netting arrangement or similar agreement also are affected because these amendments make them no longer subject to the disclosure requirements in ASU No. 2011-11. Effective January 1, 2013, companies are required to disclose (a) gross amounts of recognized assets and liabilities; (b) gross amounts offset in the statement of financial position; (c) net amounts of assets and liabilities presented in the statement of financial position; (d) gross amount subject to enforceable master netting agreement not offset in the statements of financial position; and (e) net amounts after deducting (d) from (c). The disclosure should be presented in tabular format (unless another format is more appropriate) separately for assets and liabilities. The intent of the new disclosure is to enable users of financial statements to understand the effect of those arrangements on its financial position and to allow investors to better compare financial statements prepared under GAAP with financial statements prepared under International Financial Reporting Standards. As required, the Company added relevant disclosure in Note 8, Derivatives and Hedging Activities.

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*. This ASU states that the amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. The amendments do, however, require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income under U.S. GAAP, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. In response to this ASU, the Company added a new footnote to disclose the amounts reclassified out of accumulated other comprehensive income and the effects on the line items of net income. See Note 7, Comprehensive Income.

In July 2013, the FASB issued ASU 2013-10, *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*. This ASU amends ASC 815 to allow entities to use the Fed Funds Effective Swap Rate, in addition to U.S. Treasury rates and LIBOR, as a benchmark interest rate in accounting for fair value and cash flow hedges in the United States. This ASU also eliminates the provision from ASC 815-20-25-6 that prohibits the use of different benchmark rates for similar hedges except in rate and justifiable circumstances. This ASU is effective prospectively for qualifying new hedging relationship entered into on or after July 17, 2013, and for hedging

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

relationship redesignated on or after that day. As of September 30, 2013, the Company did not have any fair value and cash flow hedges. The adoption of ASU No. 2013-10 did not have a material impact on the Company's financial statements.

In July 2013, the FASB issued ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This ASU provides guidance on financial statement presentation of unrecognized tax benefits (UTBs) when a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward exists. The FASB's objective in issuing this ASU is to eliminate diversity in practice resulting from a lack of guidance on this topic in current U.S. GAAP. Under this ASU, an entity must present a UTB, or a portion of a UTB, in the financial statements as a reduction to a deferred tax asset (DTA) for an NOL carryforward, a similar tax loss, or a tax credit carryforward except when: (a) an NOL carryforward, a similar tax loss, or a tax credit carryforward is not available as of the reporting date under the governing tax law to settle taxes that would result from the disallowance of the tax position; (b) the entity does not intend to use the DTA for this purpose (provided that the tax law permits a choice). If either of these conditions exists, an entity should present a UTB in the financial statements as a liability and should not net the UTB with a DTA. New recurring disclosures are not required because the ASU does not affect the recognition or measurement of uncertain tax positions under ASC 740. This amendment does not affect the amounts public entities disclose in the tabular reconciliation of the total amounts of UTBs because the tabular reconciliation presents the gross amount of UTBs. This ASU is effective for fiscal years beginning after December 15, 2013, and interim periods within those years. The amendments should be applied to all UTBs that exist as of the effective date. Entities may choose to apply the amendments retrospectively to each prior reporting period presented. As of September 30, 2013, the Company did not have a UTB. Management will assess the applicability of this ASU after it becomes effective in the first quarter of 2014.

(3) Investment Securities

The following tables set forth investment securities available-for-sale and held-to-maturity at the dates indicated:

	Amortized Cost	At September 30, 2013		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
		(In Thousands)		
Debt securities:				
GSEs	\$ 20,178	\$ 64	\$	\$ 20,242
GSE CMOs	255,658	95	7,422	248,331
GSE MBSs	178,510	2,115	3,475	177,150
Private-label CMOs	4,013	118	34	4,097
SBA commercial loan asset-backed securities	261		2	259
Auction-rate municipal obligations	1,900		126	1,774
Municipal obligations	1,065	24		1,089
Corporate debt obligations	23,103	413		23,516
Trust preferred securities and pools	2,607	296	275	2,628

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Total debt securities	487,295		3,125		11,334		479,086
Marketable equity securities	1,256		62		2		1,316
Total investment securities available-for-sale	\$ 488,551	\$	3,187	\$	11,336	\$	480,402
Investment securities held-to-maturity	\$ 500	\$		\$		\$	500

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

	Amortized Cost	At December 31, 2012		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In Thousands)				
Debt securities:				
GSEs	\$ 69,504	\$ 305	\$	\$ 69,809
GSE CMOs	215,670	1,386	55	217,001
GSE MBSs	165,996	3,704	52	169,648
Private-label CMOs	6,719	147		6,866
SBA commercial loan asset-backed securities	383		2	381
Auction-rate municipal obligations	2,100		124	1,976
Municipal obligations	1,058	43		1,101
Corporate debt obligations	10,481	204		10,685
Trust preferred securities and pools	2,786	136	403	2,519
Total debt securities	474,697	5,925	636	479,986
Marketable equity securities	1,249	88		1,337
Total investment securities available-for-sale	\$ 475,946	\$ 6,013	\$ 636	\$ 481,323
Investment securities held-to-maturity	\$ 500	\$ 2	\$	\$ 502

At September 30, 2013, the fair value of all securities available-for-sale was \$480.4 million and carried a total of \$8.1 million of net unrealized losses at the end of the quarter, compared to \$5.4 million of net unrealized gains at December 31, 2012. Of the \$480.4 million in securities available-for-sale at September 30, 2013, \$352.3 million, or 73.3%, of the portfolio, had gross unrealized losses of \$11.3 million. This compares to \$47.6 million, or 9.9% of the portfolio with gross unrealized losses of \$0.6 million at December 31, 2012. The shift from an unrealized gain position to an unrealized loss position over the first nine months of 2013 was driven by rising interest rates.

Investment Securities as Collateral

At September 30, 2013 and December 31, 2012, respectively, \$320.6 million and \$309.7 million of investment securities available-for-sale were pledged as collateral for repurchase agreements; municipal deposits; treasury, tax and loan deposits; swap agreements; and Federal Home Loan Bank of Boston (FHLBB) borrowings. The Company did not have any outstanding FRB borrowings at September 30, 2013 or December 31, 2012.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012*****Other-Than-Temporary Impairment (OTTI)***

Investment securities at September 30, 2013 and December 31, 2012 that have been in a continuous unrealized loss position for less than twelve months or twelve months or longer are as follows:

	Less than Twelve Months		At September 30, 2013 Twelve Months or Longer		Estimated Fair Value	Total Unrealized Losses
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses		
(In Thousands)						
Debt securities:						
GSE CMOs	\$ 190,433	\$ 5,110	\$ 51,296	\$ 2,312	\$ 241,729	\$ 7,422
GSE MBSs	79,020	2,039	26,423	1,436	105,443	3,475
Private-label CMOs	1,145	34			1,145	34
SBA commercial loan asset-backed securities	39		199	2	238	2
Auction-rate municipal obligations			1,774	126	1,774	126
Trust preferred securities:						
Without OTTI loss			1,998	275	1,998	275
Temporarily impaired debt securities	270,637	7,183	81,690	4,151	352,327	11,334
Marketable equity securities	509	2			509	2
Total temporarily impaired securities	\$ 271,146	\$ 7,185	\$ 81,690	\$ 4,151	\$ 352,836	\$ 11,336

	Less than Twelve Months		At December 31, 2012 Twelve Months or Longer		Estimated Fair Value	Total Unrealized Losses
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses		
(In Thousands)						
Debt securities:						
GSE CMOs	\$ 23,910	\$ 55	\$	\$	\$ 23,910	\$ 55
GSE MBSs	19,186	47	235	5	19,421	52
Private-label CMOs	25				25	
SBA commercial loan asset- backed securities	310	2			310	2
Auction-rate municipal obligations			1,976	124	1,976	124
Trust preferred securities and pools:						
Without OTTI loss			1,931	403	1,931	403
Temporarily impaired debt securities	43,431	104	4,142	532	47,573	636
Marketable equity securities						
Total temporarily impaired securities	\$ 43,431	\$ 104	\$ 4,142	\$ 532	\$ 47,573	\$ 636

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

The Company performs regular analysis on the available-for-sale investment securities portfolio to determine whether a decline in fair value indicates that an investment is OTTI. In making these OTTI determinations, management considers, among other factors, the length of time and extent to which the fair value has been less than amortized cost; projected future cash flows; credit subordination and the creditworthiness, capital adequacy and near-term prospects of the issuers.

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

Management also considers the Company's capital adequacy, interest-rate risk, liquidity and business plans in assessing whether it is more likely than not that the Company will sell or be required to sell the securities before recovery. If the Company determines that a decline in fair value is OTTI and that it is more likely than not that the Company will not sell or be required to sell the security before recovery of its amortized cost, the credit portion of the impairment loss is recognized in earnings and the noncredit portion is recognized in accumulated other comprehensive income. The credit portion of the OTTI impairment represents the difference between the amortized cost and the present value of the expected future cash flows of the security. If the Company determines that a decline in fair value is OTTI and it is more likely than not that it will sell or be required to sell the security before recovery of its amortized cost, the entire difference between the amortized cost and the fair value of the security will be recognized in earnings.

Debt Securities

The Company expects to recover its amortized cost basis on all debt securities in its available-for-sale and held-to-maturity portfolios. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities that were in an unrealized loss position at September 30, 2013, prior to the recovery of their amortized cost basis. The Company's ability and intent to hold these securities until recovery is supported by the Company's strong capital and liquidity positions as well as its historically low portfolio turnover.

U.S. Government-Sponsored Enterprises

The Company invests in securities issued by of U.S. Government-sponsored enterprises (GSEs), including GSE debt securities, mortgage-backed securities (MBSs), and collateralized mortgage obligations (CMOs). GSE securities 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 September 30, 2013, none of those obligations is backed by the full faith and credit of the U.S. Government, except for GNMA MBSs and CMOs, and Small Business Administration (SBA) commercial loan asset-backed securities with an estimated fair value of \$13.1 million, compared to \$10.0 million at December 31, 2012.

At September 30, 2013, the Company held GSE debentures with a total fair value of \$20.2 million and a net unrealized gain of less than \$0.1 million. At December 31, 2012, the Company held GSE debentures with a total fair value of \$69.8 million and a net unrealized gain of \$0.3 million. At September 30, 2013, none of the twelve securities in the Company's portfolio were in unrealized loss positions. All securities are performing and backed by the implicit or explicit guarantee of the U.S. Government.

At September 30, 2013, the Company held SBA securities with a total fair value of \$0.3 million and a net unrealized loss of less than \$0.1 million. At December 31, 2012, the Company held GSE debentures with a total fair value of \$0.4 million and a net unrealized loss of less than \$0.1 million. At September 30, 2013, seven of the nine securities in the Company's portfolio were in unrealized loss positions, which represented

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

0.8% of the amortized cost of the securities. All securities are performing and backed by the implicit or explicit guarantee of the U.S. Government.

At September 30, 2013, the Company held GSE mortgage-related securities with a total fair value of \$425.5 million and a net unrealized loss of \$8.7 million. This compares to a total fair value of \$386.6 million and a net unrealized gain of \$5.0 million at December 31, 2012. During the nine months ended September 30, 2013, the Company purchased \$111.4 million in GSE CMOs and GSE MBSs to reinvest cash from matured securities. This compares to a total of \$252.3 million during the same period in 2012. At September 30, 2013, 80 of the 235 securities in the Company's portfolio were in unrealized loss positions, which represented 3.0% of the amortized cost of the securities. All securities are performing and backed by the implicit or explicit guarantee of the U.S. Government.

Private-Label CMOs

At September 30, 2013, the Company held private-issuer CMO-related securities with a total fair value of \$4.1 million and a net unrealized gain of less than \$0.1 million. At December 31, 2012, the Company held private-issuer CMO-related securities with a total fair value of \$6.9 million and a net unrealized gain of \$0.1 million. At September 30, 2013, two of the eleven securities in the Company's portfolio were in unrealized loss positions, which represented 2.9% of the amortized cost of the

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

securities. All securities are performing and while one security was downgraded during the third quarter of 2013, the security is in an unrealized gain position as the underlying credit metrics have not deteriorated over the third quarter of 2013.

Auction-Rate Municipal Obligations and Municipal Obligations

The auction-rate obligations owned by the Company were rated AAA at the time of acquisition due, in part, to the guarantee of third-party insurers who would have to pay the obligations if the issuers failed to pay the obligations when they become due. During the financial crisis, certain third-party insurers experienced financial difficulties and were not 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 not been an 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 September 30, 2013 was \$1.8 million, with a corresponding net unrealized loss of \$0.1 million. This compares to \$2.0 million with a corresponding net unrealized loss of \$0.1 million at December 31, 2012. At September 30, 2013, two of the two securities in the Company's portfolio were in unrealized loss positions, which represented 6.6% of the amortized cost of the securities. 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 the Company has the ability and intent to hold the obligations for a period of time to recover the unrealized losses.

The Company owns municipal obligations with an estimated fair value of \$1.1 million which approximated amortized cost at September 30, 2013. This compares to a total fair value of \$1.1 million which also approximated amortized cost at December 31, 2012. At September 30, 2013, none of the two securities in the Company's portfolio were in unrealized loss positions. 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 the Company has the ability and intent to hold the obligations for a period of time to recover the unrealized losses.

Corporate Obligations

From time to time, the Company will invest in high-quality corporate obligations to provide portfolio diversification and improve the overall yield on the portfolio. The Company owned ten corporate obligation securities with a total fair value of \$23.5 million and total net unrealized gains of \$0.4 million at September 30, 2013. This compares to eight corporate obligation securities with a total fair value of \$10.7 million and total net unrealized gains of \$0.2 million at December 31, 2012. All but one of the securities are investment grade. This non-investment-grade security is currently in an unrealized gain position. At September 30, 2013, none of the ten securities in the Company's portfolio were in unrealized loss positions. 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, except for one security the obligations are rated investment grade and the Company has the ability and

intent to hold the obligations for a period of time to recover the unrealized losses. During the nine months ended September 30, 2013, the Company purchased \$12.7 million in corporate obligations. The Company did not purchase any corporate obligations in the same period in 2012.

Trust Preferred Securities and Trust Preferred Pools

Trust preferred securities represent subordinated debt issued by financial institutions. These securities are sometimes pooled and sold to investors through structured vehicles known as trust preferred pools (PreTSLs). When issued, PreTSLs are divided into tranches or segments that establish priority rights to cash flows from the underlying trust preferred securities. At September 30, 2013, the Company owned three trust preferred securities and two PreTSL pools with a total fair value of \$2.6 million which approximate amortized costs. This compares to three trust preferred securities and two PreTSL pools with a total fair value of \$2.5 million and a total net unrealized loss of \$0.3 million at December 31, 2012. At September 30, 2013, three of the five securities in the Company's portfolio were in unrealized loss positions, which represents 12.1% of the amortized cost of the securities. The Company monitors these pools closely for impairment due to a history of defaults experienced on the part of the banks underlying the trust preferred securities.

At September 30, 2013, one PreTSL received a \$0.2 million principal and interest payment. This payment, which was reported in non-interest income, was applied to the amortized cost with the remainder applied to gains on other assets in accordance with the cost recovery method. The payment completely paid down the amortized cost of this security and future

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

payments will be recognized as gains on other assets. The other PreTSL was designated PreTSL B. The Company monitors this pool closely for impairment due to a history of defaults experienced on the part of the banks underlying the trust preferred security. The following tables summarize the pertinent information at September 30, 2013 that was considered in determining whether OTTI existed on this PreTSL.

At September 30, 2013

PreTSL B	A-1	25%	16%	42%	CCC	B
----------	-----	-----	-----	-----	-----	---

- (1) As a percentage of original collateral.
- (2) As a percentage of performing collateral.
- (3) Excess subordination represents the additional defaults/losses in excess of both current and projected defaults/losses that the security can absorb before the security is exposed to a loss in principal, after taking into account the best estimate of future deferrals/defaults/losses.
- (4) Lower of S&P and Moody's.
- (5) The Company reviewed credit ratings provided by S&P and Moody's in 2013 in its evaluation of issuers.

	September 30, 2013				Total Cumulative OTTI	
	Current Par	Amortized Cost (1)	Gross Unrealized Gain/(Loss) (In Thousands)	Fair Value	Credit-Related	Credit and Non-Credit
PreTSL B	\$ 818	\$ 813	\$ (25)	\$ 788	\$	\$

- (1) The amortized cost reflects previously recorded credit-related OTTI charges recognized in earnings for the applicable securities.

In performing the analysis for OTTI impairment on the PreTSLs, expected future cash flow scenarios for each pool were considered under varying levels of severity for assumptions including future delinquencies, recoveries and prepayments. The Company also considered its relative seniority within the pools and any excess subordination. The Company's OTTI assessment for the three months ended September 30, 2013 was as follows:

PreTSL B has experienced \$86.0 million in deferrals/defaults, or 25.2% of the security's underlying collateral, to date. During the third quarter of 2013, there was no change in the deferral or default schedules and no further rating actions. Based on the security's future expected cash flows and after factoring in projected defaults of 15.7% over its remaining life, the security's current amortized cost (99.5% of current par), \$108.0 million in excess subordination (42.2% of outstanding performing collateral) and the Company's intent and ability to hold the security until recovery, Management believes that no OTTI is warranted at this time.

At September 30, 2013, there is no OTTI recognized in other comprehensive income on these securities.

Marketable Equity Securities

At September 30, 2013, the Company owned marketable equity securities with a fair value of \$1.3 million, including net unrealized gains of less than \$0.1 million. This compares to a fair value of \$1.3 million and net unrealized gains of \$0.1 million at December 31, 2012. At September 30, 2013 one out of the total four securities in the Company's portfolio was in an unrealized loss position, which represents 0.4% of the amortized cost of the securities.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012***Portfolio Maturities*

The maturities of the investments in debt securities are as follows at the dates indicated:

	At September 30, 2013			At December 31, 2012		
	Amortized Cost	Estimated Fair Value	Weighted Average Rate (Dollars in Thousands)	Amortized Cost	Estimated Fair Value	Weighted Average Rate
Investment securities available-for-sale:						
Within 1 year	\$ 20,288	\$ 20,347	1.31%	\$ 59,396	\$ 59,736	1.20%
After 1 year through 5 years	36,108	37,055	2.78%	25,249	25,579	1.61%
After 5 years through 10 years	48,309	49,428	2.62%	50,283	52,557	3.29%
Over 10 years	382,590	372,256	1.93%	339,769	342,114	1.93%
	\$ 487,295	\$ 479,086	2.04%	\$ 474,697	\$ 479,986	1.97%
Investment securities held-to-maturity:						
Within 1 year	\$ 500	\$ 500	1.99%	\$	\$	%
After 1 year through 5 years			%	500	502	1.99%
After 5 years through 10 years			%			%
Over 10 years			%			%
	\$ 500	\$ 500	1.99%	\$ 500	\$ 502	1.99%

Actual maturities of GSE debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty. At September 30, 2013, there were no remaining callable GSE securities in the investment portfolio. MBSs and CMOs are included above based on their contractual maturities; the remaining lives, however, are expected to be shorter due to anticipated prepayments.

Security Sales

There were no security sales during the nine-month period ended September 30, 2013.

**Nine Months Ended
September 30, 2012**

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

		(In Thousands)
Sales of debt securities	\$	157,225
Gross gains from sales		964
Gross losses from sales		167

Security transactions are recorded on the trade date. When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on the sale.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012****(4) Loans and Leases**

The following tables present loan and lease balances and weighted average coupon rates for the originated and acquired loan and lease portfolios at the dates indicated:

	Originated		At September 30, 2013 Acquired		Total	
	Balance	Weighted Average Coupon	Balance (Dollars in Thousands)	Weighted Average Coupon	Balance	Weighted Average Coupon
Commercial real estate loans:						
Commercial real estate	\$ 1,035,394	4.33%	\$ 365,375	4.46%	\$ 1,400,769	4.36%
Multi-family mortgage	523,340	4.33%	76,261	4.71%	599,601	4.38%
Construction	106,436	3.98%	11,654	4.28%	118,090	4.01%
Total commercial real estate loans	1,665,170	4.31%	453,290	4.50%	2,118,460	4.35%
Commercial loans and leases:						
Commercial	290,951	3.62%	118,425	4.62%	409,376	3.91%
Equipment financing	480,387	7.15%	32,958	6.63%	513,345	7.12%
Condominium association	43,205	4.77%		%	43,205	4.77%
Total commercial loans and leases	814,543	5.76%	151,383	5.06%	965,926	5.65%
Indirect automobile loans	440,949	5.05%		%	440,949	5.05%
Consumer loans:						
Residential mortgage	385,680	3.67%	126,155	4.04%	511,835	3.76%
Home equity	121,353	3.40%	133,535	3.91%	254,888	3.67%
Other consumer	6,074	5.88%	1,345	14.25%	7,419	7.40%
Total consumer loans	513,107	3.63%	261,035	4.03%	774,142	3.77%
Total loans and leases	\$ 3,433,769	4.65%	\$ 865,708	4.44%	\$ 4,299,477	4.60%

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

	Originated		At December 31, 2012 Acquired		Total	
	Balance	Weighted Average Coupon	Balance (Dollars in Thousands)	Weighted Average Coupon	Balance	Weighted Average Coupon
Commercial real estate loans:						
Commercial real estate mortgage	\$ 871,552	4.62%	\$ 429,681	4.69%	\$ 1,301,233	4.64%
Multi-family mortgage	506,017	4.50%	100,516	4.99%	606,533	4.58%
Construction	80,913	4.20%	17,284	4.73%	98,197	4.29%
Total commercial real estate loans	1,458,482	4.56%	547,481	4.75%	2,005,963	4.61%
Commercial loans and leases:						
Commercial	230,892	3.89%	151,385	4.72%	382,277	4.22%
Equipment financing	366,297	7.69%	54,694	6.91%	420,991	7.59%
Condominium association	44,187	5.02%			44,187	5.02%
Total commercial loans and leases	641,376	6.14%	206,079	5.30%	847,455	5.93%
Indirect automobile loans	542,344	5.31%			542,344	5.31%
Consumer loans:						
Residential mortgage	368,095	3.87%	143,014	4.18%	511,109	3.93%
Home equity	99,683	3.45%	161,879	4.07%	261,562	3.83%
Other consumer	6,122	5.35%	1,157	12.97%	7,279	6.56%
Total consumer loans	473,900	3.78%	306,050	4.15%	779,950	3.92%
Total loans and leases	\$ 3,116,102	4.89%	\$ 1,059,610	4.67%	\$ 4,175,712	4.83%

The Company's lending is primarily in the eastern half of Massachusetts, southern New Hampshire and Rhode Island, with the exception of equipment financing, 40.5% of which is in the greater New York/New Jersey metropolitan area and 59.5% of which is in other areas in the United States of America.

Residential mortgage loans held-for-sale were \$0.2 million and \$3.2 million at September 30, 2013 and December 31, 2012, respectively.

Accretable Yield for the Acquired Loan Portfolio

The following tables summarize activity in the accretable yield for the acquired loan portfolio for the periods indicated:

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In Thousands)			
Balance at beginning of period	\$ 52,182	\$ 68,656	\$ 57,812	\$ (1,369)
Acquisitions				81,503
Reclassification from nonaccretable difference for loans with improved cash flows	1,537	1,200	6,913	1,200
Accretion	(5,029)	(7,632)	(16,035)	(19,110)
Balance at end of period	\$ 48,690	\$ 62,224	\$ 48,690	\$ 62,224

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

Subsequent to acquisition, management quarterly reforecasts the expected cash flows for acquired ASC 310-30 loans, taking into account prepayment speeds, probability of default and loss given defaults. Management then compares this reforecast to the original estimates to evaluate the need for a loan loss provision and/or prospective yield adjustments. During the nine months ended September 30, 2013 and 2012, accretable yield adjustments totaling \$6.9 million and \$1.2 million, respectively were made for certain loan pools. These accretable yield adjustments, which are subject to continued re-assessment, will be recognized over the remaining lives of those pools.

The aggregate remaining nonaccretable difference (representing both principal and interest) applicable to acquired loans totaled \$8.2 million and \$14.6 million at September 30, 2013 and December 31, 2012, respectively.

Related Party Loans

The Banks' authority to extend credit to their respective directors and executive officers, as well as to entities controlled by such persons, is currently governed by the requirements of the Sarbanes-Oxley Act of 2002 and Regulation O of the FRB. Among other things, these provisions require that extensions of credit to insiders (1) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and (2) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Banks' capital. In addition, the extensions of credit to insiders must be approved by each Bank's Board of Directors.

The following table summarizes the change in the total amounts of loans and advances, to directors, executive officers and their affiliates for the periods indicated. All loans were performing at September 30, 2013.

	Nine Months Ended September 30,	
	2013	2012
	(In Thousands)	
Balance at beginning of period	\$ 4,083	\$ 16,428
Acquired loans		2,848
New loans granted during the period	498	140
Advances on lines of credit	6,163	540
Repayments	(887)	(14,300)
Loans reclassified as insider loans	10,753	
Balance at end of period	\$ 20,610	\$ 5,656

Unfunded commitments on extensions of credit to insiders totaled \$2.6 million and \$6.9 million at September 30, 2013 and December 31, 2012, respectively.

Recourse Obligations

As a result of the acquisition of BankRI, the Company has a recourse obligation under a lease sale agreement for up to 8.0% of the original sold balance of approximately \$9.8 million relating to the lease portfolio of BankRI's subsidiary Macrolease. Historically, delinquency rates for this lease portfolio have been significantly less than 8.0%; the rate at September 30, 2013 was 1.19%. At September 30, 2013, a liability for the recourse obligation was included in the Company's unaudited consolidated financial statements.

Loans and Leases Pledged as Collateral

At September 30, 2013 and December 31, 2012, respectively, \$1.3 billion and \$1.5 billion of loans and leases were pledged as collateral for repurchase agreements; municipal deposits; treasury, tax and loan deposits; swap agreements; and FHLBB borrowings. The Company did not have any outstanding FRB borrowings at September 30, 2013 or December 31, 2012.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012****(5) Allowance for Loan and Lease Losses**

The following tables present the changes in the allowance for loan and lease losses and the recorded investment in loans and leases by portfolio segment for the periods indicated:

	Three Months Ended September 30, 2013						Total
	Commercial Real Estate	Commercial	Indirect Automobile	Consumer	Unallocated		
	(In Thousands)						
Balance at June 30, 2013	\$ 22,019	\$ 11,791	\$ 4,695	\$ 2,999	\$ 2,777	\$ 44,281	
Charge-offs	(7)	(219)	(510)	(167)		(903)	
Recoveries		62	116	104		282	
Provision for loan and lease losses	447	2,036	15	179	53	2,730	
Balance at September 30, 2013	\$ 22,459	\$ 13,670	\$ 4,316	\$ 3,115	\$ 2,830	\$ 46,390	

	Three Months Ended September 30, 2012						Total
	Commercial Real Estate	Commercial	Indirect Automobile	Consumer	Unallocated		
	(In Thousands)						
Balance at June 30, 2012	\$ 17,938	\$ 8,962	\$ 5,680	\$ 2,113	\$ 2,738	\$ 37,431	
Charge-offs		(1,276)	(423)	(108)		(1,807)	
Recoveries	38	97	122	11		268	
Provision (credit) for loan and lease losses	1,187	1,453	235	429	(283)	3,021	
Balance at September 30, 2012	\$ 19,163	\$ 9,236	\$ 5,614	\$ 2,445	\$ 2,455	\$ 38,913	

	Nine Months Ended September 30, 2013						Total
	Commercial Real Estate	Commercial	Indirect Automobile	Consumer	Unallocated		
	(In Thousands)						
Balance at December 31, 2012	\$ 20,018	\$ 10,655	\$ 5,304	\$ 2,545	\$ 2,630	\$ 41,152	
Charge-offs	(88)	(943)	(1,190)	(373)		(2,594)	
Recoveries	4	326	395	190		915	
Provision (credit) for loan and lease losses	2,525	3,632	(193)	753	200	6,917	
Balance at September 30, 2013	\$ 22,459	\$ 13,670	\$ 4,316	\$ 3,115	\$ 2,830	\$ 46,390	

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

	Nine Months Ended September 30, 2012						Total
	Commercial Real Estate	Commercial	Indirect Automobile	Consumer	Unallocated		
	(In Thousands)						
Balance at December 31, 2011	\$ 15,477	\$ 5,997	\$ 5,604	\$ 1,577	\$ 3,048	\$ 31,703	
Charge-offs		(5,033)	(1,206)	(326)		(6,565)	
Recoveries	118	299	388	24		829	
Provision (credit) for loan and lease losses	3,568	7,973	828	1,170	(593)	12,946	
Balance at September 30, 2012	\$ 19,163	\$ 9,236	\$ 5,614	\$ 2,445	\$ 2,455	\$ 38,913	

The liability for unfunded credit commitments, which is included in other liabilities, was \$0.9 million and \$0.8 million at September 30, 2013 and December 31, 2012, respectively. During the nine-month period ended September 30, 2013, the liability for unfunded credit commitments increased by \$0.1 million to reflect changes in the estimate of loss exposure associated with credit commitments. No credit commitments were charged off against the liability account in nine-month period ended September 30, 2013.

The liability for unfunded credit commitments, which is included in other liabilities, was \$0.7 million and \$0.8 million at September 30, 2012 and December 31, 2011, respectively. During the nine-month period ended September 30, 2012, the liability for unfunded credit commitments decreased by \$0.1 million to reflect changes in the estimate of loss exposure associated with credit commitments. No credit commitments were charged off against the liability account in the nine-month period ended September 30, 2012.

Provision for Credit Losses

The provisions for credit losses are set forth below for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In Thousands)			
Provisions for loan and lease losses:				
Commercial real estate	\$ 447	\$ 1,187	\$ 2,525	\$ 3,568
Commercial	2,036	1,453	3,632	7,973
Indirect automobile	15	235	(193)	828
Consumer	179	429	753	1,170
Unallocated	53	(283)	200	(593)
Total provision for loan and lease losses	2,730	3,021	6,917	12,946

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Unfunded credit commitments		18		(159)		125		(159)
Total provision for credit losses	\$	2,748	\$	2,862	\$	7,042	\$	12,787

Procedure for Placing Loans and Leases on Nonaccrual

Accrual of interest on loans generally is discontinued when contractual payment of principal or interest becomes past due 90 days or, if in management's judgment, reasonable doubt exists as to the full timely collection of interest. Exceptions may be made if the loan has matured and is in the process of renewal or is well-secured and in the process of collection. When a loan is placed on nonaccrual status, interest accruals cease and uncollected accrued interest is reversed and charged against current interest income. Interest payments on nonaccrual loans are applied to principal. If collection of the principal is reasonably assured, interest payments are recognized as income on the cash basis. Loans are returned to accrual status when principal and interest payments are current, full collectability of principal and interest is reasonably assured and a consistent record of six consecutive months of performance has been achieved.

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

Allowance for Loan and Lease Losses Methodology

Management has established a methodology to determine the adequacy of the allowance for loan and lease losses that assesses the risks and losses inherent in the loan and lease portfolio. For purposes of determining the allowance for loan and lease losses, the Company has segmented certain loans and leases in the portfolio by product type into the following pools: (1) commercial real estate loans, (2) commercial loans and leases, (3) indirect automobile loans and (4) consumer loans. Portfolio segments are further disaggregated into classes based on the associated risks within the segments. Commercial real estate loans are divided into three classes: commercial real estate mortgage loans, multi-family mortgage loans and construction loans. Commercial loans and leases are divided into three classes: commercial loans, equipment financing, and loans to condominium associations. The indirect automobile 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 as set forth below.

General Allowance

The general allowance for loan and lease losses was \$42.0 million at September 30, 2013, compared to \$36.9 million at December 31, 2012. The general portion of the allowance for loan and lease losses increased by \$5.1 million during the nine months ended September 30, 2013, in part as a result of growth in the commercial real estate and equipment financing portfolios partially offset by the decrease in the indirect auto portfolios.

Specific Allowance

The specific allowance for loan and lease losses was \$1.6 million at September 30, 2013, compared to \$1.7 million at December 31, 2012. The specific allowance decreased by \$0.1 million during the nine months ended September 30, 2013, largely as a result of a large commercial real estate loan payoff, offset by an increase in specific reserves on the equipment financing portfolio.

Unallocated Allowance

The unallocated allowance for loan and lease losses was \$2.8 million at September 30, 2013, compared to \$2.6 million at December 31, 2012. The unallocated portion of the allowance for loan and lease losses increased by \$0.2 million during the nine months ended September 30, 2013, largely as a result of a change in the mix of the loan portfolio and organic loan growth.

Credit Quality Assessment

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 Company continually monitors the asset quality of the loan portfolio using all available information. 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. Based on this information, loans demonstrating certain payment issues or other weaknesses may be categorized as delinquent, impaired, nonperforming and/or put on nonaccrual status. Additionally, in the course of resolving such loans, the Company may choose to restructure the contractual terms of certain loans to match the borrower's ability to repay the loan based on their current financial condition. If a restructured loan meets certain criteria, it may be categorized as a troubled debt restructuring.

The Company reviews numerous credit quality indicators when assessing the risk in its loan portfolio. For the commercial real estate mortgage, multi-family mortgage, construction, commercial, equipment financing, condominium association and other consumer loan and lease classes, the Company utilizes an eight-grade loan rating system, which assigns a risk rating to each borrower based on a number of quantitative and qualitative factors associated with a loan transaction. Factors considered include industry and market conditions; position within the industry; earnings trends; operating cash flow; asset/liability values; debt capacity; guarantor strength; management and controls; financial reporting; collateral; and other considerations. In addition, the Company's independent loan review group evaluates the credit quality and related risk ratings of the commercial real estate and commercial loan portfolios. The results of these reviews are reported to the Board of Directors. For the indirect automobile portfolio, the Company primarily relies on payment status for monitoring credit risk while for residential mortgage and home equity portfolios loan-to-value ratios are used as the primary credit quality indicator.

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

The ratings categories used for assessing credit risk in the commercial real estate mortgage, multi-family mortgage, construction, commercial, equipment financing, condominium association and other consumer loan and lease classes are defined as follows:

1-4 Rating Pass

Loan rating grades 1 through 4 are classified as Pass, which indicates borrowers are performing in accordance with the terms of the loan and are less likely to result in loss due to the capacity of the borrower to pay and the adequacy of the value of assets pledged as collateral.

5 Rating Other Asset Especially Mentioned (OAEM)

Borrowers exhibit potential credit weaknesses or downward trends deserving management's attention. If not checked or corrected, these trends will weaken the Company's asset and position. While potentially weak, currently these borrowers are marginally acceptable; no loss of principal or interest is envisioned.

6 Rating Substandard

Borrowers exhibit well-defined weaknesses that jeopardize the orderly liquidation of debt. Substandard loans may be inadequately protected by the current net worth and paying capacity of the obligors or by the collateral pledged, if any. Normal repayment from the borrower is in jeopardy. Although no loss of principal is envisioned, there is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected. Collateral coverage may be inadequate to cover the principal obligation.

7 Rating Doubtful

Borrowers exhibit well-defined weaknesses that jeopardize the orderly liquidation of debt with the added provision that the weaknesses make collection of the debt in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Serious problems exist to the point where partial loss of principal is likely.

8 Rating Definite Loss

Borrowers deemed incapable of repayment. Loans to such borrowers are considered uncollectable and of such little value that continuation as active assets of the Company is not warranted.

Assets rated as OAEM, substandard or doubtful based on criteria established under banking regulations are collectively referred to as criticized assets.

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

Credit Quality Information

The following tables present the recorded investment in total loans in each class (unpaid balance of loans and leases outstanding excluding deferred loan origination costs) at September 30, 2013 by credit quality indicator.

	At September 30, 2013						
	Commercial Real Estate Mortgage	Multi- Family Mortgage	Construction	Commercial (In Thousands)	Equipment Financing	Condominium Association	Other Consumer
Originated:							
Loan rating:							
Pass	\$ 1,026,840	\$ 522,435	\$ 106,436	\$ 288,183	\$ 474,254	\$ 43,202	\$ 6,074
OAEM	7,587	374		937	1,292		
Substandard	967	531		113	4,808	3	
Doubtful				1,718	33		
Total originated	\$ 1,035,394	\$ 523,340	\$ 106,436	\$ 290,951	\$ 480,387	\$ 43,205	\$ 6,074
Acquired:							
Loan rating:							
Pass	\$ 350,212	\$ 72,649	\$ 10,950	\$ 106,996	\$ 32,751		\$ 1,334
OAEM	4,892	1,132	704	3,606	88		
Substandard	10,032	2,480		7,596	119		11
Doubtful	239			227			
Total acquired	\$ 365,375	\$ 76,261	\$ 11,654	\$ 118,425	\$ 32,958		\$ 1,345
Total loans by class	\$ 1,400,769	\$ 599,601	\$ 118,090	\$ 409,376	\$ 513,345	\$ 43,205	\$ 7,419

	Indirect Automobile	
	(In Thousands)	(in %)
Originated:		
Credit score:		
Over 700	\$ 365,873	83.0%
661-700	59,192	13.4%
660 and below	14,132	3.2%
Data not available	1,752	0.4%
	\$ 440,949	100.0%

BROOKLINE BANCORP, INC. AND SUBSIDIARIES**Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

	Residential Mortgage		Home Equity	
	(In Thousands)	(In %)	(In Thousands)	(In %)
Originated:				
Loan-to-value ratio:				
Less than 50%	\$ 94,027	18.4%	\$ 75,635	29.6%
50% - 69%	143,971	28.1%	25,435	10.0%
70% - 79%	122,355	23.9%	15,211	6.0%
80% and over	22,453	4.4%	4,309	1.7%
Data not available	2,874	0.6%	763	0.3%
Total originated	\$ 385,680	75.4%	\$ 121,353	47.6%
Acquired:				
Loan-to-value ratio:				
Less than 50%	\$ 24,316	4.7%	\$ 88,251	34.6%
50% - 69%	44,650	8.7%	27,001	10.6%
70% - 79%	34,210	6.7%	16,179	6.3%
80% and over	21,284	4.2%	1,425	0.6%
Data not available	1,695	0.3%	679	0.3%
Total acquired	\$ 126,155	24.6%	\$ 133,535	52.4%
Total loans	\$ 511,835	100.0%	\$ 254,888	100.0%

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

The following tables present the recorded investment in loans in each class (unpaid balance of loans and leases outstanding excluding deferred loan origination costs) at December 31, 2012 by credit quality indicator.

	At December 31, 2012						
	Commercial Real Estate Mortgage	Multi- Family Mortgage	Construction	Commercial (In Thousands)	Equipment Financing	Condominium Association	Other Consumer
Originated:							
Loan rating:							
Pass	\$ 863,901	\$ 504,883	\$ 80,913	\$ 227,201	\$ 359,064	\$ 44,179	\$ 6,093
OAEM	5,686	146		1,196	2,979		
Substandard	1,965	988		502	4,213	8	29
Doubtful				1,993	41		
Total originated	\$ 871,552	\$ 506,017	\$ 80,913	\$ 230,892	\$ 366,297	\$ 44,187	\$ 6,122
Acquired:							
Loan rating:							
Pass	\$ 409,725	\$ 93,058	\$ 17,186	\$ 140,589	\$ 54,175	\$	\$ 1,157
OAEM	2,740	2,439		1,344	286		
Substandard	17,216	5,019	98	8,635	233		
Doubtful				817			
Total acquired	\$ 429,681	\$ 100,516	\$ 17,284	\$ 151,385	\$ 54,694	\$	\$ 1,157
Total loans by class	\$ 1,301,233	\$ 606,533	\$ 98,197	\$ 382,277	\$ 420,991	\$ 44,187	\$ 7,279

	Indirect Automobile	
	(In Thousands)	(in %)
Originated:		
Credit score:		
Over 700	\$ 454,056	83.7%
661-700	69,319	12.8%
660 and below	16,934	3.1%
Data not available	2,035	0.4%
	\$ 542,344	100.0%

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

	Residential Mortgage		Home Equity	
	(In Thousands)	(in %)	(In Thousands)	(in %)
Originated:				
Loan-to-value ratio:				
Less than 50%	\$ 86,659	17.0%	\$ 50,398	19.3%
50% - 69%	142,172	27.8%	25,284	9.7%
70% - 79%	111,234	21.8%	16,523	6.3%
80% and over	27,858	5.4%	6,042	2.3%
Data not available	172	%	1,436	0.5%
Total originated	\$ 368,095	72.0%	\$ 99,683	38.1%
Acquired:				
Loan-to-value ratio:				
Less than 50%	\$ 23,398	4.6%	\$ 28,401	10.9%
50% - 69%	42,214	8.2%	39,385	15.1%
70% - 79%	42,748	8.4%	33,044	12.6%
80% and over	31,614	6.2%	34,267	13.1%
Data not available	3,040	0.6%	26,782	10.2%
Total acquired	\$ 143,014	28.0%	\$ 161,879	61.9%
Total loans	\$ 511,109	100.0%	\$ 261,562	100.0%

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012***Age Analysis of Past Due Loans and Leases*

The following tables present an age analysis of the recorded investment in total loans and leases (unpaid balance of loans and leases outstanding excluding deferred loan origination costs) at September 30, 2013 and December 31, 2012.

	At September 30, 2013						Total Loans and Leases	Loans and Leases Past Due Greater Than 90 Days and Accruing	Nonaccrual Loans and Leases
	31-60 Days	Past Due 61-90 Days	Greater Than 90 Days	Total	Current (In Thousands)				
Originated:									
Commercial real estate loans:									
Commercial real estate mortgage	\$ 999	\$ 924	\$ 43	\$ 1,966	\$ 1,033,428	\$ 1,035,394	\$	\$ 527	
Multi-family mortgage					523,340	523,340		531	
Construction					106,436	106,436			
Total commercial real estate loans	999	924	43	1,966	1,663,204	1,665,170		1,058	
Commercial loans and leases:									
Commercial	390	13	1,725	2,128	288,823	290,951		1,737	
Equipment financing	2,441	1,302	2,115	5,858	474,529	480,387	668	4,066	
Condominium association					43,205	43,205		3	
Total commercial loans and leases	2,831	1,315	3,840	7,986	806,557	814,543	668	5,806	
Indirect automobile	5,219	756	195	6,170	434,779	440,949		195	
Consumer loans:									
Residential mortgage	142		533	675	385,005	385,680		1,654	
Home equity					121,353	121,353		74	
Other consumer	9	8		17	6,057	6,074		3	
Total consumer loans	151	8	533	692	512,415	513,107		1,731	
Total originated loans and leases	\$ 9,200	\$ 3,003	\$ 4,611	\$ 16,814	\$ 3,416,955	\$ 3,433,769	\$ 668	\$ 8,790	

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

	At September 30, 2013					Total Loans and Leases	Loans and Leases Past Due Greater Than 90 Days and Accruing	Nonaccrual Loans and Leases
	31-60 Days	Past Due 61-90 Days	Greater Than 90 Days	Total	Current (In Thousands)			
Acquired:								
Commercial real estate loans:								
Commercial real estate mortgage	\$ 1,526	\$ 240	\$ 4,829	\$ 6,595	\$ 358,780	\$ 365,375	\$ 4,220	\$ 610
Multi-family mortgage			1,561	1,561	74,700	76,261	1,561	133
Construction	390			390	11,264	11,654		
Total commercial real estate loans	1,916	240	6,390	8,546	444,744	453,290	5,781	743
Commercial loans and leases:								
Commercial	1,073	604	2,676	4,353	114,072	118,425	1,907	3,010
Equipment financing	141	29	86	256	32,702	32,958	71	50
Total commercial loans and leases	1,214	633	2,762	4,609	146,774	151,383	1,978	3,060
Consumer loans:								
Residential mortgage	140	231	5,875	6,246	119,909	126,155	4,959	1,084
Home equity	616	811	901	2,328	131,207	133,535	162	1,727
Other consumer	2	2	4	8	1,337	1,345		15
Total consumer loans	758	1,044	6,780	8,582	252,453	261,035	5,121	2,826
Total acquired loans and leases	\$ 3,888	\$ 1,917	\$ 15,932	\$ 21,737	\$ 843,971	\$ 865,708	\$ 12,880	\$ 6,629

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

	At December 31, 2012					Total Loans and Leases	Loans and Leases Past Due Greater Than 90 Days and Accruing	Nonaccrual Loans and Leases
	31-60 Days	Past Due 61-90 Days	Greater Than 90 Days	Total	Current (In Thousands)			
Originated:								
Commercial real estate loans:								
Commercial real estate mortgage	\$ 1,530	\$	\$ 435	\$ 1,965	\$ 869,587	\$ 871,552	\$ 434	\$ 1,539
Multi-family mortgage	2,410	60	988	3,458	502,559	506,017		1,932
Construction	2,354	816		3,170	77,743	80,913		
Total commercial real estate loans	6,294	876	1,423	8,593	1,449,889	1,458,482	434	3,471
Commercial loans and leases:								
Commercial	26	75	26	127	230,765	230,892	26	1,993
Equipment financing	2,595	1,439	1,618	5,652	360,645	366,297		3,817
Condominium association					44,187	44,187		8
Total commercial loans and leases	2,621	1,514	1,644	5,779	635,597	641,376	26	5,818
Indirect automobile	5,592	923	99	6,614	535,730	542,344	1	99
Consumer loans:								
Residential mortgage			1,059	1,059	367,036	368,095	27	2,008
Home equity			33	33	99,650	99,683		58
Other consumer		2	5	7	6,115	6,122	5	29
Total consumer loans		2	1,097	1,099	472,801	473,900	32	2,095
Total originated loans and leases	\$ 14,507	\$ 3,315	\$ 4,263	\$ 22,085	\$ 3,094,017	\$ 3,116,102	\$ 493	\$ 11,483

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

	At December 31, 2012							
	31-60 Days	Past Due 61-90 Days	Greater Than 90 Days	Total	Current (In Thousands)	Total Loans and Leases	Loans and Leases Past Due Greater Than 90 Days and Accruing	Nonaccrual Loans and Leases
Acquired:								
Commercial real estate loans:								
Commercial real estate mortgage	\$ 2,911	\$	\$ 7,289	\$ 10,200	\$ 419,481	\$ 429,681	\$ 6,616	\$ 2,475
Multi-family mortgage	2,738	395	2,178	5,311	95,205	100,516	1,857	2,301
Construction					17,284	17,284		
Total commercial real estate loans	5,649	395	9,467	15,511	531,970	547,481	8,473	4,776
Commercial loans and leases:								
Commercial	866	177	4,353	5,396	145,989	151,385	3,503	3,461
Equipment financing	133	21	194	348	54,346	54,694	197	56
Total commercial loans and leases	999	198	4,547	5,744	200,335	206,079	3,700	3,517
Consumer loans:								
Residential mortgage	247	121	5,266	5,634	137,380	143,014	3,650	1,796
Home equity	1,582	507	607	2,696	159,183	161,879	321	658
Other consumer	7			7	1,150	1,157		16
Total consumer loans	1,836	628	5,873	8,337	297,713	306,050	3,971	2,470
Total acquired loans and leases	\$ 8,484	\$ 1,221	\$ 19,887	\$ 29,592	\$ 1,030,018	\$ 1,059,610	\$ 16,144	\$ 10,763

Commercial Real Estate Loans At September 30, 2013, loans outstanding in the three classes within this category expressed as a percentage of total loans and leases outstanding were as follows: commercial real estate mortgage loans 32.6%; multi-family mortgage loans 13.9%; and construction loans 2.8%.

Loans in this portfolio that are on nonaccrual status and/or risk-rated substandard or worse 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 portfolio. The factors applied are based primarily on historic loan loss experience and an assessment of internal and external factors and other relevant information from the past five years. Management has accumulated information on actual loan charge-offs and recoveries by class covering, depending on loan/lease category, up to 28 years of loss history. The Company has a long history of low frequency of loss in this loan class. 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

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

multi-family mortgage portfolios are the concentration in those classes of outstanding loans within the greater Boston and Providence metropolitan areas and the effect the local economies could have on the collectability of those loans. While unemployment in the greater Boston metropolitan area is not as high as in other parts of the United States, it is nonetheless elevated in relation to historic trends. Unemployment in Rhode Island remains high relative to other parts of the United States. Should unemployment in the greater Boston and/or Providence metropolitan areas remain 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.

Other factors taken into consideration in establishing the allowance for loan and lease losses for this class were the rate of growth of originated loans, the decrease in originated loans delinquent over 30 days from \$8.6 million at December 31, 2012 to

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

\$2.0 million at September 30, 2013 and the increase in originated criticized loans from \$8.8 million at December 31, 2012 to \$9.5 million at September 30, 2013. The Company also takes into consideration the impact that the economy, and in particular the housing market, has on the rents and values associated with its apartment and multi-family mortgage loans. The increase in renters versus homeowners has increased multi-family rents. This trend, coupled with historically low capitalization rates, has increased apartment and multi-family property valuations, which, in turn, has increased the number of multi-family properties under development. These increases in multi-family rents and valuations could drop if the demand for rentable housing declines or interest rates rise. For further discussion of criticized loans, see *Credit Quality Assessment* section above.

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 the finished product. These risk factors are considered when estimating allowances for loan losses for this asset class. A project that is viable at the outset can experience losses when there is a drop in the demand for newly constructed product, primarily housing units. Typically, the level of loss in relation to the amount loaned is high when construction projects run into difficulty.

Commercial Loans and Leases At September 30, 2013, loans and leases outstanding in the three classes within this portfolio expressed as a percent of total loans and leases outstanding were as follows: commercial loans and leases 9.5%; equipment financing loans 11.9%; and loans to condominium associations 1.0%.

Loans and leases in this portfolio that are on nonaccrual status and/or risk-rated substandard or worse are evaluated on an individual basis for impairment. For non-impaired commercial loans and leases, loss factors are applied to outstanding loans by risk rating for each of the three classes in the portfolio. The factors applied are based on historic loan and lease loss experience and on an assessment of internal and external factors. Management has accumulated information on actual loan and lease charge-offs and recoveries by class covering 19 years for commercial loans and leases, six years for equipment financing loans and leases, and twelve years for loans to condominium associations. Commercial loan and lease losses generally 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 *Commercial Real Estate Loans* above regarding concentration of outstanding loans within the greater Boston and Providence metropolitan areas and the status of the local economies are also applicable to the commercial and condominium association loan classes. Until the economy improves sufficiently, some commercial loan borrowers may have difficulty generating sufficient profitability and liquidity to service their debt obligations.

The Company's equipment financing loans and leases are concentrated in the financing of coin-operated laundry, dry cleaning, fitness and convenience store equipment, and, most recently, tow trucks. A significant share (40.5%) of the Company's equipment financing business is conducted in the states of New York and New Jersey, with the balance in other locations throughout the United States. The loans and leases 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.

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

The factors taken into consideration in establishing the allowance for loan and lease losses for all commercial loan and lease categories included the rate of growth of originated loans and leases outstanding, the entrée into tow-truck lending, the increase in originated loans and leases delinquent over 30 days from \$5.8 million at December 31, 2012 to \$8.0 million at September 30, 2013, and the decrease in total criticized originated loans and leases from \$10.9 million at December 31, 2012 to \$8.9 million at September 30, 2013.

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. These factors have been considered in determining the amount of allowance for loan and lease losses established for this loan class.

Indirect Automobile Loans At September 30, 2013, indirect automobile loans represented 10.3% of the Company's total loan and lease portfolio. Determination of the allowance for loan and lease losses for this portfolio is based primarily on borrowers' credit scores (generally considered to be a good indicator of capacity to pay a loan, with the risk of loan loss increasing as credit scores decrease), and on an assessment of trends in loan underwriting, loan loss experience, and the economy and industry conditions. Data are gathered on loan originations by year broken down into the following ranges of

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

borrower credit scores: over 700, between 661 and 700, and 660 and below. 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 of 660 and below. The breakdown of the amounts shown in *Credit Quality Information* above is based on borrower credit scores at the time of loan origination. In the present economy, it is possible that the credit scores of certain borrowers may have deteriorated since the time the loan was originated. Additionally, migrations 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 portfolio. The percentage of loans made to borrowers with credit scores of 660 and below was 3.2% and 3.1% at September 30, 2013 and December 31, 2012, respectively.

Consumer Loans At September 30, 2013, loans outstanding within the three classes within this portfolio expressed as a percent of total loans and leases outstanding were as follows: residential mortgage loans 11.9%; home equity loans 5.9%; and other consumer loans 0.2%.

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 and Providence metropolitan areas and the economic conditions in those areas as previously commented upon in the *Commercial Real Estate Loans* subsection above. The loan-to-value ratio is the primary 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 are based on loan balances outstanding at September 30, 2013 and December 31, 2012 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 September 30, 2013 and December 31, 2012 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. Consumer loans that become 90 days or more past due or are placed on nonaccrual 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.

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. The Company gathers and analyzes delinquency data, to the extent that data are available on these first liens, for purposes of assessing the collectability of the second liens held for the Company even if these home equity loans are not delinquent. These data are further analyzed for performance differences between amortizing and non-amortizing home equity loans, the percentage borrowed to total loan commitment, and by the amount of payments made by the borrowers. 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 September 30, 2013. If the local economy weakens, however, a rise in losses in those loan classes could occur. Historically, losses in these classes have been low.

Impaired Loans and Leases

When the ultimate collectability of the total principal of an impaired loan or lease is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan or lease is not in doubt and the loan or lease is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The following tables include the recorded investment and unpaid principal balances of impaired loans and leases with the related allowance amount, if applicable, for the originated and acquired loan and lease portfolios at the dates and for the periods indicated. Also presented are the average recorded investments in the impaired loans and leases and the related amount of interest recognized during the period that the impaired loans were impaired.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

	At September 30, 2013			Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment (In Thousands)	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Originated:							
With no related allowance recorded:							
Commercial real estate	\$ 2,267	\$ 2,267	\$	\$ 2,285	\$ 19	\$ 2,200	\$ 69
Commercial	5,464	5,428		5,661	48	4,031	109
Consumer	977	974		986	4	1,108	26
	8,708	8,669		8,932	71	7,339	204
With an allowance recorded:							
Commercial real estate	1,146	1,146	184	1,131	13	1,516	26
Commercial	995	986	801	1,070	3	1,810	14
Consumer	3,328	3,318	321	3,461	22	3,317	82
	5,469	5,450	1,306	5,662	38	6,643	122
Total	\$ 14,177	\$ 14,119	\$ 1,306	\$ 14,594	\$ 109	\$ 13,982	\$ 326

	At September 30, 2013			Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment (In Thousands)	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Acquired:							
With no related allowance recorded:							
Commercial real estate	\$ 8,332	\$ 8,332	\$	\$ 9,305	\$ 36	\$ 9,783	\$ 178
Commercial	5,594	5,594		5,790	38	4,800	93
Consumer	1,356	1,356		1,335	4	1,379	17
	15,282	15,282		16,430	78	15,962	288
With an allowance recorded:							
Commercial real estate	4,170	3,803	129	3,975	42	2,776	42
Commercial	1,238	882	160	1,043		385	
Consumer							

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

		5,408		4,685		289		5,018		42		3,161		42
Total	\$	20,690	\$	19,967	\$	289	\$	21,448	\$	120	\$	19,123	\$	330

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

	At December 31, 2012			Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment (In Thousands)	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Originated:							
With no related allowance recorded:							
Commercial real estate	\$ 2,051	\$ 2,051	\$	\$ 1,700	\$ 53	\$ 2,975	\$ 201
Commercial	3,032	3,059		2,666	45	3,122	135
Consumer	1,191	1,187		1,875	35	2,596	87
	6,274	6,297		6,241	133	8,693	423
With an allowance recorded:							
Commercial real estate	2,517	2,516	241	2,366	20	1,024	59
Commercial	3,422	3,559	703	5,364	85	3,022	193
Consumer	3,648	3,636	596	3,757	22	2,788	83
	9,587	9,711	1,540	11,487	127	6,834	335
Total	\$ 15,861	\$ 16,008	\$ 1,540	\$ 17,728	\$ 260	\$ 15,527	\$ 758

	At December 31, 2012			Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment (In Thousands)	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Acquired:							
With no related allowance recorded:							
Commercial real estate	\$ 17,918	\$ 19,129	\$	\$ 6,880	\$	\$ 4,726	\$
Commercial	7,329	7,782		2,169		2,021	2
Consumer	3,266	3,379		1,641		1,072	1
	28,513	30,290		10,690		7,819	3
With an allowance recorded:							
Commercial real estate	673	684	75	1,343		909	
Commercial	113	121	75	58		19	
Consumer							

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

		786		805		150		1,401		928		
Total	\$	29,299	\$	31,095	\$	150	\$	12,091	\$	8,747	\$	3

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

The following tables present information regarding impaired and non-impaired loans and leases at the dates indicated:

	At September 30, 2013							
	Loans and Leases Individually Evaluated for Impairment		Loans and Leases Collectively Evaluated for Impairment		Acquired Loans (ASC 310-20 and ASC 310-30)		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
	(In Thousands)							
Commercial real estate	\$ 3,413	\$ 184	\$ 1,661,757	\$ 21,904	\$ 453,290	\$ 371	\$ 2,118,460	\$ 22,459
Commercial	6,459	801	808,084	12,521	151,383	348	965,926	13,670
Indirect automobile			440,949	4,316			440,949	4,316
Consumer	4,305	321	508,802	2,235	261,035	559	774,142	3,115
Unallocated				2,830				2,830
Total	\$ 14,177	\$ 1,306	\$ 3,419,592	\$ 43,806	\$ 865,708	\$ 1,278	\$ 4,299,477	\$ 46,390

	At December 31, 2012							
	Loans and Leases Individually Evaluated for Impairment		Loans and Leases Collectively Evaluated for Impairment		Acquired Loans (ASC 310-20 and ASC 310-30)		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
	(In Thousands)							
Commercial real estate	\$ 4,568	\$ 241	\$ 1,453,913	\$ 19,702	\$ 547,482	\$ 75	\$ 2,005,963	\$ 20,018
Commercial	6,454	703	634,922	9,877	206,079	75	847,455	10,655
Indirect automobile			542,344	5,304			542,344	5,304
Consumer	4,839	596	469,061	1,949	306,050		779,950	2,545
Unallocated				2,630				2,630
Total	\$ 15,861	\$ 1,540	\$ 3,100,240	\$ 39,462	\$ 1,059,611	\$ 150	\$ 4,175,712	\$ 41,152

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012*****Troubled Debt Restructured Loans and Leases***

The recorded investment in troubled debt restructurings and the associated specific allowances for loan and lease losses, in the originated and acquired loan and lease portfolios, are as follows for the periods indicated.

	Number of Loans/ Leases	Recorded Investment		Three Months Ended September 30, 2013			Defaulted Number of Loans/ Leases	Recorded Investment
		At Modification	At End of Period	Specific Allowance for Loan and Lease Losses (Dollars in Thousands)	Nonaccrual Loans and Leases	Additional Commitment		
Originated:								
Commercial real estate mortgage		\$	\$	\$	\$	\$		\$
Commercial Equipment financing	1	558	558	12			1	1,731
Residential mortgage								
Total	1	\$ 558	\$ 558	\$ 12	\$	\$	2	\$ 2,268

Acquired:

Commercial	2	553	520				1	962
Residential mortgage								

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

Originated:					
Commercial				1	44
Residential mortgage	1	900	900	1	169

For the three months ended September 30, 2012, there were no troubled debt restructurings in the Company's acquired portfolio.

Originated:					
Commercial				1	1,731
Residential mortgage	1	415	372		

Acquired:					
Commercial	3	977	941	421	962

Residential
mortgage

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

Originated:							
Commercial	1	97	94	2	2	1	44
Residential mortgage	5	2,202	2,202	174	174	3	763

Acquired:							
Commercial							
Residential mortgage							

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

The following table sets forth the Company's balances of troubled debt restructurings that were modified at the dates indicated, by type of modification.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In Thousands)			
Loans with one modification:				
Extended maturity	\$ 1,257	\$	\$ 1,257	\$ 343
Adjusted principal			372	4,564
Adjusted interest rate	558	900	1,351	1,248
Combination maturity, principal, interest rate			757	864
Total loans with one modification	\$ 1,815	\$ 900	\$ 3,737	\$ 7,019
Loans with more than one modification:				
Extended maturity	\$	\$	\$	\$ 25
Adjusted principal				3,897
Total loans with more than one modification	\$	\$	\$	\$ 3,922

The financial impact of the modification of performing or nonperforming loans and leases for the three months and nine months ended September 30, 2013 was \$0.2 million and \$0.5 million, respectively. There was no financial impact of the modification of performing and nonperforming loans and leases for the three months and nine months ended September 30, 2012.

As of September 30, 2013 and 2012, there were no commitments to lend funds to debtors owing receivables whose terms had been modified in troubled debt restructurings.

(6) Goodwill and Other Intangible Assets

The following table sets forth the composition of goodwill and other intangible assets at the dates indicated:

	At September 30, 2013		At December 31, 2012	
	(In Thousands)			
Goodwill	\$	137,890	\$	137,890

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Other intangible assets:			
Core deposits		16,774	19,773
Trade name		1,149	1,333
Trust relationship		92	404
Total other intangible assets		18,015	21,510
Total goodwill and other intangible assets	\$	155,905	\$ 159,400

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

The estimated aggregate future amortization expense for intangible assets remaining at September 30, 2013 is as follows:

Remainder of 2013	\$	1,499
Year ending:		
2014		3,339
2015		3,062
2016		2,626
2017		2,004
Thereafter		5,485
Total	\$	18,015

(7) Comprehensive Income

Comprehensive income represents the sum of net income (loss) and other comprehensive income (loss). For the three months and nine months ended September 30, 2013 and September 30, 2012, the Company's other comprehensive income include the following two components:

(i) unrealized holding gains (losses) on investment securities available-for-sale; and (ii) adjustment of accumulated obligation for postretirement benefits.

Changes in accumulated other comprehensive (loss) income by component, net of tax, were as follows for the periods indicated:

	Three Months Ended September 30, 2013		
	Investment Securities Available-for-Sale	Postretirement Benefits (In Thousands)	Accumulated Other Comprehensive Income
Balance at June 30, 2013	\$ (4,572)	\$ 131	\$ (4,441)
Other comprehensive loss	(459)		(459)
Balance at September 30, 2013	\$ (5,031)	\$ 131	\$ (4,900)

	Three Months Ended September 30, 2012		
	Investment Securities Available-for-Sale	Postretirement Benefits (In Thousands)	Accumulated Other Comprehensive Income

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Balance at June 30, 2012	\$	1,844	\$	125	\$	1,969
Other comprehensive income		1,600				1,600
Balance at September 30, 2012	\$	3,444	\$	125	\$	3,569

	Nine Months Ended September 30, 2013					
	Investment Securities Available-for-Sale		Postretirement Benefits (In Thousands)	Accumulated Other Comprehensive Income		
Balance at December 31, 2012	\$	3,358	\$	125	\$	3,483
Other comprehensive (loss) income		(8,389)		6		(8,383)
Balance at September 30, 2013	\$	(5,031)	\$	131	\$	(4,900)

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

	Nine Months Ended September 30, 2012		
	Investment Securities Available-for-Sale	Postretirement Benefits (In Thousands)	Accumulated Other Comprehensive Income
Balance at December 31, 2011	\$ 1,834	\$ 129	\$ 1,963
Other comprehensive income (loss)	1,610	(4)	1,606
Balance at September 30, 2012	\$ 3,444	\$ 125	\$ 3,569

The Company did not reclassify any amounts out of accumulated other comprehensive income (loss) for the three months or nine months ended September 30, 2013.

The following is a summary of the amounts reclassified from accumulated other comprehensive income (loss) for the three months or nine months ended September 30, 2012.

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012 (In Thousands)	Income Statement Line Affected by Reclassification
Other Comprehensive Income (Loss) Component			
Unrealized gains (losses) on investment securities available-for-sale:			
	\$	\$ 797	Gain on sales of securities
		(282)	Provision for income taxes
Total reclassifications for the period	\$	\$ 515	Net income

(8) Derivatives and Hedging Activities

The Company may use interest-rate contracts (swaps, caps and floors) as part of interest-rate risk management strategy. Interest-rate swap, cap and floor agreements are entered into as hedges against future interest-rate fluctuations on specifically identified assets or liabilities. The Company did not have derivative fair value hedges or derivative cash flow hedges at September 30, 2013 or December 31, 2012.

Derivatives not designated as hedges are not speculative but rather, result from a service the Company provides to certain customers for a fee. The Company executes interest-rate swaps with commercial banking customers to aid them in managing their interest-rate risk. The interest-rate

swap contracts allow the commercial banking customers to convert floating-rate loan payments to fixed-rate loan payments. The Company concurrently enters into offsetting swaps with a third-party financial institution, effectively minimizing its net risk exposure resulting from such transactions. The third-party financial institution exchanges the customer's fixed-rate loan payments for floating-rate loan payments. As the interest-rate swaps associated with this program do not meet hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. At September 30, 2013, the Company had eight interest-rate swaps with an aggregate notional amount of \$22.6 million related to this program, compared to ten interest-rate swaps with an aggregate notional amount of \$33.2 million at December 31, 2012.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

The table below presents the fair value and classification of the Company's derivative financial instruments on the unaudited consolidated balance sheets at September 30, 2013, and the effect of the Company's derivative financial instruments on the unaudited consolidated income statements for the three months and nine months ended September 30, 2013. Asset derivatives and liability derivatives are included in other assets and accrued expenses and other liabilities on the unaudited consolidated balance sheets, respectively. Gains recognized on derivatives are included in fees, charges and other income on the unaudited consolidated income statements.

	At September 30, 2013		Three Months Ended	Nine Months Ended
	Asset Derivatives	Liability Derivatives	September 30, 2013 Gain (Loss) Recognized in Income on Derivatives (1)	September 30, 2013 Gain (Loss) Recognized in Income on Derivatives (1)
			(In Thousands)	
Total derivatives (interest-rate products) not designated as hedging instruments	\$ 930	\$ 970	\$ 1	\$ (24)

(1) The amount of gain (loss) recognized in income on derivatives represents changes related to the fair value of the interest rate products.

By using derivative financial instruments, the Company exposes itself to credit risk. Credit risk is the risk of failure by the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. When the fair value of a derivative is negative, the Company owes the counterparty and, therefore, it does not possess credit risk. The credit risk in derivative instruments is mitigated by entering into transactions with highly-rated counterparties that management believes to be creditworthy and by limiting the amount of exposure to each counterparty. The estimated net credit risk exposure for derivative financial instruments was less than \$0.1 million at both September 30, 2013 and December 31, 2012.

Certain of the derivative agreements contain provisions that require the Company to post collateral if the derivative exposure exceeds a threshold amount. The Company has posted collateral of \$0.5 million and \$0.5 million in the normal course of business at September 30, 2013 and December 31, 2012, respectively.

The tables below presents the offsetting of derivatives and amounts subject to master netting agreements not offset in the unaudited consolidated balance sheet at the dates indicated.

At September 30, 2013

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

	Gross Amounts of Recognized Assets /Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position (In Thousands)	Gross Amounts Not Offset in the Statement of Financial Position Financial Instruments	Cash Collateral (Received)/ Posted	Net Amount
Asset Derivatives	\$ 930	\$	\$ 930	\$	\$	\$ 930
Liability Derivatives	\$ 970	\$	\$ 970	\$	\$ 448	\$ 1,418

	At December 31, 2012					
	Gross Amounts of Recognized Assets /Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position (In Thousands)	Gross Amounts Not Offset in the Statement of Financial Position Financial Instruments	Cash Collateral (Received) / Posted	Net Amount
Asset Derivatives	\$ 1,317	\$	\$ 1,317	\$	\$	\$ 1,317
Liability Derivatives	\$ 1,380	\$	\$ 1,380	\$	\$ 548	\$ 1,928

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012****(9) Earnings per Share**

The following table sets forth a reconciliation of basic and diluted earnings per share (EPS) for the periods indicated:

	September 30, 2013		Three Months Ended September 30, 2012	
	Basic	Fully Diluted (In Thousands Except Share Data)	Basic	Fully Diluted
Numerator:				
Net income	\$ 9,429	\$ 9,429	\$ 11,401	\$ 11,401
Denominator:				
Weighted average shares outstanding	69,830,953	69,830,953	69,716,283	69,716,283
Effect of dilutive securities		82,812		38,190
Adjusted weighted average shares outstanding	69,830,953	69,913,765	69,716,283	69,754,473
EPS	\$ 0.14	\$ 0.13	\$ 0.16	\$ 0.16

	September 30, 2013		Nine Months Ended September 30, 2012	
	Basic	Fully Diluted (In Thousands Except Share Data)	Basic	Fully Diluted
Numerator:				
Net income	\$ 27,732	\$ 27,732	\$ 25,279	\$ 25,279
Denominator:				
Weighted average shares outstanding	69,789,737	69,789,737	69,682,741	69,682,741
Effect of dilutive securities		70,985		35,331
Adjusted weighted average shares outstanding	69,789,737	69,860,722	69,682,741	69,718,072
EPS	\$ 0.40	\$ 0.40	\$ 0.36	\$ 0.36

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012****(10) Fair Value of Financial Instruments**

A description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring and non-recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. There were no changes in the valuation techniques used during 2013.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following tables set forth the carrying value of assets and liabilities measured at fair value on a recurring basis at the dates indicated:

	Level 1	Carrying Value at September 30, 2013		Total				
		Level 2	Level 3					
(In Thousands)								
Assets:								
Securities available-for-sale:								
GSEs	\$	\$	20,242	\$	\$	20,242		
GSE CMOs			248,331			248,331		
GSE MBSs			177,150			177,150		
Private-label CMOs			4,097			4,097		
SBA commercial loan asset-backed securities			259			259		
Auction-rate municipal obligations					1,774	1,774		
Municipal obligations			1,089			1,089		
Corporate debt obligations			23,516			23,516		
Trust preferred securities and pools			1,547		1,081	2,628		
Marketable equity securities		1,316				1,316		
Total securities available-for-sale	\$	1,316	\$	476,231	\$	2,855	\$	480,402
Interest-rate swaps	\$		\$	930	\$		\$	930
Liabilities:								
Interest-rate swaps	\$		\$	970	\$		\$	970

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

	Level 1	Carrying Value at December 31, 2012		Total
		Level 2	Level 3	
(In Thousands)				
Assets:				
Securities available-for-sale:				
GSEs	\$	\$ 69,809	\$	\$ 69,809
GSE CMOs		217,001		217,001
GSE MBSs		169,648		169,648
Private-label CMOs		6,866		6,866
SBA commercial loan asset-backed securities		381		381
Auction-rate municipal obligations			1,976	1,976
Municipal obligations		1,101		1,101
Corporate debt obligations		10,685		10,685
Trust preferred securities and pools		1,578	941	2,519
Marketable equity securities	1,337			1,337
Total securities available-for-sale	\$ 1,337	\$ 477,069	\$ 2,917	\$ 481,323
Interest-rate swaps	\$	\$ 1,317	\$	\$ 1,317
Liabilities:				
Interest-rate swaps	\$	\$ 1,380	\$	\$ 1,380

Investment Securities Available-for-Sale

The fair value of investment securities is based principally on market prices and dealer quotes received from third-party, nationally-recognized pricing services for identical investment securities such as U.S. Treasury and agency securities that are included in Level 1. These prices are validated by comparing the primary pricing source with an alternative pricing source when available. When quoted market prices for identical securities are unavailable, the Company uses market prices provided by independent pricing services based on recent trading activity and other observable information, including but not limited to market interest-rate curves, referenced credit spreads and estimated prepayment speeds where applicable. These investments include certain U.S. and government agency debt securities, municipal and corporate debt securities, GSE residential MBSs and CMOs, and trust preferred securities, all of which are included in Level 2. Certain fair values are estimated using pricing models (such as pooled trust preferred securities and auction-rate municipal securities) and are included in Level 3.

Additionally, management reviews changes in fair value from period to period and performs testing to ensure that prices received from the third parties are consistent with management's expectation of the market. Changes in the prices obtained from the pricing service are analyzed from month to month, taking into consideration changes in market conditions including changes in mortgage spreads, changes in U.S. Treasury security yields and changes in generic pricing of 15-year and 30-year securities. Additional analysis may include a review of prices provided by other independent parties, a yield analysis, a review of average life changes using Bloomberg analytics and a review of historical pricing for a particular security.

Interest-Rate Swaps

The fair values for the interest-rate swap assets and liabilities represent a Level 2 valuation and are based on settlement values adjusted for credit risks associated with the counterparties and the Company and observable market interest rate curves. Credit risk adjustments consider factors such as the likelihood of default by the Company and its counterparties, its net exposures and remaining contractual life. To date, the Company has not realized any losses due to a counterparty's inability to pay any net uncollateralized position. The change in value of interest-rate swap assets and liabilities attributable to credit risk was not significant during the reported periods. See also Note 8, Derivatives and Hedging Activities.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

The table below presents quantitative information about significant unobservable inputs (Level 3) for assets measured at fair value on a recurring basis at September 30, 2013.

	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average Discount Rates
Auction-rate municipals	\$ 1,774	Discounted cash flow	Discount rate	0-5%	4.9%
Trust preferred pools	\$ 1,081	Discounted cash flow	Cumulative default Cure given deferral/ default Discount rate	0-100% 0-15% 5-30%	10.5%

The significant unobservable inputs used in the fair value measurement include cumulative defaults and cure given deferrals or defaults. Significant increases (decreases) in deferrals or defaults, in isolation would result in a significantly lower (higher) fair value measurement. Alternatively, significant increases (decreases) in cure rates, in isolation would result in a significantly higher (lower) fair value measurement.

The reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In Thousands)			
Investment securities available-for-sale, beginning of period	\$ 2,835	\$ 3,318	\$ 2,917	\$ 3,208
Acquired, BankRI				184
Principal paydowns and other	(10)	(205)	(341)	(495)
Total unrealized gains included in other comprehensive income	30	93	279	309
Investment securities available-for-sale, end of period	\$ 2,855	\$ 3,206	\$ 2,855	\$ 3,206

There were no transfers between levels for assets and liabilities recorded at fair value on a recurring basis during the three months and nine months ended September 30, 2013 or September 30, 2012.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012***Assets and Liabilities Recorded at Fair Value on a Non-Recurring Basis*

The table below summarizes assets and liabilities measured at fair value on a non-recurring basis at the dates indicated:

	Level 1	Carrying Value at September 30, 2013		Total
		Level 2	Level 3	
(In Thousands)				
Assets measured at fair value on a non-recurring basis:				
Collateral-dependent impaired loans and leases	\$	\$	\$ 5,726	\$ 5,726
Other real estate owned			726	726
Repossessed vehicles and equipment		593		593
	\$	\$ 593	\$ 6,452	\$ 7,045

	Level 1	Carrying Value at December 31, 2012		Total
		Level 2	Level 3	
(In Thousands)				
Assets measured at fair value on a non-recurring basis:				
Collateral-dependent impaired loans and leases	\$	\$ 36,749	\$	\$ 36,749
Other real estate owned		903		903
Repossessed vehicles and equipment		588		588
	\$	\$ 38,240	\$	\$ 38,240

Collateral-Dependent Impaired Loans and Leases

For nonperforming loans and leases where the credit quality of the borrower has deteriorated significantly, fair values of the underlying collateral were estimated using purchase and sales agreements (Level 2), or comparable sales or recent appraisals (Level 3), adjusted for selling costs and other expenses.

Other Real Estate Owned

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

The Company records other real estate owned at the lower of cost or fair value. In estimating fair value, the Company utilizes purchase and sales agreements (Level 2) or comparable sales, recent appraisals or cash flows discounted at an interest rate commensurate with the risk associated with these cash flows (Level 3), adjusted for selling costs and other expenses.

Repossessed Assets

Repossessed vehicles and repossessed equipment are carried at estimated fair value less costs to sell based on auction pricing (Level 2).

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012***Summary of Estimated Fair Values of Financial Instruments*

The following table presents the carrying amount, estimated fair value, and placement in the fair value hierarchy of the Company's financial instruments at the dates indicated. This table excludes financial instruments for which the carrying amount approximates fair value. Financial assets for which the fair value approximates carrying value include cash and cash equivalents, FHLBB and FRB stock and accrued interest receivable. Financial liabilities for which the fair value approximates carrying value include non-maturity deposits, short-term borrowings and accrued interest payable.

	Carrying Value	Estimated Fair Value	Fair Value Measurements		
			Level 1 Inputs (In Thousands)	Level 2 Inputs	Level 3 Inputs
At September 30, 2013					
Financial assets:					
Securities held-to-maturity	\$ 500	\$ 500	\$	\$	\$ 500
Loans and leases, net	4,253,087	4,266,257			4,266,257
Loans held-for-sale	200	200		200	
Financial liabilities:					
Certificates of deposit	950,359	954,741		954,741	
Borrowed funds	828,802	836,169		836,169	
At December 31, 2012					
Financial assets:					
Securities held-to-maturity	\$ 500	\$ 502	\$	\$	\$ 502
Loans and leases, net	4,134,560	4,193,678			4,193,678
Loans held-for-sale	3,233	3,233			3,233
Financial liabilities:					
Certificates of deposit	1,010,941	1,019,916		1,019,916	
Borrowed funds	853,969	872,046		872,046	

Investment Securities Held-to-Maturity

The fair values of investment securities held-to-maturity are estimated using pricing models or are based on comparisons to market prices of similar securities and are considered to be Level 3.

Loans and Leases

The fair values of performing loans and leases were estimated by segregating the portfolio into its primary loan and lease categories commercial real estate mortgage, multi-family mortgage, construction, commercial, equipment financing, condominium association, indirect automobile, residential mortgage, home equity and other consumer. These categories were further disaggregated based on significant financial characteristics such as type of interest rate (fixed / variable) and payment status (current / past-due). The Company discounts the contractual cash flows for each loan category using interest rates currently being offered for loans with similar terms to borrowers of similar quality and incorporates estimates of future loan prepayments. This method of estimating fair value does not incorporate the exit price concept of fair value.

Loans Held for Sale

Residential mortgage loans held for sale are recorded at the lower of cost or fair value and are therefore measured at fair value on a non-recurring basis. When available, observable inputs, including pricing on recent closed market transactions for

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

loans with similar characteristics, are used as secondary market data, and such loans are classified as Level 2 measurements. When not available, loans are classified as Level 3 measurements.

Deposits

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 Company's core deposit relationships (deposit-based intangibles).

Borrowed Funds

The fair value of federal funds purchased is equal to the amount borrowed. The fair value of FHLBB advances and repurchase agreements represents contractual repayments discounted using interest rates currently available for borrowings with similar characteristics and remaining maturities. The fair values reported for retail repurchase agreements are based on the discounted value of contractual cash flows. The discount rates used are representative of approximate rates currently offered on borrowings with similar characteristics and maturities. The fair values reported for subordinated deferrable interest debentures are based on the discounted value of contractual cash flows. The discount rates used are representative of approximate rates currently offered on instruments with similar terms and maturities.

(11) Income Taxes

The Company recorded income tax expense of \$4.6 million for the three months ended September 30, 2013, compared to \$5.2 million for the three months ended September 30, 2012, representing total effective tax rates of 31.9% and 30.6%, respectively. The increase in the effective federal and state tax rate for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 is primarily due to a \$0.5 million reduction in the \$0.6 million rehabilitation tax credits in 2012 related to the construction of the Company's new Corporate office.

On a year-to-date basis, the Company recorded income tax expense of \$15.2 million for the first nine months of 2013, compared to \$14.5 million for the first nine months of 2012, representing total effective tax rates of 34.3% and 35.6%, respectively. The decrease in the effective federal and state tax rate for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012 is primarily due to

the non-deductibility of \$1.4 million of the \$5.4 million in professional fees incurred in 2012 related to the BankRI acquisition, a \$0.3 million increase in tax credits from investments in affordable housing partnerships from \$0.6 million for the nine months ended September 2012 to \$0.9 million for the nine months ended September 30, 2013, and a \$0.3 million tax benefit recognized in 2013 for adjustments to the 2012 tax return. These decreases in the effective tax rate were partially offset by the \$0.8 million reduction in rehabilitation tax credits recognized in 2013 as compared to 2012.

(12) Commitments and Contingencies

Off-Balance-Sheet Financial Instruments

The Company is party to off-balance-sheet financial instruments in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include loan commitments, standby and commercial letters of credit, and interest-rate swaps. According to GAAP, these financial instruments are not recorded in the financial statements until they are funded or related fees are incurred or received.

The contract amounts reflect the extent of the involvement the Company has in particular classes of these instruments. Such commitments involve, to varying degrees, elements of credit risk and interest-rate risk in excess of the amount recognized in the consolidated balance sheet. The Company's exposure to credit loss in the event of non-performance by the counterparty is represented by the contractual amount of the instruments. The Company uses the same policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012**

Financial instruments with off-balance-sheet risk at the dates indicated follow:

	At September 30, 2013	At December 31, 2012
	(In Thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to originate loans and leases:		
Commercial real estate	\$ 55,517	\$ 85,726
Commercial	66,249	67,857
Residential mortgage	8,161	8,726
Unadvanced portion of loans and leases	539,861	421,143
Unused lines of credit:		
Home equity	197,740	165,936
Other consumer	3,568	4,017
Other commercial	1,015	965
Unused letters of credit:		
Financial standby letters of credit	18,621	19,887
Performance standby letters of credit	2,916	2,916
Commercial and similar letters of credit	228	112
Back-to-back interest-rate swaps	22,619	33,221

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

Standby and commercial letters of credit are conditional commitments issued by the Company to guarantee performance of a customer to a third party. These standby and commercial letters of credit are primarily issued to support the financing needs of the Company's commercial customers. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Nine Months Ended September 30, 2013 and 2012***Lease Commitments*

The Company leases certain office space under various noncancellable operating leases. A summary of future minimum rental payments under such leases at the dates indicated follows:

	Minimum Rental Payments (In Thousands)	
Remainder of 2013	\$	1,138
Year ending:		
2014		3,977
2015		3,614
2016		3,391
2017		2,973
Thereafter		8,153
Total	\$	23,246

The leases contain escalator clauses for real estate taxes and other expenditures. Total rental expense was \$4.0 million during the nine months ended September 30, 2013, compared to \$3.6 million during the nine months ended September 30, 2012.

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 by the outcome of such proceedings.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q that are not historical facts may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties. These statements, which are based on certain assumptions and describe Brookline Bancorp, Inc.'s (the Company's) future plans, strategies and expectations, can generally be identified by the use of the words may, will, should, could, would, potential, estimate, project, believe, intend, anticipate, expect, target and similar expressions. These statements include, among other things, regarding the Company's intent, belief or expectations with respect to economic conditions, trends affecting the Company's financial condition or results of operations, and the Company's exposure to market, liquidity, interest-rate and credit risk.

Forward-looking statements are based on the current assumptions underlying the statements and other information with respect to the beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions of management and the financial condition, results of operations, future performance and business are only expectations of future results. Although the Company believes that the expectations reflected in the Company's forward-looking statements are reasonable, the Company's actual results could differ materially from those projected in the forward-looking statements as a result of, among other factors, adverse conditions in the capital and debt markets; changes in interest rates; competitive pressures from other financial institutions; the effects of continuing weakness in general economic conditions on a national basis or in the local markets in which the Company operates, including changes which adversely affect borrowers' ability to service and repay their loans and leases; changes in the value of securities and other assets in the Company's investment portfolio; changes in loan and lease default and charge-off rates; the adequacy of allowances for loan and lease losses; deposit levels necessitating increased borrowing to fund loans and investments; changes in government regulation; the risk that goodwill and intangibles recorded in the Company's financial statements will become impaired; and changes in assumptions used in making such forward-looking statements, as well as the other risks and uncertainties detailed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and other filings submitted to the Securities and Exchange Commission. Forward-looking statements speak only as of the date on which they are made. The Company does not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made.

Introduction

Brookline Bancorp, Inc. (the Company), a Delaware corporation, operates as a multi-bank holding company for Brookline Bank and its subsidiaries; Bank Rhode Island (BankRI) and its subsidiaries; First Ipswich Bank (First Ipswich) and formerly known as The First National Bank of Ipswich) and its subsidiaries; and Brookline Securities Corp.

As a commercially-focused financial institution with 47 full-service banking offices throughout Greater Boston, the North Shore of Massachusetts and Rhode Island, the Company, through Brookline Bank, BankRI and First Ipswich (the Banks), offers a wide range of commercial, business and retail banking services, including a full complement of cash management products, on-line banking services, consumer and residential loans and investment services, designed to meet the financial needs of small- to mid-sized businesses and individuals throughout Central New England. Specialty lending activities include indirect automobile loans as well as equipment financing primarily in the New York/New Jersey metropolitan area.

The Company focuses its business efforts on profitably growing its commercial lending businesses, both organically and through acquisitions. The Company's customer focus, multi-bank structure, and risk management are integral to its organic growth strategy and serve to differentiate the Company from its competitors. As full-service financial institutions, the Banks and their subsidiaries focus on the continued acquisition of well-qualified customers, the deepening of long-term banking relationships through a full complement of products and excellent customer service, and strong risk management. The Company's multi-bank structure retains the local-bank orientation while relieving local bank management of the responsibility for most back-office functions which are consolidated at the holding-company level. Branding and decision-making, including credit decisioning and pricing, remain largely local in order to better meet the needs of bank customers and further motivate the Banks' commercial, business and retail bankers.

The Company is subject to competition from other financial and non-financial institutions and is supervised, examined and regulated by the Board of Governors of the Federal Reserve System (FRB). As Massachusetts-chartered member banks, Brookline Bank and First Ipswich are also subject to regulation under the laws of the Commonwealth of Massachusetts and the jurisdiction of the Massachusetts Division of Banks. As a Rhode Island-chartered member bank, BankRI is also subject to regulation under the laws of the State of Rhode Island and the jurisdiction of the Banking Division of the Rhode Island Department of Business Regulation. The FDIC continues to insure each of the Banks' deposits. Additionally, all Massachusetts-chartered savings banks are required to be members of the Depositors Insurance Fund (DIF), a corporation that insures

Table of Contents

savings bank deposits in excess of the FDIC insurance limits of \$250,000 per person. As such, Brookline Bank offers 100% insurance on all deposits as a result of a combination of insurance from the FDIC and the DIF.

The Company's common stock is traded on the Nasdaq Global Select MarketSM under the symbol BRKL.

Selected Financial Data

The following is based in part on, and should be read in conjunction with, the consolidated financial statements and accompanying notes, and other information appearing elsewhere in this Form 10-Q.

	September 30, 2013	June 30, 2013	At and for the Three Months Ended March 31, 2013	December 31, 2012	September 30, 2012
	(Dollars in Thousands, Except Per Share Data)				
PER COMMON SHARE DATA					
Net income Basic	\$ 0.14	\$ 0.14	\$ 0.13	\$ 0.17	\$ 0.16
Book value per share (end of period)	8.80	8.76	8.80	8.78	8.69
Tangible book value per share (end of period) (1)	6.57	6.51	6.53	6.49	6.38
Dividends paid per common share	0.085	0.085	0.085	0.085	0.085
Stock price (end of period)	9.40	8.68	9.14	8.50	8.82
PERFORMANCE RATIOS (2)					
Net interest margin (taxable equivalent basis)	3.56%	3.78%	3.70%	3.79%	4.00%
Return on average assets	0.73%	0.74%	0.70%	0.93%	0.90%
Return on average tangible assets (1)	0.75%	0.76%	0.72%	0.96%	0.93%
Return on average stockholders' equity	6.15%	6.16%	5.72%	7.76%	7.53%
Return on average tangible stockholders' equity (1)	8.27%	8.28%	7.70%	10.53%	10.27%
Dividend payout ratio (1)	63.26%	62.75%	67.63%	50.21%	52.24%
ASSET QUALITY RATIOS					
Net loan and lease charge-offs as a percentage of average loans and leases (annualized)	0.06%	0.06%	0.04%	0.08%	0.15%
Nonperforming loans and leases as a percentage of total loans and leases	0.36%	0.42%	0.52%	0.53%	0.51%
Nonperforming assets as a percentage of total assets	0.32%	0.37%	0.45%	0.46%	0.47%
Total allowance for loan and lease losses as a percentage of total loans and leases	1.08%	1.05%	1.02%	0.98%	0.94%
Allowance for loan and lease losses related to originated loans and leases as a percentage of originated loans and leases (1)	1.31%	1.34%	1.34%	1.33%	1.31%

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

CAPITAL RATIOS

Stockholders' equity to total assets	11.74%	11.87%	12.02%	11.89%	11.97%
Tangible equity ratio (1)	9.03%	9.10%	9.20%	9.08%	9.08%

FINANCIAL CONDITION DATA

Total assets	\$ 5,236,229	\$ 5,150,480	\$ 5,110,378	\$ 5,147,534	\$ 5,061,444
Total loans and leases	4,299,477	4,205,015	4,173,985	4,175,712	4,144,012
Allowance for loan and lease losses	46,390	44,281	42,532	41,152	38,913
Goodwill and identified intangible assets	155,905	157,058	158,235	159,400	161,197
Total deposits	3,737,978	3,656,981	3,626,033	3,616,259	3,568,016
Total borrowed funds	828,802	830,066	820,447	853,969	828,256
Stockholders' equity	614,811	611,284	614,039	612,097	605,962

EARNINGS DATA

Net interest income	\$ 43,412	\$ 45,363	\$ 43,669	\$ 44,564	\$ 46,411
Non-interest income	3,453	3,138	3,327	6,504	3,785
Provision for credit losses	2,748	2,439	1,855	3,101	2,862
Non-interest expense	29,553	30,815	30,772	28,869	30,436
Net income	9,429	9,490	8,813	11,863	11,401

(1) Refer to Non-GAAP Financial Measures and Reconciliations to GAAP.

(2) All performance ratios and growth rates are annualized and are based on average balance sheet amounts, where applicable.

Table of Contents

Executive Overview

Growth

Total assets of \$5.2 billion at September 30, 2013 increased slightly from \$5.1 billion at December 31, 2012, and increased \$174.8 million, or 3.5%, from \$5.1 billion at September 30, 2012.

The loan and lease portfolio increased \$123.8 million, or 3.0%, from \$4.2 billion at December 31, 2012 to \$4.3 billion at September 30, 2013. The Company's commercial loan portfolios, which are comprised of commercial real estate loans and commercial loans and leases, continued to exhibit growth. The Company's commercial loan portfolios, which total \$3.1 billion, or 71.7% of total loans and leases at September 30, 2013, increased \$231.0 million, or 10.8% on an annualized basis, from \$2.9 billion, or 68.2% of total loans and leases at December 31, 2012. Loan growth in the Company's commercial loan portfolios was offset by a \$101.4 million decrease in the indirect automobile portfolio during the same period.

Total deposits of \$3.7 billion at September 30, 2013 increased \$121.7 million, or 3.4%, from \$3.6 billion at December 31, 2012. Core deposits, defined as the sum of demand checking, NOW, money market, and savings accounts, increased at a 9.3% annualized rate during the first nine months of 2013, from \$2.6 billion at December 31, 2012 to \$2.8 billion at September 30, 2013. The Company's core deposits increased as a percentage of total deposits from 72.0% at December 31, 2012 to 74.6% at September 30, 2013.

Asset Quality

The ratio of the allowance for loan and lease losses to total loans and leases was 1.08% at September 30, 2013, compared to 0.98% at December 31, 2012. The allowance for loan and lease losses related to originated loans and leases as a percentage of total originated loans and leases was 1.31% at September 30, 2013 as compared with 1.33% at December 31, 2012. The Company continued to employ its historical underwriting methodology throughout the nine-month period ended September 30, 2013 and continued to calculate its allowance for loan and lease losses on a historically consistent basis.

Nonperforming assets at September 30, 2013 totaled \$16.7 million or 0.32% of total assets, as compared with \$23.7 million, or 0.46% of total assets, at December 31, 2012. Net charge-offs for the three months ended September 30, 2013 were \$0.6 million, or 0.06% of average loans and leases, compared to 0.15% for the three months ended September 30, 2012.

Capital Strength

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

The Company remains well-capitalized as defined by its regulatory requirements with capital ratios in excess of all minimum regulatory requirements. The Company's Tier 1 leverage ratio was 9.45% at September 30, 2013, compared to 9.44% at December 31, 2012. The ratio of stockholders' equity to total assets was 11.74% and 11.89% at September 30, 2013 and December 31, 2012, respectively. The Company's tangible equity ratio was 9.03% and 9.08% at September 30, 2013 and December 31, 2012, respectively.

Net Income

For the three months ended September 30, 2013, the Company reported net income of \$9.4 million, or \$0.14 per basic share and \$0.13 per diluted share, down \$2.0 million, or 17.3%, from \$11.4 million, or \$0.16 per basic and diluted share, for the three months ended September 30, 2012. This decrease in net income is primarily the result of a decrease in net interest income of \$3.0 million, a decrease in non-interest income of \$0.3 million, offset by a decrease in non-interest expense of \$0.9 million and a decrease in provision for income taxes of \$0.5 million. For the nine months ended September 30, 2013, the Company reported net income of \$27.7 million, or \$0.40 per basic and diluted share, up \$2.5 million, or 9.7%, from \$25.3 million, or \$0.36 per basic and diluted share, for the nine months ended September 30, 2012. This increase in net income is primarily the result of a decrease in provision for credit losses of \$5.7 million, offset by a decrease in non-interest income of \$2.2 million and an increase in provision for income taxes of \$0.7 million.

The annualized return on average assets was 0.73% and 0.72% for the three months and nine months ended September 30, 2013, respectively, compared to 0.90% and 0.68% for the three months and nine months ended September 30, 2012, respectively. The annualized return on average stockholders' equity was 6.15% and 6.01% for the three months and nine months ended September 30, 2013, respectively, compared to 7.53% and 5.63% for the three months and nine months ended September 30, 2012, respectively.

The Company's operating earnings of \$27.7 million, or \$0.40 per share for the nine months ended September 30, 2013, decreased \$1.5 million, or 5.2% from \$29.3 million, or \$0.42 per share for the nine months ended September 30, 2012. Operating earnings for the nine months ended September 30, 2012 was adjusted for acquisition-related expenses of \$4.0 million (after-tax) associated with the acquisition of Bancorp Rhode Island, Inc. in the first quarter of 2012.

Table of Contents

Annualized operating returns on average assets were 0.73% and 0.72%, respectively, for the three months and nine months ended September 30, 2013, compared to 0.90% and 0.79%, respectively, for the three months and nine months ended September 30, 2012. Annualized operating returns on average stockholders' equity were 6.15% and 6.01%, respectively, for the three months and nine months ended September 30, 2013, compared to 7.53% and 6.52%, respectively, for the three months and nine months ended September 30, 2012.

Net interest margin was 3.56% and 3.68%, respectively, for the three months and nine months ended September 30, 2013, compared to 4.00% and 3.88%, respectively, for the three months and nine months ended September 30, 2012. The yield on interest-earning assets decreased 61 basis points from 4.77% during the third quarter of 2012 to 4.16% during the third quarter in 2013, in large part due to continued rate pressures in the lending market. The decrease in yields on interest-earning assets is offset by a decrease of 17 basis points in the Company's overall cost of funds, from 0.82% for the three months ended September 30, 2012 to 0.65% for the three months ended September 30, 2013. The Company's net interest margin will likely continue to be under pressure due to competitive pricing pressure in all loan categories and the continuation of a low interest-rate environment, along with the Company's diminishing ability to reduce its cost of funds.

Provisions for credit losses were \$2.7 million and \$2.9 million for the three months ended September 30, 2013 and September 30, 2012, respectively. During the nine months ended September 30, 2013 and September 30, 2012, the provisions for credit losses were \$7.0 million and \$12.8 million, respectively. Of the \$12.8 million provision recorded in the third quarter of 2012, \$4.2 million was related to two short-term commercial loans made by BankRI shortly after the Company's acquisition of BankRI.

Non-interest income totaled \$3.5 million and \$9.9 million, respectively, for the three months and nine months ended September 30, 2013. This compared to \$3.8 million and \$12.1 million, respectively, for the three months and nine months ended September 30, 2012. The decrease of \$0.3 million from three months ended September 30, 2012 to three months ended September 30, 2013 is primarily attributable to increased losses from investments in affordable housing projects of \$0.5 million. The decrease of \$2.2 million from nine months ended September 30, 2012 to nine months ended September 30, 2013 is, in part, due to increased losses from investment in affordable housing projects of \$1.0 million as well as a net gain on sales of securities of \$0.8 million in the third quarter of 2012.

Non-interest expense decreased \$0.9 million, or 2.9%, from \$30.4 million during the three months ended September 30, 2012 to \$29.6 million for the three months ended September 30, 2013. Non-interest expense decreased \$0.4 million, or 0.4%, from \$91.5 million during the nine months ended September 30, 2012 to \$91.1 million for the nine months ended September 30, 2013. Many factors contributed to the decreases in these periods, including but not limited to, an increase in compensation and employee benefit expense and occupancy expense, offset by a decrease in professional services expense and FDIC insurance expense. These factors are further discussed under *Results of Operations Non-Interest Expense* below.

Critical Accounting Policies

The SEC defines critical accounting policies as those involving significant judgments and difficult or complex assumptions by management, often as a result of the need to make estimates about matters that are inherently uncertain or variable, which have, or could have, a material impact on the carrying value of certain assets or net income. The preparation of financial statements in accordance with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. As discussed in the Company's 2012 Annual Report on Form 10-K, management has identified the valuation of available-for-sale securities, accounting for assets and liabilities acquired, the determination of the allowance for loan and lease losses, the review of goodwill and intangibles for impairment, and income tax accounting as the Company's most critical accounting policies.

Non-GAAP Financial Measures and Reconciliations to GAAP

In addition to evaluating the Company's results of operations in accordance with GAAP, management periodically supplements this evaluation with an analysis of certain non-GAAP financial measures, such as the ratio of the allowance for loan and lease losses related to originated loans and leases as a percentage of originated loans and leases, the efficiency and tangible equity ratios, tangible book value per share and operating earnings metrics. Management believes that these non-GAAP financial measures provide information useful to investors in understanding the Company's underlying operating performance and trends, and facilitates comparisons with the performance assessment of financial performance, including non-interest expense control, while the tangible equity ratio and tangible book value per share are used to analyze the relative strength of the Company's capital position.

Operating earnings exclude acquisition-related and other non-recurring expenses from net income, which allows the Company to measure and assess financial results on a more consistent basis from period to period. These expenses are also

Table of Contents

excluded when calculating the operating efficiency ratio. In light of diversity in presentation among financial institutions, the methodologies used by the Company for determining the non-GAAP financial measures discussed above may differ from those used by other financial institutions.

The following table summarizes the Company's operating earnings, operating earnings per share (EPS), operating return on average assets, and operating return on average stockholders' equity for the periods indicated:

	September 30, 2013	Three Months Ended June 30, 2013	September 30, 2012	September 30, 2013	Nine Months Ended September 30, 2012
	(Dollars in Thousands, Except Per Share Data)				
Net income, as reported	\$ 9,429	\$ 9,490	\$ 11,401	\$ 27,732	\$ 25,279
Adjustments to arrive at operating earnings:					
Acquisition-related expenses					5,396
Total pre-tax adjustments					5,396
Tax effect					(1,424)
Total adjustments, net of tax					3,972
Operating earnings	\$ 9,429	\$ 9,490	\$ 11,401	\$ 27,732	\$ 29,251
Basic earnings per share, as reported	\$ 0.14	\$ 0.14	\$ 0.16	\$ 0.40	\$ 0.36
Adjustments to arrive at basic operating earnings per share:					
Acquisition-related expenses					0.06
Total adjustments per share					0.06
Basic operating earnings per share	\$ 0.14	\$ 0.14	\$ 0.16	\$ 0.40	\$ 0.42
Average total assets	\$ 5,199,583	\$ 5,138,144	\$ 5,045,758	\$ 5,135,759	\$ 4,952,789
Operating return on average assets (annualized)	0.73%	0.74%	0.90%	0.72%	0.79%
Average total stockholders' equity	\$ 612,866	\$ 616,327	\$ 605,988	\$ 615,519	\$ 598,292
Operating return on average stockholders' equity (annualized)	6.15%	6.16%	7.53%	6.01%	6.52%

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Table of Contents

The following table summarizes the Company's return on average tangible assets and return on average stockholders' equity:

	September 30, 2013	Three Months Ended June 30, 2013	September 30, 2012 (Dollars in Thousands)	Nine Months Ended September 30, 2013	September 30, 2012
Net income, as reported	\$ 9,429	\$ 9,490	\$ 11,401	\$ 27,732	\$ 25,279
Average total assets	5,199,583	5,138,144	5,045,758	5,135,759	4,952,789
Less: Average goodwill and average identified intangible assets, net	156,607	157,799	161,999	157,776	165,477
Average tangible assets	\$ 5,042,976	\$ 4,980,345	\$ 4,883,759	\$ 4,977,983	\$ 4,787,312
Return on average tangible assets (annualized)	0.75%	0.76%	0.93%	0.74%	0.70%
Average total stockholders' equity	612,866	616,327	605,988	615,519	598,292
Less: Average goodwill and average identified intangible assets, net	156,607	157,799	161,999	157,776	165,477
Average tangible stockholders' equity	\$ 456,259	\$ 458,528	\$ 443,989	\$ 457,743	\$ 432,815
Return on average tangible stockholders' equity (annualized)	8.27%	8.28%	10.27%	8.08%	9.01%

The following tables summarize the Company's tangible equity ratio and tangible book value per share derived from amounts reported in the unaudited consolidated balance sheet at the dates indicated.

	At September 30, 2013	At December 31, 2012 (Dollars in Thousands)	At September 30, 2012
Total stockholders' equity	\$ 614,811	\$ 612,097	\$ 605,962
Less: Goodwill and identified intangible assets, net	155,905	159,400	161,197
Tangible stockholders' equity	\$ 458,906	\$ 452,697	\$ 444,765
Total assets	\$ 5,236,229	\$ 5,147,534	\$ 5,061,444
Less: Goodwill and identified intangible assets, net	155,905	159,400	161,197
Tangible assets	\$ 5,080,324	\$ 4,988,134	\$ 4,900,247
Tangible equity ratio	9.03%	9.08%	9.08%

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Table of Contents

	At September 30, 2013	At December 31, 2012	At September 30, 2012
	(Dollars in Thousands, Except Share Data)		
Tangible stockholders equity	\$ 458,906	\$ 452,697	\$ 444,765
Common shares issued	75,744,445	75,749,825	75,749,819
Less: Common shares classified as treasury shares	5,154,327	5,373,733	5,373,733
Less: Unallocated ESOP shares	302,229	333,918	344,991
Less: Unvested restricted shares	429,818	295,055	295,055
Common shares outstanding	\$ 69,858,071	\$ 69,747,119	\$ 69,736,040
Tangible book value per share	\$ 6.57	\$ 6.49	\$ 6.38

The following table summarizes the Company's dividend payout ratio:

	September 30, 2013	Three Months Ended June 30, 2013	September 30, 2012	Nine Months Ended September 30, 2013	September 30, 2012
	(Dollars in Thousands)				
Dividends paid	\$ 5,965	\$ 5,955	\$ 5,956	\$ 17,880	\$ 17,821
Net income, as reported	\$ 9,429	\$ 9,490	\$ 11,401	\$ 27,732	\$ 25,279
Dividend payout ratio	63.26%	62.75%	52.24%	64.47%	70.50%

The following table summarizes the Company's allowance for loan and lease losses related to originated loans and leases as a percentage of total originated loans and lease:

	At September 30, 2013	At December 31, 2012	At September 30, 2012
	(Dollars in Thousands)		
Allowance for loan and lease losses	\$ 46,390	\$ 41,152	\$ 38,913
Less:			
Allowance for acquired loans and leases losses	1,278		
Allowance for originated loan and lease losses	\$ 45,112	\$ 41,152	\$ 38,913
Total loans and leases	\$ 4,299,477	\$ 4,175,712	\$ 4,144,012
Less:			
Total acquired loans and leases	865,708	1,059,610	1,149,585
Total originated loans and leases	\$ 3,433,769	\$ 3,116,102	\$ 2,994,427
Allowance for loan and lease losses related to originated loans and leases as a percentage of originated loans and leases	1.31%	1.33%	1.31%

Financial Condition

Loans and Leases

The Company continues to focus strategically on growing its commercial loan portfolios. To this end, these portfolios increased from \$2.9 billion at December 31, 2012 to \$3.1 billion at September 30, 2013, and from 68.2% of total loans and leases to 71.6% of total loans and leases during the same period. Concomitantly, the Company has elected to allow the indirect

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Table of Contents

automobile portfolio to decrease as a percentage of total loans and leases rather than originate loans at unfavorable interest rates.

The following table summarizes the Company's portfolio of loans and leases receivable at the dates indicated:

	September 30, 2013		December 31, 2012	
	Balance	Percent of Total (Dollars in Thousands)	Balance	Percent of Total
Commercial real estate loans:				
Commercial real estate mortgage	\$ 1,400,769	32.6%	\$ 1,301,233	31.1%
Multi-family mortgage	599,601	13.9%	606,533	14.5%
Construction	118,090	2.8%	98,197	2.3%
Total commercial real estate loans	2,118,460	49.3%	2,005,963	47.9%
Commercial loans and leases:				
Commercial	409,376	9.5%	382,277	9.1%
Equipment financing	513,345	11.9%	420,991	10.1%
Condominium association	43,205	1.0%	44,187	1.1%
Total commercial loans and leases	965,926	22.4%	847,455	20.3%
Indirect automobile	440,949	10.3%	542,344	13.0%
Consumer loans:				
Residential mortgage	511,835	11.9%	511,109	12.3%
Home equity	254,888	5.9%	261,562	6.3%
Other consumer	7,419	0.2%	7,279	0.2%
Total consumer loans	774,142	18.0%	779,950	18.8%
Total loans and leases	4,299,477	100.0%	4,175,712	100.0%
Allowance for loan and lease losses	(46,390)		(41,152)	
Net loans and leases	\$ 4,253,087		\$ 4,134,560	

The following table sets forth the growth in the Company's loan and lease portfolios during the nine months ended September 30, 2013:

	At September 30, 2013	At December 31, 2012	Dollar Change	Percent Change (Annualized)
(Dollars in Thousands)				
Commercial real estate	\$ 2,118,460	\$ 2,005,963	\$ 112,497	7.5%
Commercial	965,926	847,455	118,471	18.6%
Indirect automobile	440,949	542,344	(101,395)	-24.9%
Consumer	774,142	779,950	(5,808)	-1.0%
Total loans and leases	\$ 4,299,477	\$ 4,175,712	\$ 123,765	4.0%

The Company's loan portfolio consists primarily of first mortgage loans secured by commercial, multi-family and residential real estate properties located in the Company's primary lending area, indirect automobile loans, loans to business entities, including commercial lines of credit, loans to condominium associations and loans and leases used to finance equipment used by small businesses. The Company also provides financing for construction and development projects, home equity and other consumer loans.

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

The Company employs seasoned commercial lenders and retail bankers who rely on community and business contacts as well as referrals from customers, attorneys and other professionals to generate loans and deposits. Existing borrowers are also an important source of business since many of them have more than one loan outstanding with the Company. The Company s

Table of Contents

ability to originate loans depends on the strength of the economy, trends in interest rates, and levels of customer demand and market competition.

Commercial Real Estate Loans

The commercial real estate portfolio of \$2.1 billion at September 30, 2013 is composed of commercial real estate mortgage loans, multi-family mortgage loans, and construction loans and is the largest component of the Company's overall loan portfolio, representing 49.3% of total loans and leases outstanding at September 30, 2013. For the commercial real estate portfolio, the Company focuses on making loans in the \$3 million to \$10 million range.

Typically, commercial real estate loans are larger in size and involve a greater degree of risk than owner-occupied residential mortgage loans. Loan repayment is usually dependent on the successful operation and management of the properties and the value of the properties securing the loans. Economic conditions can greatly affect cash flows and property values.

A number of factors are considered in originating commercial real estate and multi-family mortgage loans. The qualifications and financial condition of the borrower (including credit history), as well as the potential income generation and the value and condition of the underlying property, are evaluated. When evaluating the qualifications of the borrower, the Company considers the financial resources of the borrower, the borrower's experience in owning or managing similar property and the borrower's payment history with the Company and other financial institutions. Factors considered in evaluating the underlying property include the net operating income of the mortgaged premises before debt service and depreciation, the debt service coverage ratio (the ratio of cash flow before debt service to debt service), the use of conservative capitalization rates, and the ratio of the loan amount to the appraised value. Generally, personal guarantees are obtained from commercial real estate loan borrowers.

Commercial real estate and multi-family mortgage loans are typically originated for terms of five years with amortization periods of 20 to 30 years. Many of the loans are priced at inception on a fixed-rate basis generally for periods ranging from two to five years with repricing periods for longer-term loans. When possible, prepayment penalties are included in loan covenants on these loans.

Brookline Bank's urban and suburban market area is characterized by a large number of apartment buildings, condominiums and office buildings. As a result, multi-family and commercial real estate mortgage lending has been a significant part of Brookline Bank's activities for many years. These types of loans typically generate higher yields, but also involve greater credit risk. Many of Brookline Bank's borrowers have more than one multi-family or commercial real estate loan outstanding with Brookline Bank.

Over 99% of the commercial real estate loans outstanding at September 30, 2013 were secured by properties located in New England. The commercial real estate portfolio at that date was composed primarily of loans secured by apartment buildings (\$595.3 million), office buildings (\$474.1 million), retail stores (\$419.8 million), industrial properties (\$248.7 million) and mixed-use properties (\$175.0 million).

Construction and development financing is generally considered to involve a higher degree of risk than long-term financing on improved, occupied real estate and thus has higher concentration limits than do other commercial credit classes. Risk of loss on a construction loan is largely dependent upon the accuracy of the initial estimate of construction costs, the estimated time to sell or rent the completed property at an adequate price or rate of occupancy, and market conditions. If the estimates and projections prove to be inaccurate, the Company may be confronted with a project which, upon completion, has a value that is insufficient to assure full loan repayment.

Criteria applied in underwriting construction loans for which the primary source of repayment is the sale of the property are different from the criteria applied in underwriting construction loans for which the primary source of repayment is the stabilized cash flow from the completed project. For those loans where the primary source of repayment is from resale of the property, in addition to the normal credit analysis performed for other loans, the Company also analyzes project costs, the attractiveness of the property in relation to the market in which it is located and demand within the market area. For those construction loans where the source of repayment is the stabilized cash flow from the completed project, the Company analyzes not only project costs but also how long it might take to achieve satisfactory occupancy and the reasonableness of projected rental rates in relation to market rental rates.

Table of Contents

Commercial Loans and Leases

The commercial loan and lease portfolio of \$965.9 million at September 30, 2013 is composed of commercial loans, equipment financing loans and leases and condominium association loans and represented 22.4% of total loans outstanding at September 30, 2013. The Company focuses on making commercial loans in the \$1 million to \$10 million range.

The Company provides commercial banking services to companies in its market area. Over 99% of the commercial loans outstanding at September 30, 2013 were made to borrowers located in New England. Product offerings include lines of credit, term loans, letters of credit, deposit services and cash management. These types of credit facilities have as their primary source of repayment cash flows from the operations of a business. Interest rates offered are available on a floating basis tied to the prime rate or a similar index or on a fixed-rate basis referenced on the Federal Home Loan Bank of Boston (FHLBB) index.

Credit extensions are made to established businesses on the basis of loan purpose and assessment of capacity to repay as determined by an analysis of their financial statements, the nature of collateral to secure the credit extension and, in most instances, the personal guarantee of the owner of the business as well as industry and general economic conditions. The Company also participates in U.S. Government programs such as the Small Business Administration (the SBA) in both the 7A program and as an SBA preferred lender.

The Company's equipment financing divisions focus on market niches in which its lenders have deep experience and industry contacts, and on making loans to customers with business experience. An important part of the Company's equipment financing loan origination volume comes from equipment manufacturers and existing customers as they expand their operations. The equipment financing portfolio is composed primarily of loans to finance coin-operated laundry, dry cleaning, fitness, and convenience store equipment and most recently, tow trucks. As of September 30, 2013, the balance of loans to finance the tow truck industry had reached \$101.6 million. The borrowers are located primarily in the greater New York/New Jersey metropolitan area, although the customer base extends to locations throughout the United States. Typically, the loans are priced at a fixed rate of interest and require monthly payments over their three- to ten-year life. The yields earned on equipment financing loans are higher than those earned on the commercial loans made by the Banks because they involve a higher degree of credit risk. Equipment financing customers are typically small-business owners who operate with limited financial resources and who face greater risks when the economy weakens or unforeseen adverse events arise. Because of these characteristics, personal guarantees of borrowers are usually obtained along with liens on available assets. The Company focuses on making equipment financing loans and leases in the \$100,000 to \$500,000 range. The size of loan is determined by an analysis of cash flow and other characteristics pertaining to the business and the equipment to be financed, based on detailed revenue and profitability data of similar operations.

Loans to condominium associations are for the purpose of funding capital improvements, are made for five- to ten-year terms and are secured by a general assignment of condominium association revenues. Among the factors considered in the underwriting of such loans are the level of owner occupancy, the financial condition and history of the condominium association, the attractiveness of the property in relation to the market in which it is located and the reasonableness of estimates of the cost of capital improvements to be made. Depending on loan size, funds are advanced as capital improvements are made and, in more complex situations, after completion of engineering inspections.

Indirect Automobile Loans

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

The indirect automobile loan portfolio of \$440.9 million at September 30, 2013 represented 10.3% of total loans outstanding at September 30, 2013. Indirect automobile loans are down from \$542.3 million at December 31, 2012. Although in 2012 the automobile industry reported the highest sales since 2007 with strong sales continuing into the first nine months of 2013, competition for these loans increased significantly as credit unions and large national banks entered indirect automobile lending in a search for additional sources of income. That competition drove interest rates down and, in some cases, changed the manner in which interest rates are developed, i.e. from including a dealer-shared spread to requiring a dealer-based fee to originate the loan. Depending on the terms of the dealer's enrollment agreement with the Company, the dealer earns this fee 90 days after a loan is originated or once the borrower makes at least three payments on the loan.

Indirect automobile loans are for the purchase of automobiles (both new and used) and light-duty trucks primarily by individuals, but also by corporations and other organizations. The loans are originated through over 200 dealerships located primarily in Massachusetts, but also in Connecticut, Rhode Island and New Hampshire. Dealer relationships are reviewed periodically for application quality, the ratio of loans approved to applications submitted and loan performance.

Loan applications are generated by approved dealers and data are entered into an application processing system. A credit bureau scorecard model is used in the underwriting process. The model is based on data accumulated by nationally recognized credit bureaus and is a risk assessment tool that analyzes an individual's credit history and assigns a numeric credit score. The

Table of Contents

model meets the requirements of the Equal Credit Opportunity Act. The application processing system sorts each application according to score ranges. Loans must meet criteria established in the Company's loan policy. Credit profile measurements such as debt-to-income ratios, payment-to-income ratios and loan-to-value ratios are utilized in the underwriting process and to monitor the performance of loans falling within specified ratio ranges. Regarding loan-to-value ratios, the Company considers indirect automobile loans to be essentially credits that are less than fully collateralized. When borrowers cease to make required payments, repossession and sale of the vehicle financed usually results in insufficient funds to fully pay the remaining loan balance.

The Company's indirect automobile loan policy limits origination of loans with credit scores of 660 or below to 5% of monthly indirect loan originations. At September 30, 2013, loans with credit scores of 660 or below were 3.2% of loans outstanding. The average-dollar original weighted credit score of loans in the portfolio at that date was 749. See the subsection *Results of Operations - Provision for Credit Losses* appearing elsewhere herein for further information regarding loan underwriting and the average credit scores of the borrowers to whom indirect automobile loans were made. All loans require the purchase of single interest insurance by the borrower. The insurance is designed to protect the Company from loss when a loan is in default and the collateral value is impaired due to vehicle damage or the Company is unable to take possession of the vehicle.

Indirect automobile loans are assigned a particular tier based on the credit score determined by the credit bureau. The tier is used for pricing purposes only so as to assure consistency in loan pricing. Tier rates can be modified if certain conditions exist as outlined in the Company's loan policy. The rate paid by a borrower usually differs with the buy rate earned by the Company. The difference is commonly referred to as the spread. All of the spread is paid after the end of the month in which the loan is made and is comprised of the agreed-upon rate differential multiplied by the expected average balance of the loan over its scheduled maturity. If a loan is repaid in its entirety within 90 days or before three payments have been made (depending on the agreement with the dealer), the dealer must pay the remainder of unamortized spread to the Company. If a loan is repaid after 90 days or after three payments have been made (depending on the agreement with the dealer), the dealer is not obliged to repay any part of the spread amount previously received. Spread payments to dealers are amortized as a reduction of interest received from borrowers over the life of the related loans. When loans are prepaid, any remaining unamortized balance is charged to expense at that time.

Various reports are generated to monitor receipt of required loan documents, adherence to loan policy parameters, dealer performance, loan delinquencies and loan charge-offs. Summary reports are submitted to the Chief Credit Officer, the Chief Financial Officer and the Board of Directors on a periodic basis.

Consumer Loans

The consumer loan portfolio of \$774.1 million at September 30, 2013 is composed of residential mortgage loans, home equity loans and lines of credit and other consumer loans and represented 18.0% of total loans outstanding at September 30, 2013. The Company focuses its mortgage loans on existing and new customers within its branch networks in its urban and suburban marketplaces in the greater Boston and Providence metropolitan areas.

The Company originates adjustable- and fixed-rate residential mortgage loans secured by one- to four-family residences. Each residential mortgage loan granted is subject to a satisfactorily completed application, employment verification, credit history and a demonstrated ability to repay the debt. 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. Appraisals are performed by outside independent fee appraisers.

In general, the Company maintains three-, five- and seven-year adjustable-rate mortgage loans and ten-year fixed-rate fully amortizing mortgage loans in its portfolio. Fixed-rate mortgage loans with maturities beyond ten years, such as 15- and 30-year fixed-rate mortgages, are not generally maintained in the Company's portfolio but are, rather, sold into the secondary market on a servicing-released basis. At September 30, 2013, Brookline Bank and BankRI act as brokers and correspondent lenders in these secondary-market transactions. Loan sales in the secondary market provide funds for additional lending and other banking activities. The Company had \$0.2 million and \$3.2 million in residential mortgage loans held-for-sale at September 30, 2013 and December 31, 2012, respectively.

Underwriting guidelines for home equity loans and lines of credit are similar to those for residential mortgage loans. Home equity loans and lines of credit are limited to no more than 80% of the appraised value of the property securing the loan including the amount of any existing first mortgage liens.

Other consumer loans have historically been a modest part of the Company's loan originations. At September 30, 2013, originated other consumer loans equaled \$6.1 million or 0.2% of total originated loans outstanding at that date. Equity and debt securities were pledged as collateral for a substantial part of the total of those loans.

Table of Contents

Asset Quality

Criticized and Classified Assets

The Company's management negatively rates certain assets as other asset especially mentioned (OAEM), substandard or doubtful based on criteria established under banking regulations. These loans and leases are collectively referred to as criticized assets. Loans and leases rated OAEM have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects of the loan or lease at some future date. Loans and leases rated as substandard are inadequately protected by the payment capacity of the obligor or of the collateral pledged, if any. Substandard loans and leases have a well-defined weakness or weaknesses that jeopardize the liquidation of debt and are characterized by the distinct possibility that the Company will sustain some loss if existing deficiencies are not corrected. At September 30, 2013, the Company had \$49.5 million of total assets, including acquired assets that were designated as criticized. This compares to \$58.6 million of assets that were designated as criticized at December 31, 2012. See Note 5,

Allowance for Loan and Lease Losses, to the unaudited consolidated financial statements for more information on the Company's risk-rating system.

Nonperforming Assets

Nonperforming assets consist of nonperforming loans and leases, other real estate owned (OREO) and other repossessed assets. Under certain circumstances, the Company may restructure the terms of a loan or lease as a concession to a borrower, except for acquired loans which are individually evaluated against expected performance on the date of acquisition. These restructured loans and leases are generally considered nonperforming loans and leases until a history of collection of at least six months on the restructured terms of the loan or lease has been established. OREO consists of real estate acquired through foreclosure proceedings and real estate acquired through acceptance of a deed in lieu of foreclosure. Other repossessed assets consist of assets that have been acquired through foreclosure that are not real estate and are included in other assets on the Company's unaudited consolidated balance sheets.

Table of Contents

The following table sets forth information regarding nonperforming assets at the dates indicated:

	At September 30, 2013	At December 31, 2012
	(Dollars in Thousands)	
Nonaccrual loans and leases:		
Commercial real estate mortgage	\$ 1,137	\$ 4,014
Multi-family mortgage	664	4,233
Commercial	4,747	5,454
Equipment financing	4,116	3,873
Condominium association	3	8
Indirect automobile	195	99
Residential mortgage	2,738	3,804
Home equity	1,801	716
Other consumer	18	45
Total nonaccrual loans and leases	15,419	22,246
Other real estate owned	726	903
Other repossessed assets	593	588
Total nonperforming assets	\$ 16,738	\$ 23,737
Loans and leases past due greater than 90 days	\$ 20,543	\$ 24,150
Troubled debt restructurings:		
On accrual	\$ 12,158	\$ 10,414
On nonaccrual	5,905	6,786
Total troubled debt restructurings	\$ 18,063	\$ 17,200
Total nonperforming loans and leases as a percentage of total loans and leases	0.36%	0.53%
Total nonperforming assets as a percentage of total assets	0.32%	0.46%
Total delinquent loans and leases greater than 90 days past due as a percentage of total loans and leases	0.48%	0.58%

Total nonperforming assets, which are composed of nonaccrual loans and leases, other real estate owned and other repossessed assets, decreased from \$23.7 million at December 31, 2012 to \$16.7 million at September 30, 2013. From December 31, 2012 to September 30, 2013, nonaccrual loans and leases decreased \$2.9 million (71.7%) in commercial real estate mortgage, \$3.6 million (84.3%) in multi-family mortgage, \$0.7 million (13.0%) in commercial and \$1.1 million (28.0%) in residential mortgage. The decreases in nonaccrual loans in these categories were partially offset by increases of \$0.2 million (6.3%) in equipment financing, \$0.1 million (97.0%) in indirect automobile and \$1.1 million (151.5%) in home equity. The \$2.9 million decrease in commercial real estate nonaccrual loans is the result of three loans paying off during the period ending September 30, 2013. The \$3.6 million decrease in multi-family nonaccrual loans is primarily attributed to payoff of two loans and the sale of another in this category. The \$0.7 million decrease in commercial is primarily the result of payoff of one loan and charge-off of another loan in this category. The \$1.1 million decrease in residential nonaccrual loans is the result of a large loan payoff in this category. The \$1.1 million increase in home equity nonaccrual loans is primarily due to five new home equity loans that have been placed on nonaccrual status during the period ending September 30, 2013.

At September 30, 2013, restructured loans of \$18.1 million included \$6.0 million of commercial real estate mortgage loans, \$1.0 million of multi-family mortgage loans, \$4.0 million of commercial loans, \$3.1 million of equipment financing loans, \$3.7 million of residential mortgage loans and \$0.3 million of home equity loans. At December 31, 2012, restructured loans of \$17.2 million included \$5.2 million of commercial real estate mortgage loans, \$0.9 million of multi-family mortgage loans, \$3.3 million of commercial loans, \$3.8 million of equipment financing loans and leases and \$4.0 million of residential mortgage loans.

Table of Contents

Allowance for Loan and Lease Losses

The allowance for loan and lease losses consists of general, specific and unallocated allowances and reflects management's estimate of probable loan and lease losses inherent in the loan portfolio at the balance sheet date. Management uses a consistent and systematic process and methodology to evaluate the adequacy of the allowance for loan and lease losses on a quarterly basis. The allowance is calculated by loan type: commercial real estate loans, commercial loans and leases, indirect automobile loans and consumer loans, each category of which is further segregated. A formula-based credit evaluation approach is applied to each group that is evaluated collectively, coupled with an analysis of certain loans individually evaluated for impairment. Management continuously evaluates and challenges inputs and assumptions in the allowance for loan and lease loss. During the quarter ended September 30, 2013, the provision was positively impacted by \$1.2 million for changes in assumptions directly related to improvements in our credit metrics such as economic conditions and asset quality offset by increases in provision for \$0.6 million due to loan growth and \$0.7 million for subsequent deterioration in the acquired loan portfolios.

The process to determine the allowance for loan and lease losses requires management to exercise considerable judgment regarding the risk characteristics of the loan portfolios and the effect of relevant internal and external factors. While management evaluates currently available information in establishing the allowance for loan and lease losses, future adjustments to the allowance for loan and lease losses may be necessary if conditions differ substantially from the assumptions used in making the evaluations. Management performs a comprehensive review of the allowance for loan and lease losses on a quarterly basis. In addition, various regulatory agencies, as an integral part of their examination process, periodically review a financial institution's allowance for loan and lease losses and carrying amounts of other real estate owned. Such agencies may require the financial institution to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. See Note 1, Basis of Presentation, and Note 5, Allowance for Loan and Lease Losses, to the unaudited consolidated financial statements for descriptions of how management determines the balance of the allowance for loan and lease losses for each portfolio and class of loans.

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Table of Contents

The following tables present the changes in the allowance for loan and lease losses by portfolio segment for the three months and nine months ended September 30, 2013 and 2012, respectively.

	At and for the Three Months Ended September 30, 2013					
	Commercial Real Estate	Commercial	Indirect Automobile (Dollars in Thousands)	Consumer	Unallocated	Total
Balance at June 30, 2013	\$ 22,019	\$ 11,791	\$ 4,695	\$ 2,999	\$ 2,777	\$ 44,281
Charge-offs	(7)	(219)	(510)	(167)		(903)
Recoveries		62	116	104		282
Provision for loan and lease losses	447	2,036	15	179	53	2,730
Balance at September 30, 2013	\$ 22,459	\$ 13,670	\$ 4,316	\$ 3,115	\$ 2,830	\$ 46,390
Total loans and leases	\$ 2,118,460	\$ 965,926	\$ 440,949	\$ 774,142	N/A	\$ 4,299,477
Allowance for loan and lease losses as a percentage of total loans and leases	1.06%	1.42%	0.98%	0.40%	N/A	1.08%

	At and for the Three Months Ended September 30, 2012					
	Commercial Real Estate	Commercial	Indirect Automobile (Dollars in Thousands)	Consumer	Unallocated	Total
Balance at June 30, 2012	\$ 17,938	\$ 8,962	\$ 5,680	\$ 2,113	\$ 2,738	\$ 37,431
Charge-offs		(1,276)	(423)	(108)		(1,807)
Recoveries	38	97	122	11		268
Provision (credit) for loan and lease losses	1,187	1,453	235	429	(283)	3,021
Balance at September 30, 2012	\$ 19,163	\$ 9,236	\$ 5,614	\$ 2,445	\$ 2,455	\$ 38,913
Total loans and leases	\$ 1,975,968	\$ 814,464	\$ 561,415	\$ 776,144	N/A	\$ 4,127,991
Allowance for loan and lease losses as a percentage of total loans and leases	0.97%	1.13%	1.00%	0.32%	N/A	0.94%

	At and for the Nine Months Ended September 30, 2013					
	Commercial Real Estate	Commercial	Indirect Automobile (Dollars in Thousands)	Consumer	Unallocated	Total
Balance at December 31, 2012	\$ 20,018	\$ 10,655	\$ 5,304	\$ 2,545	\$ 2,630	\$ 41,152
Charge-offs	(88)	(943)	(1,190)	(373)		(2,594)
Recoveries	4	326	395	190		915
Provision (credit) for loan and lease losses	2,525	3,632	(193)	753	200	6,917
Balance at September 30, 2013	\$ 22,459	\$ 13,670	\$ 4,316	\$ 3,115	\$ 2,830	\$ 46,390
Total loans and leases	\$ 2,118,460	\$ 965,926	\$ 440,949	\$ 774,142	N/A	\$ 4,299,477
Allowance for loan and lease losses as a percentage of total loans and leases	1.06%	1.42%	0.98%	0.40%	N/A	1.08%

of total loans and leases

Table of Contents

	At and for the Nine Months Ended September 30, 2012						Total
	Commercial Real Estate	Commercial	Indirect Automobile	Consumer	Unallocated		
	(Dollars in Thousands)						
Balance at December 31, 2011	\$ 15,477	\$ 5,997	\$ 5,604	\$ 1,577	\$ 3,048	\$ 31,703	
Charge-offs		(5,033)	(1,206)	(326)		(6,565)	
Recoveries	118	299	388	24		829	
Provision (credit) for loan and lease losses	3,568	7,973	828	1,170	(593)	12,946	
Balance at September 30, 2012	\$ 19,163	\$ 9,236	\$ 5,614	\$ 2,445	\$ 2,455	\$ 38,913	
Total loans and leases	\$ 1,975,968	\$ 814,464	\$ 561,415	\$ 776,144	N/A	\$ 4,127,991	
Allowance for loan and lease losses as a percentage of total loans and leases	0.97%	1.13%	1.00%	0.32%	N/A	0.94%	

The allowance for loan and lease losses was \$46.4 million at September 30, 2013 or 1.08% of total loans and leases outstanding. This compared to an allowance for loan and lease losses of \$41.2 million or 0.98% of total loans and leases outstanding at December 31, 2012, and an allowance for loan and lease losses of \$38.9 million or 0.94% of total loans and leases outstanding at September 30, 2012. The increase in the allowance for loan and lease losses and in the allowance for loan and lease losses as a percentage of total loans and leases from September 30, 2012 to September 30, 2013 is due to additions to the allowance for continued loan growth in the commercial real estate portfolios and an additional allowance in the amount of \$1.3 million recorded for subsequent deterioration in certain loan pools within the acquired loan portfolios. The allowance for loan and lease losses related to originated loans and leases represents 1.31%, 1.33% and 1.31% of originated loans and leases at September 30, 2013, December 31, 2012 and September 30, 2012, respectively.

Commercial Real Estate Loans

The allowance for commercial real estate loan losses was \$22.5 million at September 30, 2013 or 1.06% of total commercial real estate loans outstanding. This compared to an allowance for commercial real estate loan losses of \$20.0 million or 1.00% of commercial real estate loans outstanding at December 31, 2012, and an allowance for commercial real estate loan losses of \$19.2 million or 0.97% of commercial real estate loans outstanding at September 30, 2012. Specific reserves on commercial real estate loans of \$0.3 million were unchanged from December 31, 2012 to September 30, 2013. Excluding balances in acquired loan portfolios, the allowance for commercial real estate loan losses as a percentage of total commercial real estate loans outstanding decreased to 1.33% at September 30, 2013 from 1.37% at December 31, 2012.

The \$2.5 million increase in the allowance for commercial real estate loan losses during the first nine months of 2013 was primarily driven by originated loan growth of \$206.7 million, or 18.9% on an annualized basis, from December 31, 2012 and the addition of \$0.4 million in allowance for post-acquisition deterioration in certain commercial real estate loan and lease portfolios. The ratio of total criticized and classified commercial real estate loans to total commercial real estate loans decreased to 1.37% at September 30, 2013 from 1.81% at December 31, 2012. The ratio of originated commercial real estate loans on nonaccrual to total originated commercial real estate loans decreased to 0.06% at September 30, 2013 from 0.24% at December 31, 2012.

As a percentage of average commercial real estate loans, annualized net charge-offs for the three- and nine-month periods ended September 30, 2013 and September 30, 2012 were negligible. See the *Results of Operations Provision for Credit Losses* section below for additional information.

Commercial Loans and Leases

The allowance for commercial loan and lease losses was \$13.7 million or 1.42% of total commercial loans and leases outstanding at September 30, 2013, as compared to \$10.7 million or 1.26% at December 31, 2012. Specific reserves on commercial loans and leases increased from \$0.8 million at December 31, 2012 to \$1.0 million at September 30, 2013. Excluding balances in acquired loan portfolios, the allowance for commercial loan and lease losses as a percentage of total commercial loans and leases outstanding decreased to 1.64% at September 30, 2013 from 1.66% at December 31, 2012.

The \$3.0 million increase in the allowance for commercial loan and lease losses during the first nine months of 2013 was primarily driven by originated loan growth of \$173.2 million, or 36.0% on an annualized basis, from December 31, 2012 and the addition of \$0.3 million in allowances for post-acquisition deterioration in certain commercial loan and lease portfolios. The ratio of total

Table of Contents

criticized and classified commercial loans and leases to total commercial loans and leases was 2.13% at September 30, 2013 as compared to 2.63% at December 31, 2012 and reflects the resolution of several problem credits in the third quarter of 2013. The ratio of originated commercial loans and leases on nonaccrual to total originated commercial loans and leases decreased to 0.71% at September 30, 2013 from 0.91% at December 31, 2012.

Net charge-offs in the commercial loan and lease portfolio for the three-month periods ended September 30, 2013 and September 30, 2012 were \$0.2 million and \$1.2 million, respectively. As a percentage of average commercial loans and leases, annualized net charge-offs for the three-month periods ended September 30, 2013 and September 30, 2012 were 0.07% and 0.60%, respectively. Net charge-offs in the commercial loan and lease portfolio for the nine-month periods ended September 30, 2013 and September 30, 2012 were \$0.6 million and \$4.7 million, respectively. As a percentage of average commercial loans and leases, annualized net charge-offs for the nine-month periods ended September 30, 2013 and September 30, 2012 were 0.14% and 0.85%, respectively. See the *Results of Operations Provision for Credit Losses* section below for additional information.

Indirect Automobile Loans

The allowance for indirect automobile loan losses was \$4.3 million or 0.98% of total indirect automobile loans outstanding at September 30, 2013, compared to \$5.3 million or 0.98% of the indirect automobile portfolio outstanding at December 31, 2012. There were no loans individually evaluated for impairment in the indirect automobile portfolio at September 30, 2013. The \$1.0 million decrease in the allowance for indirect automobile loan losses was primarily a result of declines in loans outstanding, which decreased \$101.4 million from \$542.3 million at December 31, 2012 to \$440.9 million at September 30, 2013.

The ratio of indirect automobile loans with borrower credit scores below 660 to the total indirect automobile portfolio increased slightly to 3.2% at September 30, 2013 from 3.1% at December 31, 2012. The ratio of indirect automobile loans on nonaccrual to total indirect automobile loans increased slightly to 0.04% at September 30, 2013 compared to 0.02% at December 31, 2012.

Net charge-offs in the indirect automobile portfolio for the three-month periods ended September 30, 2013 and September 30, 2012 were \$0.4 million and \$0.3 million, respectively. As a percentage of average loans and leases, annualized net charge-offs for the three-month periods ended September 30, 2013 and September 30, 2012 were 0.34% and 0.21% respectively, reflecting the favorable trend in credit quality as the portfolio has been allowed to run down. Net charge-offs in the indirect automobile portfolio for the nine-month periods ended September 30, 2013 and September 30, 2012 were \$0.8 million and \$0.8 million, respectively. As a percentage of average indirect automobile loans, annualized net charge-offs for the nine-month periods ended September 30, 2013 and September 30, 2012 were 0.21% and 0.19%, respectively. See the *Results of Operations Provision for Credit Losses* section below for additional information.

Consumer Loans

The allowance for consumer loan losses, including residential loans and home equity loans and lines of credit, was \$3.1 million or 0.40% of total consumer loans and leases outstanding at September 30, 2013 as compared to \$2.5 million or 0.32% at December 31, 2012. The reserve for loans individually evaluated for impairment at September 30, 2013 was \$0.3 million on loan balances of \$4.3 million, compared to \$0.6 million on loan balances of \$4.8 million at December 31, 2012. Excluding balances in acquired loan portfolios, the allowance for consumer losses as a

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

percentage of total consumer loans outstanding was 0.50% at September 30, 2013, down from 0.54% at December 31, 2012.

The \$0.6 million increase in the allowance for consumer loans during the first nine months of 2013 was primarily driven by the addition of \$0.6 million in allowance post-acquisition deterioration in residential loans and home equity loans and lines of credit. The ratio of residential and home equity loans with loan-to-value ratios greater than 80% decreased to 6.45% of total residential and home equity loans at September 30, 2013 from 12.91% at December 31, 2012. The ratio of originated consumer loans on nonaccrual to total originated consumer loans decreased to 0.34% at September 30, 2013 from 0.44% at December 31, 2012. 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. The Company gathers and analyzes delinquency data, to the extent that data are available on these first liens, for purposes of assessing the collectability of the second liens held for the Company even if these home equity loans are not delinquent. These data are further analyzed for performance differences between amortizing and non-amortizing home equity loans, the percentage borrowed to total loan commitment and by the amount of payments made by the borrowers. 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 September 30, 2013. If the local economy weakens, however, a rise in losses in those loan classes could occur. Historically, losses in these classes have been low.

Table of Contents

Net charge-offs in the consumer portfolio for the three-month periods ended September 30, 2013 and September 30, 2012 were less than \$0.1 million in both periods. As a percentage of average consumer loans and leases, annualized net charge-offs for the three-month periods ended September 30, 2013 and September 30, 2012 were 0.03% and 0.05%, respectively. Net charge-offs in the consumer portfolio for the nine-month periods ended September 30, 2013 and September 30, 2012 were \$0.2 million and \$0.3 million, respectively. As a percentage of average consumer loans and leases, annualized net charge-offs for the nine-month periods ended September 30, 2013 and September 30, 2012 were 0.03% and 0.05%, respectively. See the *Results of Operations Provision for Credit Losses* section below for additional information.

Unallocated Allowance

The unallocated allowance recognizes the estimation risk associated with the allocated general and specific allowances, incorporates management's evaluation of existing conditions that are not included in the allocated allowance determinations and protects against potential losses outside of the ordinary course of business. These conditions are reviewed quarterly by management. Causes of losses outside the normal course of business include, but are not limited to, fraudulently obtained loans where there is no primary or secondary source of repayment; catastrophic and uninsured property loss where collateral is destroyed with no compensation; and legal documentation flaws that compromise security interests in collateral assets or the availability of guarantors. The unallocated allowance for loan and lease losses was \$2.8 million at September 30, 2013, compared to \$2.6 million at December 31, 2012.

The following table sets forth the Company's percent of allowance for loan and lease losses to the total allowance for loan and lease losses and the percent of loans to total loans for each of the categories listed at the dates indicated.

	At September 30, 2013			At December 31, 2012		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans (Dollars in Thousands)	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans
Commercial real estate loans:						
Commercial real estate						
mortgage	\$ 14,702	31.7%	32.6%	\$ 12,993	31.6%	31.1%
Multi-family	4,518	9.7%	13.9%	4,541	11.0%	14.5%
Construction	3,239	7.0%	2.8%	2,484	6.0%	2.3%
Total commercial real estate loans	22,459	48.4%	49.3%	20,018	48.6%	47.9%
Commercial loans and leases:						
Commercial	5,541	12.0%	9.5%	3,870	9.4%	9.1%
Equipment financing	7,805	16.8%	11.9%	6,454	15.7%	10.1%
Condominium association	324	0.7%	1.0%	331	0.8%	1.1%
Total commercial loans and leases	13,670	29.5%	22.4%	10,655	25.9%	20.3%
Indirect automobile	4,316	9.3%	10.3%	5,304	12.9%	13.0%
Consumer loans:						
Residential mortgage	1,304	2.8%	11.9%	1,516	3.7%	12.3%
Home equity	1,404	3.0%	5.9%	970	2.4%	6.3%
Other consumer	407	0.9%	0.2%	59	0.2%	0.2%
Total consumer loans	3,115	6.7%	18.0%	2,545	6.3%	18.8%
Unallocated	2,830	6.1%	0.0%	2,630	6.3%	0.0%

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Total	\$	46,390	100.0%	100.0%	\$	41,152	100.0%	100.0%
-------	----	--------	--------	--------	----	--------	--------	--------

Investments

The investment portfolio exists primarily for liquidity purposes, and secondarily as sources of interest and dividend income, interest-rate risk management and tax planning as a counterbalance to loan and deposit flows. Securities available-for-sale are employed as part of the Company's asset/liability management and may be sold in response to, or in anticipation of, factors such as changes in market conditions and interest rates, security prepayment rates, deposit outflows, liquidity concentrations and regulatory capital requirements.

Table of Contents

The investment policy of the Company, which is reviewed and approved by the Board of Directors on an annual basis, specifies acceptable types of investments, required investment ratings by at least one nationally recognized rating agency, concentration limits and duration guidelines. Compliance with the investment policy is monitored on a regular basis. In general, the Company seeks to maintain a high degree of liquidity and targets cash and equivalents and investment securities available-for-sale balances of between 10% and 30% of total assets.

Cash, cash equivalents, and investment securities decreased \$22.6 million, or 3.8%, since December 31, 2012. Cash, cash equivalents, and investment securities were 11.0% of total assets at September 30, 2013, compared to 11.6% of total assets at December 31, 2012.

Investment Securities Available-for-Sale and Held-to-Maturity

The Company's portfolio of investment securities consists of investment securities available-for-sale and investment securities held-to-maturity. The following table sets forth certain information regarding the amortized cost and market value of the Company's investment securities available-for-sale and held-to-maturity at the dates indicated:

	At September 30, 2013		At December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Investment securities available-for-sale:				
Debt securities:				
GSEs	\$ 20,178	\$ 20,242	\$ 69,504	\$ 69,809
GSE CMOs	255,658	248,331	215,670	217,001
GSE MBSs	178,510	177,150	165,996	169,648
Private-label CMOs	4,013	4,097	6,719	6,866
SBA commercial loan asset-backed securities	261	259	383	381
Auction-rate municipal obligations	1,900	1,774	2,100	1,976
Municipal obligations	1,065	1,089	1,058	1,101
Corporate debt obligations	23,103	23,516	10,481	10,685
Trust preferred securities	2,607	2,628	2,786	2,519
Total debt securities	487,295	479,086	474,697	479,986
Marketable equity securities	1,256	1,316	1,249	1,337
Total investment securities available-for-sale	\$ 488,551	\$ 480,402	\$ 475,946	\$ 481,323
Investment securities held-to-maturity	\$ 500	\$ 500	\$ 500	\$ 502

The fair value of investment securities is based principally on market prices and dealer quotes received from third-party, nationally-recognized pricing services for identical investment securities such as U.S. Treasury and agency securities that are included in Level 1. These prices are validated by comparing the primary pricing source with an alternative pricing source when available. When quoted market prices for identical securities are unavailable, the Company uses market prices provided by independent pricing services based on recent trading activity and other observable information, including but not limited to market interest-rate curves, referenced credit spreads and estimated prepayment speeds where applicable. These investments include certain U.S. and government agency debt securities, municipal and corporate debt securities, GSE residential MBSs and CMOs, and trust preferred securities, all of which are included in Level 2. Certain fair values are estimated using pricing models (such as pooled trust preferred securities and auction-rate municipal securities) and are included in Level 3.

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Additionally, management reviews changes in fair value from period to period and performs testing to ensure that prices received from the third parties are consistent with their expectation of the market. Changes in the prices obtained from the pricing service are analyzed from month to month, taking into consideration changes in market conditions including changes in mortgage spreads, changes in U.S. Treasury security yields and changes in generic pricing of 15-year and 30-year securities.

Table of Contents

Additional analysis may include a review of prices provided by other independent parties, a yield analysis, a review of average life changes using Bloomberg analytics and a review of historical pricing for the particular security.

Maturities, calls and principal repayments totaled \$108.9 million for the nine months ended September 30, 2013 compared to \$158.2 million for the same period in 2012. During the nine months ended September 30, 2013, the Company purchased \$124.1 million of available-for-sale securities compared to \$251.8 million for the same period in 2012. During the nine months ended September 30, 2013, the Company did not sell any available-for-sale securities. This compared to \$157.2 million sales and \$0.8 million net realized gains during the nine months ended September 30, 2012.

At September 30, 2013, the fair value of all securities available-for-sale was \$480.4 million and carried a total of \$8.1 million of net unrealized losses at the end of the quarter, compared to \$5.4 million of net unrealized gains at December 31, 2012. Of the \$480.4 million in securities available-for-sale at September 30, 2013, \$352.3 million, or 73.3%, of the portfolio, had gross unrealized losses of \$11.3 million. This compares to \$47.6 million, or 9.9% of the portfolio with gross unrealized losses of \$0.6 million at December 31, 2012. The shift from an unrealized gain position to an unrealized loss position over the first nine months of 2013 was driven by rising interest rates. Management believes that these negative differences between amortized cost and fair value do not include credit losses, but rather differences in interest rates between the time of purchase and the time of measurement. It is more likely than not that the Company will not sell the securities before recovery, and, as a result, it will recover the amortized cost basis of the securities. As such, management has determined that the securities are not other-than-temporarily impaired at September 30, 2013. If market conditions for securities worsen or the creditworthiness of the underlying issuers deteriorates, it is possible that the Company may recognize additional other-than-temporary impairments in future periods. For additional discussion on how the Company validates fair values provided by the third-party pricing service, see Note 4, Investment Securities, of the Company's 2012 Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Restricted Equity Securities

Federal Reserve Bank Stock

The Company invests in the stock of the Federal Reserve Bank of Boston, as required by the Banks' membership in the Federal Reserve System. At September 30, 2013, the Company owned stock in the Federal Reserve Bank of Boston with a carrying value of \$16.0 million.

FHLBB Stock

The Company invests in the stock of the FHLBB as one of the requirements to borrow. The Company maintains an excess balance of capital stock of \$9.7 million which allows for additional borrowing capacity at each Bank. At September 30, 2013, the Company owned stock in the FHLBB with a carrying value of \$50.6 million, which represents a decrease of \$1.6 million as compared to December 31, 2012 due to a redemption of excess stock. The FHLBB stated that it remained in compliance with all regulatory capital ratios at September 30, 2013 and, based on the most recent information available, was classified as adequately capitalized by its regulator.

Premises and Equipment

Corporate Headquarters

In addition to building and land costs of \$14.0 million paid in 2012, the Company has made capital expenditures of \$24.3 million associated with the rehabilitation of its new headquarters in 2012 and 2013. The project should be completed by year-end with additional costs of approximately \$0.5 million.

Core Operating Systems

The Company has also entered into contracts associated with the conversion of its core operating systems. All three Banks have successfully converted to a new core operating system. Brookline Bank and First Ipswich were converted in 2012, while BankRI completed its conversion in the second quarter of 2013. The useful life of the core processing system is 7.5 years, and ongoing maintenance and operation contracts extend over seven years. During the nine months ended September 30, 2013, \$4.5 million in conversion-related expenditures have been capitalized.

Table of Contents*Deposits*

The following table presents the Company's deposit mix at the dates indicated.

Non-interest-bearing accounts	\$ 667,181	17.8%	0.00%	\$ 623,274	17.2%	0.00%
NOW accounts	204,164	5.5%	0.08%	212,858	5.9%	0.09%
Money market accounts	1,403,881	37.6%	0.58%	1,253,819	34.7%	0.63%
Total interest-bearing deposits	3,070,797	82.2%	0.60%	2,992,985	82.8%	0.70%

Total deposits increased \$121.7 million to \$3.7 billion at September 30, 2013 compared to \$3.6 billion at December 31, 2012. Deposits as percentage of total assets increased slightly from 70.3% at December 31, 2012 to 71.4% at September 30, 2013. During the first nine months of 2013, core deposits increased \$182.3 million, or 9.3% on an annualized basis, rising from 72.0% of total deposits at December 31, 2012 to 74.6% of total deposits at September 30, 2013. Certificate of deposit accounts decreased \$60.6 million, or 8.0% on an annualized basis, during the first nine months of 2013. Certificates of deposit have also fallen as a percentage of total deposits from 28.0% at December 31, 2012 to 25.4% at September 30, 2013. The Company does not rely on brokered deposits.

The Company believes the ongoing shift toward core deposits is due in part to expansion of its cash management capabilities, more effort in seeking deposits from existing customer relationships and the desire of certain depositors to place their funds in a more strongly capitalized financial institution and in more liquid accounts. A rise in interest rates could cause a shift from core deposit accounts to certificate of deposit accounts with longer maturities. Generally, the rates paid on certificates of deposit are higher than those paid on core deposit accounts.

The following table sets forth the distribution of the average balances of the Company's deposit accounts for the periods indicated and the weighted average interest rates on each category of deposits presented. Averages for the periods presented are based on daily balances.

	Average Balance	Three Months Ended September 30,			2012 Percent of Total Average Deposits	Weighted Average Rate
		2013 Percent of Total Average Deposits	Weighted Average Rate (Dollars in Thousands)	Average Balance		
Core deposits:						
Non-interest-bearing demand checking accounts	\$ 675,907	18.2%	0.00%	\$ 572,305	16.1%	0.00%
NOW accounts	198,643	5.3%	0.08%	181,891	5.1%	0.11%

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Savings accounts	512,205	13.8%	0.24%	517,068	14.5%	0.32%
Money market accounts	1,377,495	37.0%	0.59%	1,239,230	34.8%	0.72%
Total core deposits	2,764,250	74.3%	0.34%	2,510,494	70.5%	0.43%
Certificate of deposit accounts	957,494	25.7%	0.93%	1,049,390	29.5%	1.01%
Total deposits	\$ 3,721,744	100.0%	0.49%	\$ 3,559,884	100.0%	0.60%

Table of Contents

	Nine Months Ended September 30,					
	Average Balance	2013 Percent of Total Average Deposits	Weighted Average Rate (Dollars in Thousands)	Average Balance	2012 Percent of Total Average Deposits	Weighted Average Rate
Core deposits:						
Non-interest-bearing demand						
checking accounts	\$ 641,749	17.5%	0.00%	\$ 545,109	15.6%	0.00%
NOW accounts	194,775	5.3%	0.09%	182,441	5.2%	0.12%
Savings accounts	511,672	14.0%	0.25%	517,168	14.8%	0.35%
Money market accounts	1,336,093	36.4%	0.61%	1,188,551	34.0%	0.75%
Total core deposits	2,684,289	73.2%	0.36%	2,433,269	69.6%	0.45%
Certificate of deposit accounts	980,628	26.8%	0.95%	1,064,431	30.4%	1.03%
Total deposits	\$ 3,664,917	100.0%	0.52%	\$ 3,497,700	100.0%	0.62%

The following table sets forth the maturity periods for certificates of deposit of \$100,000 or more deposited with the Company at the dates indicated:

Maturity period:	At September 30, 2013		At December 31, 2012	
	Amount	Weighted Average Rate (Dollars in Thousands)	Amount	Weighted Average Rate
Six months or less	\$ 182,588	0.79%	\$ 172,176	0.90%
Over six months through 12 months	137,276	0.85%	158,057	1.01%
Over 12 months	104,063	1.39%	114,572	1.41%
	\$ 423,927	0.96%	\$ 444,805	1.07%

Borrowed Funds*Advances from the FHLBB*

Although on a long-term basis the Company intends to continue to increase its core deposits, the Company also uses FHLBB borrowings and other wholesale borrowing opportunistically as part of the Company's overall strategy to fund loan growth and manage interest-rate risk and liquidity. The advances are secured by blanket security agreements which require the Banks to maintain as collateral certain qualifying assets, principally mortgage loans and securities in an aggregate amount at least equal to outstanding advances. The maximum amount that the FHLBB will advance to member institutions fluctuates from time to time in accordance with the policies of the FHLBB. The Company may also borrow from the Federal Reserve discount window on \$119.0 million of lines of credit as necessary.

FHLBB borrowings decreased \$6.1 million to \$784.7 million at September 30, 2013 from the December 31, 2012 balance of \$790.9 million. Growth in the deposit base led to a decreased reliance on FHLB borrowings.

Table of Contents

The following table sets forth certain information regarding FHLBB advances for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in Thousands)			
Average balance outstanding	\$ 772,067	\$ 757,017	\$ 761,927	\$ 723,934
Maximum amount outstanding at any month-end during the period	784,740	771,110	784,740	771,110
Balance outstanding at end of period	784,740	771,110	784,740	771,110
Weighted average interest rate for the period	1.37%	1.79%	1.46%	1.94%
Weighted average interest rate at end of period	1.28%	1.63%	1.28%	1.63%

Repurchase Agreements

The Company periodically enters into repurchase agreements with its larger deposit and commercial customers as part of its cash management services which are typically overnight borrowings. Short-term borrowings and repurchase agreements with Company customers decreased \$16.1 million during the nine months ended September 30, 2013, from \$51.0 million to \$34.9 million as customers shifted funds into other deposit products.

Subordinated Debt

In the acquisition of Bancorp Rhode Island, Inc., the Company assumed three subordinated debentures issued by a subsidiary of Bancorp Rhode Island, Inc. In the first quarter of 2013, the Company repaid \$3.0 million in subordinated debt before the scheduled maturity in 2031 given the fixed, high cost of the borrowing. The remaining two subordinated debentures are summarized below:

Issue Date	Rate	Maturity Date (Dollars in Thousands)	Next Call Date	Carrying Amount at September 30, 2013
June 26, 2003	Variable; 3-month LIBOR + 3.10%	June 26, 2033	December 26, 2013	\$ 4,657
March 17, 2004	Variable; 3-month LIBOR + 2.79%	March 17, 2034	December 17, 2013	\$ 4,486

Derivative Financial Instruments

The Company has entered into interest-rate swaps with certain of its commercial customers and concurrently enters into offsetting swaps with third-party financial institutions. The Company did not have derivative fair value hedges or derivative cash flow hedges at September 30, 2013 or December 31, 2012. The following table summarizes certain information concerning the Company's interest-rate swaps at September 30, 2013

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

and at December 31, 2012:

	Interest-Rate Swaps	
	September 30, 2013	At December 31, 2012
	(Dollars in Thousands)	
Notional principal amounts	\$ 22,619	\$ 33,221
Fixed weighted average interest rate from customer to counterparty	5.7%	5.2%
Floating weighted average rate from counterparty	3.4%	2.6%
Weighted average remaining term to maturity (in months)	53	41
Fair value:		
Recognized as an asset	\$ 930	\$ 1,317
Recognized as a liability	\$ (970)	\$ (1,380)

Table of Contents

Stockholders' Equity and Dividends

The Company's total stockholders' equity was \$614.8 million at September 30, 2013, a \$2.7 million increase compared to \$612.1 million at December 31, 2012. The increase reflects net income of \$27.7 million for the nine months ended September 30, 2013, offset by dividends paid of \$17.9 million in that same period and an unrealized loss on securities available-for-sale of \$8.4 million (after-tax). The dividends paid in the third quarter of 2013 represented the Company's 58th consecutive quarter of dividend payments, and the 46th consecutive quarter in which the Company paid a regular dividend of \$0.085.

Stockholders' equity represented 11.74% of total assets at September 30, 2013, as compared to 11.89% at December 31, 2012. Tangible stockholders' equity (total stockholders' equity less goodwill and identified intangible assets, net) represented 9.03% of tangible assets (total assets less goodwill and identified intangible assets, net) at September 30, 2013, as compared to 9.08% at December 31, 2012.

Results of Operations – Comparison of the Three-Month and Nine-Month Periods Ended September 30, 2013 and September 30, 2012

The primary drivers of the Company's operating income are net interest income, which is strongly affected by the net yield on interest-earning assets and liabilities (net interest margin), the quality of the Company's assets, its levels of non-interest income and non-interest expense, and its tax provision.

The Company's net interest income represents the difference between interest income earned on its investments, loans and leases, and its cost of funds. Interest income depends on the amount of interest-earning assets outstanding during the period and the yield earned thereon. Cost of funds is a function of the average amount of deposits and borrowed money outstanding during the period and the interest rates paid thereon. The net interest margin is calculated by dividing net interest income by average interest-earning assets. Net interest spread is the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities. The increases (decreases) in the components of interest income and interest expense, expressed in terms of fluctuation in average volume and rate, are summarized under *Rate/Volume Analysis* below. Information as to the components of interest income, interest expense and average rates is provided under *Average Balances, Net Interest Income, Interest-Rate Spread and Net Interest Margin* below.

Because the Company's assets and liabilities are not identical in duration and in repricing dates, the differential between the asset and liability repricing and duration is vulnerable to changes in market interest rates as well as the overall shape of the yield curve. These vulnerabilities are inherent to the business of banking and are commonly referred to as interest-rate risk. How interest-rate risk is measured and, once measured, how much interest-rate risk is taken is based on numerous assumptions and other subjective judgments. See the discussion in *Item 3. Quantitative and Qualitative Disclosures about Market Risk* below.

The quality of the Company's assets also influences its earnings. Loans and leases that are not paid on a timely basis and exhibit other weaknesses can result in the loss of principal and/or interest income. Additionally, the Company must make timely provisions to the allowance for loan and lease losses based on estimates of probable losses inherent in the loan and lease portfolio. These additions, which are charged against earnings, are necessarily greater when greater probable losses are expected. Further, the Company incurs expenses as a result of resolving troubled assets. These variables reflect the credit risk that the Company takes on in the ordinary course of business and are further discussed under *Financial Condition – Asset Quality* above.

Table of Contents**Result Summary**

Selected income statement, per share data and operating ratios are presented in the table below for the periods indicated:

	September 30, 2013	Three Months Ended June 30, 2013	September 30, 2012	Nine Months Ended September 30, 2013	September 30, 2012
(Dollars in Thousands, Except Per Share Data)					
Income statement data:					
Net interest income	\$ 43,412	\$ 45,363	\$ 46,411	\$ 132,444	\$ 132,805
Non-interest income	3,453	3,138	3,785	9,918	12,101
Non-interest expense	29,553	30,815	30,436	91,140	91,507
Net income	9,429	9,490	11,401	27,732	25,279
Operating earnings (5)	9,429	9,490	11,401	27,732	29,251
Operating ratios:					
Interest-rate spread (5)	3.40%	3.62%	3.83%	3.52%	3.70%
Net interest margin (1) (5)	3.56%	3.78%	4.00%	3.68%	3.88%
Return on average assets (2) (5)	0.73%	0.74%	0.90%	0.72%	0.68%
Efficiency ratio (3) (5)	63.06%	63.53%	60.63%	64.02%	63.15%
Return on average stockholders' equity (4) (5)	6.15%	6.16%	7.53%	6.01%	5.63%

-
- (1) Calculated as a fully taxable equivalent by dividing annualized net interest income by average interest-earning assets.
 - (2) Calculated by dividing annualized net income by average total assets.
 - (3) Calculated by dividing non-interest expense by the sum of net interest income and non-interest income for the period.
 - (4) Calculated by dividing annualized net income applicable to common shares by average common stockholders' equity.
 - (5) Non-GAAP performance measure.

Net Interest Income

Net interest income of \$43.4 million for the quarter ended September 30, 2013 decreased \$3.0 million, or 6.5%, as compared to the third quarter of 2012. This overall decrease on a quarter-over-quarter basis was a result of decreases in total interest income of \$4.6 million, or 8.3%, from \$55.4 million at September 30, 2012 to \$50.8 million at September 30, 2013, offset by a decrease in interest expense of \$1.6 million, or 17.5%, from \$9.0 million at September 30, 2012 to \$7.4 million at September 30, 2013. Pricing pressures in all lending areas continued through the third quarter of 2013 with decreases in the rates charged on newly originated loans quarter-over-quarter offset by an increase in prepayment penalties as discussed at greater length in *Comparison of the Three-Month and Nine-Month Periods Ended September 30, 2013 and September 30, 2012 Interest Income - Loans and Leases* below.

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

As a result, net interest margin of 3.56% in the third quarter of 2013 decreased 44 basis points from 4.00% in the third quarter of 2012. Purchase accounting amortization and accretion of \$1.8 million contributed 15 basis points to yields on interest-earning assets during the third quarter of 2013, compared to an additional \$4.7 million and 40 basis points in the third quarter of 2012.

The cost of funds (including non-interest-bearing demand checking accounts) declined from 0.82% for the three months ended September 30, 2012 to 0.65% for the three months ended September 30, 2013. The Company's reduction in interest rates offered on money market accounts and certificates of deposit as well as the reduction in wholesale borrowing costs contributed significantly to the reduction in funding costs, which declined 17 basis points from the three months ended September 30, 2012 to the three months ended September 30, 2013. Purchase accounting amortization and accretion on certificates of deposit and other funding sources of \$0.9 million and \$1.2 million contributed 7 basis points and 10 basis points to reductions in the costs of funds for the three months ended September 30, 2013 and 2012, respectively.

Net interest income of \$132.4 million for the nine months ended September 30, 2013 decreased \$0.4 million or 0.3% when compared to the nine months ended September 30, 2012. This overall decrease on a year-over-year basis was a result of a \$4.9 million reduction in total interest income, from \$160.2 million for the nine months ended September 30, 2012 to \$155.3 million for the nine months ended September 30, 2013. The reduction in interest income is partially offset by a decrease in interest expense of \$4.5 million, or 16.5% , from \$27.4 million at September 30, 2012 to \$22.9 million at September 30, 2013.

Net interest margin of 3.68% for the nine months ended September 30, 2013 decreased 20 basis points from 3.88% as compared to the nine months ended September 30, 2012. Purchase accounting amortization and accretion of \$6.4 million contributed 18 basis points to yields on interest-earning assets during the first nine months of 2013, compared to an additional \$8.8 million and 26 basis points in the first nine months of 2012.

Table of Contents

The cost of funds (including non-interest-bearing demand checking accounts) also declined from 0.86% for the first nine months of 2012 to 0.68% for the first nine months of 2013. The Company's reduction in interest rates offered on money market accounts, and certificates of deposit as well as the reduction in wholesale borrowing costs contributed significantly to the reduction in funding costs, which declined 18 basis points from the nine months ended September 30, 2012 to the nine months ended September 30, 2013. Purchase accounting amortization and accretion on certificates of deposit and other funding sources of \$3.0 million and \$3.9 million contributed 8 and 11 basis points to reductions in the costs of funds for the first nine months of 2013 and 2012, respectively.

Future net interest income, net interest spread and net interest margin may continue to be negatively affected by the low interest-rate environment; ongoing pricing pressures in both loan and deposit portfolios; and the ability of the Company to increase its core deposit ratio, increase its non-interest-bearing deposits as a percentage of total deposits, decrease its loan-to-deposit ratio, or decrease its reliance on FHLBB advances. They may also be negatively affected by changes in the amount of purchase accounting accretion and amortization included in interest income and interest expense.

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 interest rates earned on average interest-earning assets, interest expense and interest rates paid on average interest-bearing liabilities, interest-rate spread and net interest margin for the three months ended September 30, 2013 and September 30, 2012, and for the nine months ended September 30, 2013 and September 30, 2012. Average balances are derived from daily average balances and yields include fees, costs and purchase-accounting-related premiums and discounts which are considered adjustments to coupon yields in accordance with GAAP. Certain amounts previously reported have been reclassified to conform to the current period's presentation.

	September 30, 2013		Three Months Ended		September 30, 2012		Average Yield/ Cost
	Average Balance	Interest (1)	Average Yield/ Cost (Dollars in Thousands)	Average Balance	Interest (1)	Average Yield/ Cost	
Assets:							
Interest-earning assets:							
Short-term investments	\$ 69,272	\$ 22	0.13%	\$ 103,614	\$ 71		0.27%
Debt securities (2)	475,506	2,047	1.72%	412,439	1,955		1.90%
Marketable and restricted equity securities (2)							
	66,995	346	2.06%	62,121	110		0.72%
Total investments	611,773	2,415	1.58%	578,174	2,136		1.48%
Commercial real estate loans (3)	2,088,450	24,021	4.56%	1,944,222	23,648		4.89%
Commercial loans (3)	442,052	4,493	3.99%	378,822	6,869		7.23%
Equipment financing (3)	489,127	8,343	6.79%	406,423	7,816		7.69%
Indirect automobile loans (3)	460,927	4,172	3.59%	577,119	5,852		4.03%
Residential mortgage loans (3)	507,616	4,866	3.81%	506,701	5,686		4.49%
Other consumer loans (3)	262,442	2,762	4.17%	269,915	3,544		5.22%
Total loans and leases	4,250,614	48,657	4.54%	4,083,202	53,415		5.24%
Total interest-earning assets	4,862,387	51,072	4.16%	4,661,376	55,551		4.77%
Allowance for loan and lease losses	(44,959)			(40,510)			
Non-interest-earning assets	382,155			424,892			
Total assets	\$ 5,199,583			\$ 5,045,758			
Liabilities and Stockholders Equity:							
Interest-bearing liabilities:							
Interest-bearing deposits:							
NOW accounts	\$ 198,643	\$ 42	0.08%	\$ 181,891	\$ 51		0.11%
Savings accounts	512,205	315	0.24%	517,068	410		0.32%
Money market accounts	1,377,495	2,040	0.59%	1,239,230	2,246		0.72%
Certificates of deposit	957,494	2,240	0.93%	1,049,390	2,668		1.01%
Total interest-bearing deposits (4)	3,045,837	4,637	0.60%	2,987,579	5,375		0.72%
Advances from the FHLBB	772,067	2,666	1.37%	757,017	3,408		1.79%
Other borrowed funds	44,326	108	0.96%	57,753	200		1.38%
Total interest-bearing liabilities	3,862,230	7,411	0.76%	3,802,349	8,983		0.94%
Non-interest-bearing liabilities:							
Demand checking accounts (4)	675,907			572,305			
Other non-interest-bearing liabilities	44,832			59,429			
Total liabilities	4,582,969			4,434,083			
Brookline Bancorp, Inc. stockholders equity							
	612,866			605,988			
Noncontrolling interest in subsidiary	3,748			5,687			

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Total liabilities and equity	\$	5,199,583		\$	5,045,758
Net interest income (tax-equivalent basis) /		43,661	3.40%		46,568
Less adjustment of tax-exempt income		249			157
Net interest income	\$	43,412		\$	46,411
Net interest margin (6)			3.56%		4.00%

-
- (1) Tax-exempt income on debt securities, equity securities and revenue bonds included in commercial real estate loans is included on a tax-equivalent basis.
- (2) Investment securities available-for-sale, which include marketable equity securities, also include unrealized gains (losses). Dividend payments may not be consistent and average yield on equity securities may vary from month to month.
- (3) Loans on nonaccrual status are included in the average balances.
- (4) Including non-interest-bearing checking accounts, the average interest rate on total deposits was 0.49% and 0.60% in the three months ended September 30, 2013 and September 30, 2012, respectively.
- (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.

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Table of Contents

	September 30, 2013		Nine Months Ended		September 30, 2012	
	Average Balance	Interest (1)	Average Yield/ Cost (Dollars in Thousands)	Average Balance	Interest (1)	Average Yield/ Cost
Assets:						
Interest-earning assets:						
Short-term investments	\$ 58,872	\$ 72	0.16%	\$ 98,781	\$ 166	0.23%
Debt securities (2)	478,110	5,841	1.63%	445,012	6,741	2.02%
Marketable and restricted equity securities (2)						
	67,506	1,056	2.09%	57,225	329	0.77%
Total investments	604,488	6,969	1.54%	601,018	7,236	1.61%
Commercial real estate loans (3)	2,041,834	72,190	4.69%	1,889,996	70,723	5.01%
Commercial loans (3)	424,904	15,796	4.91%	360,453	16,170	5.99%
Equipment financing (3)	465,217	24,418	7.01%	384,453	22,000	7.63%
Indirect automobile loans (3)	493,898	13,611	3.68%	577,857	18,132	4.19%
Residential mortgage loans (3)	509,728	15,132	3.97%	498,929	16,675	4.46%
Other consumer loans (3)	263,762	7,886	4.00%	269,473	9,587	4.75%
Total loans and leases	4,199,343	149,033	4.72%	3,981,161	153,287	5.15%
Total interest-earning assets	4,803,831	156,002	4.32%	4,582,179	160,523	4.68%
Allowance for loan and lease losses	(43,146)			(34,914)		
Non-interest-earning assets	375,074			405,524		
Total assets	\$ 5,135,759			\$ 4,952,789		
Liabilities and Stockholders Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW accounts	\$ 194,775	\$ 128	0.09%	\$ 182,441	\$ 162	0.12%
Savings accounts	511,672	975	0.25%	517,168	1,351	0.35%
Money market accounts	1,336,093	6,136	0.61%	1,188,551	6,658	0.75%
Certificates of deposit	980,628	6,975	0.95%	1,064,431	8,184	1.03%
Total interest-bearing deposits (4)	3,023,168	14,214	0.63%	2,952,591	16,355	0.74%
Advances from the FHLBB	761,927	8,303	1.46%	723,934	10,502	1.94%
Other borrowed funds	50,941	374	0.98%	59,344	563	1.27%
Total interest-bearing liabilities	3,836,036	22,891	0.80%	3,735,869	27,420	0.98%
Non-interest-bearing liabilities:						
Demand checking accounts (4)	641,749			545,109		
Other non-interest-bearing liabilities	38,811			67,793		
Total liabilities	4,516,596			4,348,771		
Brookline Bancorp, Inc. stockholders equity	615,519			598,292		
Noncontrolling interest in subsidiary	3,644			5,726		
Total liabilities and equity	\$ 5,135,759			\$ 4,952,789		
Net interest income (tax-equivalent basis) /						
		133,111	3.52%		133,103	3.70%
Less adjustment of tax-exempt income		667			298	
Net interest income		\$ 132,444			\$ 132,805	
Net interest margin (6)			3.68%			3.88%

(1) Tax-exempt income on debt securities, equity securities and revenue bonds included in commercial real estate loans is included on a tax-equivalent basis.

(2) Investment securities available-for-sale, which include marketable equity securities, also include unrealized gains (losses). Dividend payments may not be consistent and average yield on equity securities may vary from month to month.

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

- (3) Loans on nonaccrual status are included in the average balances.
- (4) Including non-interest-bearing checking accounts, the average interest rate on total deposits was 0.52% and 0.62% in the nine months ended September 30, 2013 and September 30, 2012, respectively.
- (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.

Table of Contents**Rate/Volume Analysis**

The following table presents, on a tax-equivalent basis, the extent to which changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities have affected the Company's interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume) and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Three Months Ended September 30, 2013 as Compared to the Three Months Ended September 30, 2012			Nine Months Ended September 30, 2013 as Compared to the Nine Months Ended September 30, 2012		
	Increase (Decrease) Due To Volume	Rate	Net	Increase (Decrease) Due To Volume	Rate	Net
	(In Thousands)					
Interest and dividend income						
Short-term investments	\$ (19)	\$ (30)	\$ (49)	\$ (56)	\$ (38)	\$ (94)
Debt securities	287	(195)	92	474	(1,374)	(900)
Marketable and restricted equity securities	10	226	236	69	658	727
Total investments	278	1	279	487	(754)	(267)
Loans and leases:						
Commercial real estate loans	1,888	(1,515)	373	5,862	(4,395)	1,467
Commercial loans and leases	1,035	(3,411)	(2,376)	2,708	(3,082)	(374)
Equipment financing	1,506	(979)	527	4,321	(1,903)	2,418
Indirect automobile loans	(1,087)	(593)	(1,680)	(2,472)	(2,049)	(4,521)
Residential mortgage loans	11	(831)	(820)	349	(1,892)	(1,543)
Other consumer loans	(95)	(687)	(782)	64	(1,765)	(1,701)
Total loans and leases	3,258	(8,016)	(4,758)	10,832	(15,086)	(4,254)
Total change in interest and dividend income	3,536	(8,015)	(4,479)	11,319	(15,840)	(4,521)
Interest expense						
Deposits:						
NOW accounts	5	(14)	(9)	10	(44)	(34)
Savings accounts	(4)	(91)	(95)	(14)	(362)	(376)
Money market accounts	236	(442)	(206)	764	(1,286)	(522)
Certificates of deposit	(221)	(207)	(428)	(626)	(583)	(1,209)
Total deposits	16	(754)	(738)	134	(2,275)	(2,141)
Advances from the FHLBB	67	(809)	(742)	527	(2,726)	(2,199)
Other borrowed funds	(40)	(52)	(92)	(73)	(116)	(189)
Total change in interest expense	43	(1,615)	(1,572)	588	(5,117)	(4,529)
Change in tax-exempt income	92		92	369		369
Change in net interest income	\$ 3,401	\$ (6,400)	\$ (2,999)	\$ 10,362	\$ (10,723)	\$ (361)

Table of Contents**Interest Income***Loans and Leases*

	Three Months Ended		Dollar Change	Percent Change	Nine Months Ended		Dollar Change	Percent Change
	September 30, 2013	2012			September 30, 2013	2012		
Interest income loans and leases:								
Commercial real estate loans	\$ 23,826	\$ 23,648	\$ 178	0.8%	\$ 71,682	\$ 70,629	\$ 1,053	1.5%
Commercial loans	4,493	6,725	(2,232)	-33.2%	15,796	16,026	(230)	-1.4%
Equipment financing	8,343	7,816	527	6.7%	24,418	22,000	2,418	11.0%
Indirect automobile loans	4,172	5,852	(1,680)	-28.7%	13,611	18,132	(4,521)	-24.9%
Residential mortgage loans	4,866	5,686	(820)	-14.4%	15,132	16,675	(1,543)	-9.3%
Other consumer loans	2,762	3,544	(782)	-22.1%	7,886	9,587	(1,701)	-17.7%
Total interest income loans and leases	\$ 48,462	\$ 53,271	\$ (4,809)	-9.0%	\$ 148,525	\$ 153,049	\$ (4,524)	-3.0%

Declines in the yields on all but the commercial loan portfolio reflect the high rate of loan refinancings and the intense pricing competition which continues to characterize the Company's lending markets.

Interest income from loans and leases was \$48.5 million for the three months ended September 30, 2013, resulting in a yield on total loans and leases of 4.54%. This compares to \$53.3 million of interest on loans and leases and a yield of 5.24% for the three months ended September 30, 2012. The quarter-over-quarter \$4.8 million decrease in interest income from loans and leases was due to a \$8.0 million rate-related decrease, offset by an increase of \$3.3 million due to increased origination volume. Purchase accounting accretion and amortization on acquired loans of \$0.9 million contributed 8 basis points to net interest margin during the third quarter of 2013, compared to an additional \$3.5 million and 30 basis points in the third quarter of 2012. The third quarter of 2013 also benefited from \$0.4 million in prepayment penalties which contributed 4 basis points to net interest margin and in particular, to the yield on commercial loans, compared to \$0.9 million and 8 basis points in the third quarter of 2012.

Interest income from loans and leases was \$148.5 million for the nine months ended September 30, 2013, resulting in a yield on total loans of 4.72%. This compares to \$153.0 million of interest on loans and a yield of 5.15% for the nine months ended September 30, 2012. The \$4.5 million decrease in interest income from loans and leases was a result of \$15.1 million in interest-rate reductions on loans, offset by an increase of \$10.8 million due to volume. Accretion and amortization on acquired loans of \$3.4 million contributed 9 basis points to net interest margin during the first nine months of 2013, compared to an additional \$4.9 million and 14 basis points in the first nine months of 2012. The first nine months of 2013 also benefited from \$3.0 million in prepayment penalties which contributed 8 basis points to the net interest margin and in particular, to the yield on commercial loans, compared to \$1.9 million and 6 basis points during the first nine months of 2012.

Table of Contents*Investments*

	Three Months Ended September 30,		Dollar Change	Percent Change	Nine Months Ended September 30,		Dollar Change	Percent Change
	2013	2012			2013	2012		
(Dollars in Thousands)								
Interest income investments:								
Short-term investments	\$ 22	\$ 71	\$ (49)	-69.0%	\$ 72	\$ 166	\$ (94)	-56.6%
Debt securities	2,041	1,949	92	4.7%	5,827	6,719	(892)	-13.3%
Marketable and restricted equity securities	298	103	195	189.3%	911	291	620	213.1%
Total interest income investments	\$ 2,361	\$ 2,123	\$ 238	11.2%	\$ 6,810	\$ 7,176	\$ (366)	-5.1%

The year-over-year decrease in total investment income is largely a result of rate-driven reduction stemming from the paydown of higher-coupon MBSs and CMOs which were replaced by similar but lower-yielding securities.

Total investment income was \$2.4 million for the three months ended September 30, 2013, compared to \$2.1 million for the three months ended September 30, 2012, representing an increase of \$0.2 million, or 11.2%. The yield on investments increased from 1.48% for the quarter ended September 30, 2012 to 1.58% for the quarter ended September 30, 2013. The \$0.2 million year-over-year increase in quarterly interest income on investments was largely volume-driven.

Total investment income was \$6.8 million for the nine months ended September 30, 2013 compared to \$7.2 million for the nine months ended September 30, 2012, representing a decrease of \$0.4 million, or 5.1%. The yield on investments decreased from 1.61% for the nine months ended September 30, 2012 to 1.54% for the nine months ended September 30, 2013. Of the \$0.4 million decrease in interest income on investments from the nine months ended September 30, 2012 to the nine months ended September 30, 2013, \$0.5 million of increases in volume were offset by \$0.8 million of decreases in interest rates as the portfolio replaced higher-yielding securities into the current low-rate environment.

Interest Expense

	Three Months Ended September 30,		Dollar Change	Percent Change	Nine Months Ended September 30,		Dollar Change	Percent Change
	2013	2012			2013	2012		
(Dollars in Thousands)								
Interest expense:								
Deposits:								
NOW accounts	\$ 42	\$ 51	\$ (9)	-17.6%	\$ 128	\$ 162	\$ (34)	-21.0%
Savings accounts	315	410	(95)	-23.2%	975	1,351	(376)	-27.8%
Money market accounts	2,040	2,246	(206)	-9.2%	6,136	6,658	(522)	-7.8%
Certificates of deposit	2,240	2,668	(428)	-16.0%	6,975	8,184	(1,209)	-14.8%
Total interest expense deposits	4,637	5,375	(738)	-13.7%	14,214	16,355	(2,141)	-13.1%

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Borrowed funds:

Advances from the FHLBB	2,666	3,408	(742)	-21.8%	8,303	10,502	(2,199)	-20.9%
Other borrowed funds	108	200	(92)	-46.0%	374	563	(189)	-33.6%
Total interest expense borrowed funds	2,774	3,608	(834)	-23.1%	8,677	11,065	(2,388)	-21.6%
Total interest expense	\$ 7,411	\$ 8,983	\$ (1,572)	-17.5%	\$ 22,891	\$ 27,420	\$ (4,529)	-16.5%

Table of Contents

Deposits

Ongoing declines in the interest rates paid on deposits and continued declines in certificate of deposit balances as a percentage of total deposits contributed to reductions in the Company's overall cost of deposits.

Interest expense on deposits decreased \$0.7 million or 13.7% from \$5.4 million for the quarter ended September 30, 2012 to \$4.6 million for the quarter ended September 30, 2013, largely as a result of decreases in deposit offering rates. As a result, the cost of total interest-bearing deposits decreased from 0.72% during the three months ended September 30, 2012 to 0.60% in the three months ended September 30, 2013. Amortization of purchase accounting adjustments of \$0.1 million and \$0.3 million improved the Company's net interest margin 1 basis point and 2 basis points, respectively, in the three months ended September 30, 2013 and 2012.

Similarly, the Company's year-over-year interest expense on interest-bearing deposits decreased \$2.1 million from \$16.4 million for the nine months ended September 30, 2012 to \$14.2 million for the same period in 2013, largely as a result of reductions in interest rates. The cost of total interest-bearing deposits decreased from 0.74% in the nine months ended September 30, 2012 to 0.63% in the nine months ended September 30, 2013. Amortization of purchase accounting adjustments of \$0.3 million and \$1.0 million improved the Company's net interest margin by 1 basis point and 3 basis points, respectively, in the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012.

Borrowed Funds

Interest paid on borrowed funds decreased by \$0.8 million, or 23.1% from \$3.6 million for the three months ended September 30, 2012 to \$2.8 million for the three months ended September 30, 2013. The cost of borrowed funds declined from 1.76% during the three months ended September 30, 2012 to 1.35% for the quarter ended September 30, 2013. Decreases in borrowing rates resulted in a decrease in debt-related interest expenses of \$0.9 million. Amortization of purchase accounting adjustments on borrowed funds of \$0.8 million and \$0.9 million improved the Company's net interest margin by 7 basis points and 8 basis points, respectively, in the three months ended September 30, 2013 compared to the three months ended September 30, 2012.

Interest paid on borrowed funds decreased by \$2.4 million, or 21.6% from \$11.1 million for the nine months ended September 30, 2012 to \$8.7 million for the nine months ended September 30, 2013. The cost of borrowed funds declined from 1.89% on a period-over-period basis to 1.43% for the nine months ended September 30, 2013. Decreases in borrowing rates resulted in a reduction in debt-related interest expenses of \$2.8 million, partially offset by a \$0.5 million increase in interest expense due to an increase in the balance of borrowed funds. Amortization of purchase accounting adjustments on borrowed funds of \$2.6 million and \$2.9 million improved the Company's net interest margin by 7 basis points and 8 basis points, respectively, in the nine months ended September 30, 2013 compared to the nine months ended 2012.

Provision for Credit Losses

The provisions for credit losses are set forth below:

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

	Three Months Ended		Dollar Change	Percent Change	Nine Months Ended		Dollar Change	Percent Change
	September 30, 2013	September 30, 2012			September 30, 2013	September 30, 2012		
(Dollars in Thousands)								
Provision (credit) for loan and lease losses:								
Commercial real estate	\$ 447	\$ 1,187	\$ (740)	-62.3%	\$ 2,525	\$ 3,568	\$ (1,043)	-29.2%
Commercial	2,036	1,453	583	40.1%	3,632	7,973	(4,341)	-54.4%
Indirect automobile	15	235	(220)	-93.6%	(193)	828	(1,021)	-123.3%
Consumer	179	429	(250)	-58.3%	753	1,170	(417)	-35.6%
Unallocated	53	(283)	336	-118.7%	200	(593)	793	-133.7%
Total provision for loan and lease losses	2,730	3,021	(291)	-9.6%	6,917	12,946	(6,029)	-46.6%
Unfunded credit commitments	18	(159)	177	-111.3%	125	(159)	284	-178.6%
Total provision for credit losses	\$ 2,748	\$ 2,862	\$ (114)	-4.0%	\$ 7,042	\$ 12,787	\$ (5,745)	-44.9%

Table of Contents

The provisions for credit losses for the third quarter of 2013 and 2012 were \$2.7 million and \$2.9 million, respectively. The provisions for credit losses for the nine months ended September 2013 and 2012 were \$7.0 million and \$12.8 million, respectively. The \$5.7 million period-over-period decrease in the provision for loan and lease losses were due in large part to a \$4.2 million provision related to two short-term commercial loans made by BankRI shortly after acquisition in early 2012 and a \$1.2 million reduction in general allowance due to improving asset quality and economic metrics. The third quarter 2013 provision for loan and lease losses includes a provision of \$0.7 million for post-acquisition deterioration of certain acquired loans and loan pools. See management's discussion of *Financial Condition Allowance for Loan and Lease Losses* and Note 5, *Allowance for Loan and Lease Losses*, to the unaudited consolidated financial statements for a description of how management determined the allowance for loan and lease losses for each portfolio and class of loans.

During the nine months ended September 30, 2013, the liability for unfunded credit commitments increased \$0.1 million to reflect changes in the estimate of loss exposure associated with credit commitments. This increase increased the provision for credit losses by the same amount during the first nine months of 2013. No credit commitments were charged off against the liability account in the nine-month periods ended September 30, 2013 or 2012.

Non-Interest Income

The following table sets forth the components of non-interest income for the periods indicated:

	Three Months Ended		Dollar Change	Percent Change (Dollars in Thousands)	Nine Months Ended		Dollar Change	Percent Change
	September 30, 2013	September 30, 2012			September 30, 2013	September 30, 2012		
Fees, charges and other income	\$ 4,011	\$ 3,858	\$ 153	4.0%	\$ 11,412	\$ 11,759	\$ (347)	-3.0%
Loss from investments in affordable housing	(558)	(73)	(485)	664.4%	(1,494)	(455)	(1,039)	228.4%
Gain on sales of securities				N/A		797	(797)	-100.0%
Total non-interest income	\$ 3,453	\$ 3,785	\$ (332)	-8.8%	\$ 9,918	\$ 12,101	\$ (2,183)	-18.0%

Total non-interest income decreased \$0.3 million, or 8.8%, from \$3.8 million for the three months ended September 30, 2012 to \$3.5 million for the three months ended September 30, 2013, and decreased \$2.2 million, or 18.0%, from \$12.1 million for the nine months ended September 30, 2012 to \$9.9 million for the nine months ended September 30, 2013. The decrease from the three months ended September 30, 2012 to the three months ended September 30, 2013 is primarily attributable to a \$0.5 million increase in loss from investments in affordable housing projects. The decrease from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was due to a \$1.0 million increase in loss from investments in affordable housing projects, as well as a \$0.8 million reduction in gain on sales of securities.

Fees, charges and other income are the major sources of non-interest income for the Company, and include deposit-related fees, loan-related fees and other service fees. Fees, charges and other income increased \$0.2 million, or 4.0%, for the three-month period ended September 30, 2013 as compared to the three-month period ended September 30, 2012. For the three-month period ended September 30, 2013, the Company recorded a \$0.2 million recovery of an investment previously written off as other-than-temporary impairment. Fees, charges, and other income decreased \$0.3 million, or 3.0%, for the nine-month period ended September 30, 2013 as compared to the nine-month period ended September 30, 2012. The decrease is due in part to a reduction of \$0.5 million in loan-related fees, offset by an increase of \$0.5 million in deposit-related income from a larger deposit base.

Table of Contents*Non-Interest Expense*

The following table sets forth the components of non-interest expense:

	Three Months Ended		Dollar Change	Percent Change	Nine Months Ended		Dollar Change	Percent Change
	September 30, 2013	September 30, 2012			September 30, 2013	September 30, 2012		
(Dollars in Thousands)								
Compensation and employee benefits	\$ 15,591	\$ 14,664	\$ 927	6.3%	\$ 48,586	\$ 43,590	\$ 4,996	11.5%
Occupancy	3,312	2,673	639	23.9%	9,260	7,852	1,408	17.9%
Equipment and data processing	4,061	4,136	(75)	-1.8%	12,423	11,548	875	7.6%
Professional services	1,329	1,932	(603)	-31.2%	4,343	10,939	(6,596)	-60.3%
FDIC insurance	508	973	(465)	-47.8%	2,378	3,123	(745)	-23.9%
Advertising and marketing	758	689	69	10.0%	2,196	2,166	30	1.4%
Amortization of identified intangible assets	1,154	1,271	(117)	-9.2%	3,495	3,825	(330)	-8.6%
Other	2,840	4,098	(1,258)	-30.7%	8,459	8,464	(5)	-0.1%
Total non-interest expense	\$ 29,553	\$ 30,436	\$ (883)	-2.9%	\$ 91,140	\$ 91,507	\$ (367)	-0.4%

Non-interest expense for the three months ended September 30, 2013 decreased \$0.9 million compared to the same period in 2012. The increases of \$0.9 million in compensation and employee benefits expense and \$0.6 million in occupancy expense were offset by decreases of \$0.6 million in professional services expense and \$1.3 million in other expenses.

Non-interest expense for the nine months ended September 30, 2013 remained flat as compared to the nine months ended September 30, 2012. The increases of \$5.0 million in compensation and employee benefits expense, \$1.4 million in occupancy expense and \$0.9 million in equipment and data processing expense were offset by a decrease of \$6.6 million in professional services expense.

The efficiency ratio increased from 60.63% for the three-month period ending September 30, 2012 to 63.06% for the three-month period ending September 30, 2013, and from 63.15% for the nine-month period ending September 30, 2012 to 64.02% for the nine-month period ending September 30, 2013. These increases are primarily as a result of 2013 costs associated with the Company's infrastructure build, which is now in its final stage.

Compensation and employee benefit expense for the three months ended September 30, 2013 increased \$0.9 million, or 6.3% as compared to the same period in 2012. Comparing the nine-month period ended September 30, 2013 and September 30, 2012, the expense increased \$5.0 million, or 11.5%. While there was a \$0.6 million reduction in compensation and employee benefit expense related to Supplemental Executive Retirement Plan during the third quarter of 2013, the decrease was offset by increases in expense quarter-over-quarter and year-over-year due to addition of loan officers and other individuals in key support areas of the Company including the Loan Review, Credit Administration, Compliance, Human Resources, Legal and Finance functions.

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Occupancy expense for the three months ended September 30, 2013 increased \$0.6 million, or 23.9%, as compared to the same period in 2012. Comparing the nine-month period ended September 30, 2013 and September 30, 2012, the expense increased \$1.4 million, or 17.9%. The increase in occupancy expense is primarily due to additional expenses for the new corporate headquarters in 2013, additional depreciation expenses from new branches in 2013, and the retirement of certain premises and equipment during the three months ended September 30, 2013.

Equipment and data processing expense remained flat for the three months ended September 30, 2013 as compared to the same period in 2012. Comparing the nine-month period ending September 30, 2013 and September 30, 2012, the expense increased \$0.9 million, or 7.6%. Equipment and data processing expenses for the nine months ended September 30, 2013 increased year-over-year largely as a result of upgrades in data processing, purchases of equipment and conversion-related expenses incurred in conjunction with BankRI's core system conversion.

Table of Contents

Professional services expense for the three months ended September 30, 2013 decreased \$0.6 million, or 31.2% as compared to the same period in 2012 as outside consultants were released. Comparing the nine-month period ended September 30, 2013 and September 30, 2012, professional services expense decreased \$6.6 million, or 60.3%, largely as a result of the inclusion of \$5.4 million of acquisition-related expenses in 2012. Additionally, in 2013, there was a reduction in the costs for professional services for integration, bank charter conversion and infrastructure-related expenses.

Other expense decreased \$1.3 million, or 30.7%, from the three months ended September 30, 2012 to the three months ended September 30, 2013. The decrease was due largely to reductions in infrastructure-related costs.

Provision for Income Taxes

	Three Months Ended		Dollar Change	Percent Change	Nine Months Ended		Dollar Change	Percent Change
	September 30, 2013	September 30, 2012			September 30, 2013	September 30, 2012		
	(Dollars in Thousands)							
Income before provision for income taxes	\$ 14,564	\$ 16,898	\$ (2,334)	-13.8%	\$ 44,180	\$ 40,612	\$ 3,568	8.8%
Provision for income taxes	4,645	5,176	(531)	-10.3%	15,156	14,473	683	4.7%
Net income	\$ 9,919	\$ 11,722	\$ (1,803)	-15.4%	\$ 29,024	\$ 26,139	\$ 2,885	11.0%
Effective tax rate	31.9%	30.6%	N/A	4.2%	34.3%	35.6%	N/A	-3.7%

The Company recorded income tax expense of \$4.6 million for the three months ended September 30, 2013, compared to \$5.2 million for the three months ended September 30, 2012, representing total effective tax rates of 31.9% and 30.6%, respectively. The increase in the effective federal and state tax rate for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 is primarily due to a \$0.5 million reduction in the \$0.6 million rehabilitation tax credits in 2012 related to the construction of the Company's new Corporate office.

On a year-to-date basis, the Company recorded income tax expense of \$15.2 million for the first nine months of 2013, compared to \$14.5 million for the first nine months of 2012, representing total effective tax rates of 34.3% and 35.6%, respectively. The decrease in the effective federal and state tax rate for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012 is primarily due to the non-deductibility of \$1.4 million of the \$5.4 million in professional fees incurred in 2012 related to the BankRI acquisition, a \$0.3 million increase in tax credits from investments in affordable housing partnerships from \$0.6 million for the nine months ended September 2012 to \$0.9 million for the nine months ended September 30, 2013, and a \$0.3 million tax benefit recognized in 2013 for adjustments to the 2012 tax return. These decreases in the effective tax rate were partially offset by the \$0.8 million reduction in rehabilitation tax credits recognized in 2013 as compared to 2012.

Liquidity and Capital Resources*Liquidity*

Liquidity is defined as the ability to meet current and future financial obligations of a short-term nature. The Company further defines liquidity as the ability to respond to the needs of depositors and borrowers, as well as to earnings enhancement opportunities, in a changing marketplace. Liquidity management is monitored by an Asset/Liability Committee (ALCO), consisting of members of management, which is responsible for establishing and monitoring liquidity targets as well as strategies and tactics to meet these targets.

The primary source of funds for the payment of dividends and expenses by the Company is dividends paid to it by its Banks and Brookline Securities Corp. The primary sources of liquidity for the Banks consist of deposit inflows, loan repayments, borrowed funds and maturing investment securities and sales of securities from the available-for-sale portfolio.

Deposits, which are considered the most stable source of liability liquidity, totaled \$3.7 billion at September 30, 2013, and represented 81.9% of total funding (the sum of total deposits and total borrowings), compared to deposits of \$3.6 billion, or 80.9% of total funding, at December 31, 2012. Core deposits, which consist of demand checking, NOW, savings and money market accounts, totaled \$2.8 billion at September 30, 2013 and represented 74.6% of total deposits, compared to core deposits of \$2.6 billion, or 72.0% of total deposits, at December 31, 2012. While deposits are considered the most reliable source of liquidity, the Company is careful to increase deposits without adversely impacting the weighted average cost of those funds.

Table of Contents

Borrowings are used to diversify the Company's funding mix and to support asset growth. When profitable lending and investment opportunities exist, access to borrowings provides a means to grow the balance sheet. Borrowings totaled \$828.8 million at September 30, 2013, representing 18.1% of total funding, compared to \$854.0 million, or 19.1% of total funding, at December 31, 2012. As members of the FHLBB, the Banks have access to both short- and long-term borrowings. The Banks also have access to funding through retail repurchase agreements, brokered deposits and \$119.0 million of uncommitted lines of credit, and may utilize additional sources of funding in the future, including borrowings at the Federal Reserve discount window, to supplement its liquidity. At September 30, 2013, the Company's total borrowing limit from the FHLBB for advances and repurchase agreements was \$1.0 billion, based on the level of qualifying collateral available for these borrowings.

In general, the Company seeks to maintain a high degree of liquidity and targets cash and equivalents and available-for-sale security balances of between 10% and 30% of total assets. At September 30, 2013, cash and equivalents and available-for-sale securities totaled \$575.8 million, or 11.0% of total assets. This compares to \$598.4 million, or 11.6% of total assets at December 31, 2012.

While management believes that the Company has adequate liquidity to meet its commitments, and to fund the Banks' lending and investment activities, the availabilities of these funding sources are subject to broad economic conditions and could be restricted in the future. Such restrictions would impact the Company's immediate liquidity and/or additional liquidity needs.

Off-Balance-Sheet Financial Instruments

The Company is party to off-balance-sheet financial instruments in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include loan commitments, standby and commercial letters of credit and interest-rate swaps. According to GAAP, these financial instruments are not recorded in the financial statements until they are funded or related fees are incurred or received.

The contract amounts reflect the extent of the involvement the Company has in particular classes of these instruments. Such commitments involve, to varying degrees, elements of credit risk and interest-rate risk in excess of the amount recognized in the consolidated balance sheet. The Company's exposure to credit loss in the event of non-performance by the counterparty is represented by the contractual amount of the instruments. The Company uses the same policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Financial instruments with off-balance-sheet risk at the dates indicated follow:

	At September 30, 2013	At December 31, 2012
	(In Thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to originate loans and leases:		
Commercial real estate	\$ 55,517	\$ 85,726
Commercial	66,249	67,857
Residential mortgage	8,161	8,726

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Unadvanced portion of loans and leases	539,861	421,143
Unused lines of credit:		
Home equity	197,740	165,936
Other consumer	3,568	4,017
Other commercial	1,015	965
Unused letters of credit:		
Financial standby letters of credit	18,621	19,887
Performance standby letters of credit	2,916	2,916
Commercial and similar letters of credit	228	112
Back-to-back interest-rate swaps	22,619	33,221

Table of Contents**Capital Resources**

At September 30, 2013, the Company and the Banks are all under the primary regulation of and must comply with the capital requirements of the FRB. At that date, the Company, Brookline Bank, BankRI and First Ipswich exceeded all regulatory capital requirements and were considered well-capitalized.

The Company's and the Banks' actual and required capital amounts and ratios are as follows:

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required To Be Considered Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At September 30, 2013:						
Brookline Bancorp, Inc.						
Tier 1 leverage capital ratio (1)	\$ 476,759	9.45%	\$ 201,803	4.00%	N/A	N/A
Tier 1 risk-based capital ratio (2)	476,759	11.21%	170,119	4.00%	N/A	N/A
Total risk-based capital ratio (3)	524,055	12.32%	340,295	8.00%	N/A	N/A
Brookline Bank						
Tier 1 leverage capital ratio (1)	\$ 305,164	9.66%	\$ 126,362	4.00%	\$ 157,952	5.00%
Tier 1 risk-based capital ratio (2)	305,164	10.84%	112,607	4.00%	168,910	6.00%
Total risk-based capital ratio (3)	340,376	12.09%	225,228	8.00%	281,535	10.00%
BankRI						
Tier 1 leverage capital ratio (1)	\$ 146,170	9.03%	\$ 64,749	4.00%	\$ 80,936	5.00%
Tier 1 risk-based capital ratio (2)	146,170	11.73%	49,845	4.00%	74,767	6.00%
Total risk-based capital ratio (3)	155,660	12.49%	99,702	8.00%	124,628	10.00%
First Ipswich						
Tier 1 leverage capital ratio (1)	\$ 30,179	9.86%	\$ 12,243	4.00%	\$ 15,304	5.00%
Tier 1 risk-based capital ratio (2)	30,179	13.66%	8,837	4.00%	13,256	6.00%
Total risk-based capital ratio (3)	31,711	14.35%	17,679	8.00%	22,098	10.00%
At December 31, 2012:						
Brookline Bancorp, Inc.						
Tier 1 leverage capital ratio (1)	\$ 465,142	9.44%	\$ 197,094	4.00%	N/A	N/A
Tier 1 risk-based capital ratio (2)	465,142	10.85%	171,481	4.00%	N/A	N/A
Total risk-based capital ratio (3)	507,077	11.83%	342,909	8.00%	N/A	N/A
Brookline Bank						
Tier 1 leverage capital ratio (1)	\$ 282,706	9.29%	\$ 121,725	4.00%	\$ 152,156	5.00%
Tier 1 risk-based capital ratio (2)	282,706	9.78%	115,626	4.00%	173,439	6.00%
Total risk-based capital ratio (3)	318,629	11.02%	231,310	8.00%	289,137	10.00%
BankRI						
Tier 1 leverage capital ratio (1)	\$ 136,100	8.50%	\$ 64,047	4.00%	\$ 80,059	5.00%

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Tier 1 risk-based capital ratio (2)	136,100	11.54%	47,175	4.00%	70,763	6.00%
Total risk-based capital ratio (3)	141,171	11.97%	94,350	8.00%	117,937	10.00%

First Ipswich

Tier 1 leverage capital ratio (1) \$	29,209	9.72%	\$ 12,020	4.00%	\$ 15,025	5.00%
Tier 1 risk-based capital ratio (2)	29,209	13.24%	8,824	4.00%	13,237	6.00%
Total risk-based capital ratio (3)	30,168	13.68%	17,642	8.00%	22,053	10.00%

-
- (1) Tier 1 leverage capital ratio is calculated by dividing Tier 1 capital by average assets.
 - (2) Tier 1 risk-based capital ratio is calculated by dividing Tier 1 capital by risk-weighted assets.
 - (3) Total risk-based capital ratio is calculated by dividing total capital by risk-weighted assets.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market Risk

Market risk is the risk that the market value or estimated fair value of the Company's assets, liabilities, and derivative financial instruments will decline as a result of changes in interest rates or financial market volatility, or that the Company's net income will be significantly reduced by interest-rate changes.

Interest-Rate Risk

The principal market risk facing the Company is interest-rate risk, which can come in a variety of forms, including repricing risk, yield-curve risk, basis risk, and prepayment risk. Repricing risk exists when the change in the average yield of either interest-earning assets or interest-bearing liabilities is more sensitive than the other to changes in market interest rates. Such a change in sensitivity could reflect a number of possible mismatches in the repricing opportunities of the Company's assets and liabilities. Yield-curve risk reflects the possibility that the changes in the shape of the yield curve could have different effects on the Company's assets and liabilities. Basis risk exists when different parts of the balance sheet are subject to varying base rates reflecting the possibility that the spread from those base rates will deviate. Prepayment risk is associated with financial instruments with an option to prepay before the stated maturity often at a time of disadvantage to person selling the option; this risk is most often associated with the prepayment of loans, callable investments, and callable borrowings.

Asset/Liability Management

Market risk and interest-rate risk management is governed by the Company's Asset/Liability Committee (ALCO). The ALCO establishes exposure limits that define the Company's tolerance for interest-rate risk. The ALCO and Treasury Group measure and manage the composition of the balance sheet over a range of possible changes in interest rates while remaining responsive to market demand for loan and deposit products. The ALCO monitors current exposures versus limits and reports results to the Board of Directors. The policy limits and guidelines serve as benchmarks for measuring interest-rate risk and for providing a framework for evaluation and interest-rate risk-management decision-making. The Company measures its interest-rate risk by using an asset/liability simulation model. The model considers several factors to determine the Company's potential exposure to interest-rate risk, including measurement of repricing gaps, duration, convexity, value-at-risk, and the market value of portfolio equity under assumed changes in the level of interest rates, the shape of yield curves, and general market volatility.

Management controls the Company's interest-rate exposure using several strategies, which include adjusting the maturities of securities in the Company's investment portfolio, limiting or expanding the terms of loans originated, limiting fixed-rate deposits with terms of more than five years and adjusting maturities of FHLBB advances. The Company limits this risk by restricting the types of MBSs it invests in to those with limited average life changes under certain interest-rate-shock scenarios, or securities with embedded prepayment penalties. The Company also places limits on holdings of fixed-rate mortgage loans with maturities greater than five years. The Company also may use derivative instruments, principally interest-rate swaps, to manage its interest-rate risk; however, the Company had no derivative fair value hedges or derivative cash flows at September 30, 2013 or December 31, 2012. See Note 8, Derivatives and Hedging Activities, to the unaudited consolidated financial statements.

Table of Contents**Measuring Interest-Rate Risk**

As noted above, interest-rate risk can be measured by analyzing the extent to which the repricing of assets and liabilities are mismatched to create an interest-rate sensitivity gap. An asset or liability is said to be interest-rate sensitive within a specific period if it will mature or reprice within that period. 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 that same time period. A gap is considered positive when the amount of interest-rate-sensitive assets exceeds the amount of interest-rate-sensitive liabilities. A gap is considered negative when the amount of interest-rate-sensitive liabilities exceeds the amount of interest-rate-sensitive assets. During a period of falling interest rates, therefore, a positive gap would tend to adversely affect net interest income. Conversely, during a period of rising interest rates, a positive gap position would tend to result in an increase in net interest income.

Income simulation is the primary tool for measuring the interest-rate risk inherent in the Company's balance sheet at a given point in time by showing the effect on net interest income, over a twelve-month period, of a variety of interest-rate shocks. These simulations take into account repricing, maturity and prepayment characteristics of individual products. The ALCO reviews simulation results to determine whether the exposure resulting from changes in market interest rates remains within established tolerance levels over a twelve-month horizon, and develops appropriate strategies to manage this exposure. The Company's interest-rate risk analysis remains modestly asset-sensitive at September 30, 2013.

At September 30, 2013, net interest income simulation indicated that the Company's exposure to changing interest rates was within established tolerances. The ALCO reviews the methodology utilized for calculating interest-rate risk exposure and may periodically adopt modifications to this methodology. The following table presents the estimated impact of interest-rate shocks on the Company's estimated net interest income over the twelve-month periods indicated:

Gradual Change in Interest Rate Levels	Estimated Exposure to Net Interest Income over Twelve-Month Horizon Beginning						
	September 30, 2013		December 31, 2012		September 30, 2012		
	Dollar Change	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change	
			(Dollars in Thousands)				
Up 200%	\$ 1,643	0.91%	\$ 1,513	0.86%	\$ 2,851	1.65%	
Up 100%	794	0.44%	713	0.41%	1,264	0.73%	
Down 100%	(2,426)	-1.35%	(39)	-0.02%	(44)	-0.03%	

The Company also uses interest-rate sensitivity gap analysis to provide a more general overview of its interest-rate risk profile. At September 30, 2013, the Company's one-year cumulative gap was a negative \$621.6 million, or negative 11.9% of total assets, compared with a negative \$502.3 million, or 9.8% of total assets at December 31, 2012 and a negative \$486.5 million, or 9.8% of total assets at September 30, 2012.

For additional discussion on interest-rate risk see Item 7A, Quantitative and Qualitative Disclosures about Market Risk on pages 83 to 86 of the Company's 2012 Annual Report on Form 10-K.

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

The assumptions used in the Company's interest-rate sensitivity simulation discussed above are inherently uncertain and, as a result, the simulations cannot precisely measure net interest income or precisely predict the impact of changes in interest rates.

Economic Value of Equity (EVE) at Risk Simulation is conducted in tandem with net interest income simulations, to ascertain a longer term view of the Company's interest-rate risk position by capturing longer-term repricing risk and options risk embedded in the balance sheet. It measures the sensitivity of the economic value of equity to changes in interest rates. The EVE at Risk Simulation values only the current balance sheet and does not incorporate growth assumptions. As with the net interest income simulation, this simulation captures product characteristics such as loan resets, repricing terms, maturity dates, and rate caps and floors. Key assumptions include loan prepayment speeds, deposit pricing elasticity and non-maturity deposit attrition rates. These assumptions can have significant impacts on valuation results as the assumptions remain in effect for the entire life of each asset and liability. The Company conducts non-maturity deposit behavior studies on a periodic basis to support deposit assumptions used in the valuation process. All key assumptions are subject to a periodic review.

EVE at Risk is calculated by estimating the net present value of all future cash flows from existing assets and liabilities using current interest rates as well as parallel shocks to the current interest-rate environment. The following table sets forth the estimated percentage change in the Company's EVE at Risk, assuming various

Table of Contents

shifts in interest rates. Given the interest rate environment at September 30, 2013, simulations for interest rate declines of more than 100 basis points were not deemed to be meaningful.

Parallel Shock in Interest Rate Levels	Estimated Percent Change in Economic Value of Equity	
	September 30, 2013	
Up 300%		-7.51%
Up 200%		-7.97%
Up 100%		-5.61%
Down 100%		4.18%

Item 4. Controls and Procedures**Controls and Procedures**

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness 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 Chief Financial Officer considered that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In conjunction with the Company's core systems conversions and its ongoing consolidation of its subsidiary banks' back-office operations, shared services, and policies and procedures, the Company continues to focus on consolidating and enhancing internal controls over financial reporting. 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 and detrimentally affected, or is reasonably likely to materially and detrimentally affect, the Company's internal controls over financial reporting.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control system was designed to provide reasonable assurance to its management and the Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. The Company's management assessed the effectiveness of its internal control over financial reporting as of the end of the period covered by this report.

Management's Report on Internal Control Over Financial Reporting as of December 31, 2012 and the related Report of Independent Registered Public Accounting Firm thereon appear on pages F-1 and F-2 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings other than those that arise in the normal course. 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

In addition to the risk factor discussed below and other information set forth in this report, you should carefully consider the factors discussed in Item 1A of the Company's Form 10-K for the year ended December 31, 2012.

We will become subject to more stringent capital requirements.

The Dodd-Frank Consumer Protection and Wall Street Reform Act (the Dodd-Frank Act) requires the federal banking agencies to establish minimum leverage and risk-based capital requirements for insured banks and their holding companies. The federal banking agencies issued a joint final rule, or the Final Capital Rule, that implements the Basel III capital standards and establishes the minimum capital levels required under the Dodd-Frank Act. We must comply with the Final Capital Rule by January 1, 2015. The Final Capital Rule establishes a minimum common equity Tier I capital ratio of 6.5% of risk-weighted assets for a well-capitalized institution and increases the minimum Tier I capital ratio for a well-capitalized institution from 6% to 8%. Additionally, the Final Capital Rule requires an institution to maintain a 2.5% common equity Tier I capital conservation buffer to avoid restrictions on the ability to pay dividends, discretionary bonuses, and engage in share repurchases. The Final Capital Rule permanently grandfathered trust-preferred securities issued before May 19, 2010 for institutions with less than \$15.0 billion in total assets as of December 31, 2009, subject to a limit of 25% of Tier I capital. The Final Capital Rule increases the required capital for certain categories of assets, including high-volatility construction real estate loans and certain exposures related to securitizations; however, the Final Capital Rule retains the current capital treatment of residential mortgages. Under the Final Capital Rule, we may make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. If we do not make this election, unrealized gains and losses will be included in the calculation of our regulatory capital. Implementation of these standards, or any other new regulations, may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our results of operations or financial condition.

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

- a) Not applicable.

b) Not applicable.

c) None.

Item 3. Defaults Upon Senior Securities

a) None.

b) None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

Exhibits

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 September 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012; (ii) Unaudited Consolidated Statements of Income for the three months and nine months ended September 30, 2013 and 2012; (iii) Unaudited Consolidated Statements of Comprehensive Income for the three months and nine months ended September 30, 2013 and 2012; (iv) Unaudited Consolidated Statements of Changes in Equity for the nine months ended September 30, 2013 and 2012; (v) Unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012; and (vi) Notes to Unaudited Consolidated Financial Statements at and for the nine months ended September 30, 2013 and 2012.

* Filed herewith.

** Furnished herewith.

*** Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and Section 18 of the Securities Exchange Act of 1934, as amended.

Table of Contents

SIGNATURES

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

BROOKLINE BANCORP, INC.

Date: November 8, 2013

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

Date: November 8, 2013

By: /s/ Julie A. Gerschick
Julie A. Gerschick
Chief Financial Officer and Treasurer
(Principal Financial Officer)