

BROOKLINE BANCORP INC
Form 10-Q
November 09, 2011
[Table of Contents](#)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from to

Commission file number 0-23695

Brookline Bancorp, Inc.

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

04-3402944

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

160 Washington Street, Brookline, MA

(Address of principal executive offices)

02447-0469

(Zip Code)

(617) 730-3500

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

As of November 8, 2011, the number of shares of common stock, par value \$0.01 per share, outstanding was 59,206,447.

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>Financial Statements</u>	
<u>Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010</u>	1
<u>Consolidated Statements of Income for the three months and nine months ended September 30, 2011 and 2010</u>	2
<u>Consolidated Statements of Comprehensive Income for the three months and nine months ended September 30, 2011 and 2010</u>	3
<u>Consolidated Statements of Changes in Equity for the nine months ended September 30, 2011 and 2010</u>	4
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010</u>	6
<u>Notes to Unaudited Consolidated Financial Statements</u>	8
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	43
<u>Item 4.</u>	
<u>Controls and Procedures</u>	43
<u>Part II</u>	
<u>Other Information</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	44
<u>Item 1A.</u>	
<u>Risk Factors</u>	44
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
<u>Item 3.</u>	
<u>Defaults Upon Senior Securities</u>	45
<u>Item 4.</u>	
<u>(Removed and Reserved)</u>	45
<u>Item 5.</u>	
<u>Other Information</u>	45
<u>Item 6.</u>	
<u>Exhibits</u>	45
<u>Signatures</u>	46

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

	September 30, 2011	December 31, 2010
	(unaudited)	
<u>ASSETS</u>		
Cash and due from banks	\$ 22,919	\$ 18,451
Short-term investments	82,962	47,457
Securities available for sale	253,510	304,540
Restricted equity securities	39,283	36,335
Loans	2,662,076	2,253,538
Allowance for loan losses	(31,128)	(29,695)
Net loans	2,630,948	2,223,843
Accrued interest receivable	9,255	8,596
Bank premises and equipment, net	35,859	11,126
Deferred tax asset	11,840	10,206
Prepaid income taxes	2,498	78
Goodwill	46,203	43,241
Identified intangible assets, net of accumulated amortization of \$12,274 and \$11,081, respectively	5,591	1,871
Other assets	16,630	14,798
Total assets	\$ 3,157,498	\$ 2,720,542
<u>LIABILITIES AND EQUITY</u>		
Deposits	\$ 2,179,605	\$ 1,810,899
Federal Home Loan Bank advances	437,974	375,569
Other borrowed funds	6,947	13,000
Mortgagors' escrow accounts	6,943	5,843
Accrued expenses and other liabilities	21,042	17,283
Total liabilities	2,652,511	2,222,594
Equity:		
Brookline Bancorp, Inc. stockholders' equity:		
Preferred stock, \$0.01 par value; 50,000,000 shares authorized; none issued		
Common stock, \$0.01 par value; 200,000,000 shares authorized; 64,580,180 shares and 64,445,389 shares issued, respectively	644	644
Additional paid-in capital	525,012	524,515
Retained earnings, partially restricted	37,926	32,357
Accumulated other comprehensive income	2,540	2,348
Treasury stock, at cost - 5,373,733 shares	(62,107)	(62,107)
Unallocated common stock held by ESOP - 389,763 shares and 424,422 shares, respectively	(2,125)	(2,314)
Total Brookline Bancorp, Inc. stockholders' equity	501,890	495,443

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Noncontrolling interest in subsidiary	3,097	2,505
Total equity	504,987	497,948
Total liabilities and equity	\$ 3,157,498	\$ 2,720,542

See accompanying notes to the unaudited consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	(unaudited)			
Interest income:				
Loans	\$ 33,723	\$ 30,488	\$ 98,731	\$ 92,130
Debt securities	1,487	1,927	4,998	5,810
Short-term investments	28	32	77	76
Equity securities	48	4	141	40
Total interest income	35,286	32,451	103,947	98,056
Interest expense:				
Deposits	4,971	5,096	15,003	16,355
Borrowed funds	2,671	3,087	7,965	10,560
Total interest expense	7,642	8,183	22,968	26,915
Net interest income	27,644	24,268	80,979	71,141
Provision for credit losses	891	551	2,789	2,479
Net interest income after provision for credit losses	26,753	23,717	78,190	68,662
Non-interest income:				
Fees, charges and other income	1,732	927	4,698	2,885
Loss from investments in low income housing	(500)		(500)	
Penalty from prepayment of borrowed funds		(555)		(1,468)
Gain on sales of securities			80	834
Loss on impairment of securities				(49)
Total non-interest income	1,232	372	4,278	2,202
Non-interest expense:				
Compensation and employee benefits	8,091	5,895	22,697	17,008
Occupancy	1,637	1,128	4,510	3,373
Equipment and data processing	2,362	1,874	6,727	5,586
Professional services	1,406	668	3,653	2,599
FDIC insurance	536	418	1,422	1,246
Advertising and marketing	414	359	1,175	900
Amortization of identified intangible assets	443	306	1,193	918
Write-down of other real estate owned	719		719	
Other	1,471	1,245	4,309	3,960
Total non-interest expense	17,079	11,893	46,405	35,590
Income before income taxes	10,906	12,196	36,063	35,274
Provision for income taxes	4,324	4,923	14,604	14,239
Net income	6,582	7,273	21,459	21,035
Less net income attributable to noncontrolling interest in subsidiary	307	235	916	561
Net income attributable to Brookline Bancorp, Inc.	\$ 6,275	\$ 7,038	\$ 20,543	\$ 20,474

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Earnings per common share attributable to Brookline Bancorp, Inc.:					
Basic	\$	0.11	\$	0.12	\$ 0.35 \$ 0.35
Diluted		0.11		0.12	0.35 0.35

Weighted average common shares outstanding during the period:					
Basic		58,640,775	58,586,274	58,627,311	58,571,938
Diluted		58,640,973	58,588,536	58,630,124	58,576,080

See accompanying notes to the unaudited consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	(unaudited)			
Net income	\$ 6,582	\$ 7,273	\$ 21,459	\$ 21,035
Other comprehensive income, net of taxes:				
Unrealized securities holding gains (losses) excluding non-credit gain (loss) on impairment of securities	(1,131)	880	407	3,388
Non-credit gain (loss) on impairment of securities	1	1	7	(21)
Net unrealized securities holding gains (losses) before income taxes	(1,130)	881	414	3,367
Income tax (expense) benefit	419	(307)	(162)	(1,228)
Net unrealized securities holding gains (losses)	(711)	574	252	2,139
Adjustment of accumulated obligation for postretirement benefits	(5)	(5)	(15)	(15)
Income tax benefit	2	2	6	6
Net adjustment of accumulated obligation for postretirement benefits	(3)	(3)	(9)	(9)
Net unrealized holding gains (losses)	(714)	571	243	2,130
Less reclassification adjustment for securities gains (losses) included in net income:				
Gain on sales of securities			80	834
Impairment loss on securities				(49)
Income tax expense			(29)	(282)
Net securities gains included in net income			51	503
Net other comprehensive income (loss)	(714)	571	192	1,627
Comprehensive income	5,868	7,844	21,651	22,662
Net income attributable to noncontrolling interest in subsidiary	(307)	(235)	(916)	(561)
Comprehensive income attributable to Brookline Bancorp, Inc.	\$ 5,561	\$ 7,609	\$ 20,735	\$ 22,101

See accompanying notes to the unaudited consolidated financial statements.

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

	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	Non- Controlling Interest in Subsidiary	Total Equity
Balance at December 31, 2009	\$ 644	\$ 523,736	\$ 25,420	\$ 2,201	\$ (62,107)	\$ (2,577)	\$ 487,317	\$ 2,106	\$ 489,423
Net income attributable to Brookline Bancorp, Inc.			20,474				20,474		20,474
Net income attributable to noncontrolling interest in subsidiary								561	561
Distribution to owners of noncontrolling interest in subsidiary								(481)	(481)
Issuance of units of ownership to minority owners of subsidiary								111	111
Other comprehensive income				1,627			1,627		1,627
Common stock dividends of \$0.255 per share			(14,957)				(14,957)		(14,957)
Expense of stock options granted		248					248		248
Income tax benefit from vesting of recognition and retention plan shares and dividend distributions on allocated ESOP shares		129					129		129
Compensation under recognition and retention plan		60					60		60
Common stock held by ESOP committed to be released (36,135 shares)		163				196	359		359
Balance at September 30, 2010	\$ 644	\$ 524,336	\$ 30,937	\$ 3,828	\$ (62,107)	\$ (2,381)	\$ 495,257	\$ 2,297	\$ 497,554

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

	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	Non- Controlling Interest in Subsidiary	Total Equity
Balance at December 31, 2010	\$ 644	\$ 524,515	\$ 32,357	\$ 2,348	\$ (62,107)	\$ (2,314)	\$ 495,443	\$ 2,505	\$ 497,948
Net income attributable to Brookline Bancorp, Inc.			20,543				20,543		20,543
Net income attributable to noncontrolling interest in subsidiary								916	916
Distributions to owners of noncontrolling interest in subsidiary								(585)	(585)
Issuance of units of ownership to minority owners of subsidiary								102	102
Minority owners interest in deferred tax asset related to subsidiary								159	159
Other comprehensive income				192			192		192
Common stock dividends of \$0.255 per share			(14,974)				(14,974)		(14,974)
Expense of stock options granted		45					45		45
Income tax benefit from vesting of recognition and retention plan shares and dividend distributions on allocated ESOP shares		79					79		79
Compensation under recognition and retention plan		237					237		237
Common stock held by ESOP committed to be released (34,659 shares)		136				189	325		325

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Balance at September 30, 2011	\$	644	\$	525,012	\$	37,926	\$	2,540	\$	(62,107)	\$	(2,125)	\$	501,890	\$	3,097	\$	504,987
-------------------------------	----	-----	----	---------	----	--------	----	-------	----	----------	----	---------	----	---------	----	-------	----	---------

See accompanying notes to the unaudited consolidated financial statements.

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

	2011	Nine months ended September 30, (unaudited)	2010
Cash flows from operating activities:			
Net income attributable to Brookline Bancorp, Inc.	\$ 20,543		\$ 20,474
Adjustments to reconcile net income to net cash provided by operating activities:			
Net income attributable to noncontrolling interest in subsidiary	916		561
Provision for credit losses	2,789		2,479
Nonaccretable discount recognized as interest income	(100)		
Depreciation and amortization	1,490		1,164
Net amortization of securities premiums and discounts	1,745		1,640
Amortization of deferred loan origination costs	7,218		7,043
Amortization of identified intangible assets	1,193		918
Amortization (accretion) of acquisition fair value adjustments, net	594		(10)
Amortization of mortgage servicing rights	17		13
Gain on sales of securities	(80)		(834)
Loss on impairment of securities			49
Write-down of other real estate owned	719		
Write-down of assets acquired	134		186
Compensation under recognition and retention plan	237		60
Release of ESOP shares	325		359
Deferred income taxes	832		226
(Increase) decrease in:			
Accrued interest receivable	77		481
Prepaid income taxes	(2,261)		(782)
Other assets	3,118		(1,051)
Increase (decrease) in:			
Income taxes payable	421		(1,115)
Accrued expenses and other liabilities	(3,263)		1,142
Net cash provided from operating activities	36,664		33,003
Cash flows from investing activities:			
Proceeds from sales of securities available for sale	124		2,537
Proceeds from principal repayments of securities available for sale	110,748		142,980
Proceeds from principal repayments of securities held to maturity			25
Purchase of securities available for sale	(45,179)		(161,393)
Net increase in loans	(216,922)		(34,956)
Sale of other real estate owned	260		
Acquisition, net of cash and cash equivalents acquired	5,792		
Purchase of restricted equity securities	(182)		
Purchase of bank premises and equipment	(16,677)		(1,901)
Net cash used for investing activities	(162,036)		(52,708)

(Continued)

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

	2011	Nine months ended September 30, (unaudited)	2010
Cash flows from financing activities:			
Increase in demand deposits and NOW, savings and money market savings accounts	\$ 198,692	\$	170,565
Decrease in certificates of deposit	(42,416)		(43,981)
Proceeds from Federal Home Loan Bank advances	3,083,851		265,900
Repayment of Federal Home Loan Bank advances	(3,036,618)		(360,418)
Repayment of subordinated debt	(13,000)		
Decrease in other borrowings	(10,384)		
Proceeds from federal funds purchased			4,000
Increase in mortgagors' escrow accounts	553		287
Income tax benefit from vesting of recognition and retention plan shares and payment of dividend distributions on allocated ESOP shares	79		129
Expense of stock options granted	45		248
Payment of dividends on common stock	(14,974)		(14,957)
Payment of dividend to owners of noncontrolling interest in subsidiary	(585)		(481)
Purchase of additional interest in subsidiary	102		111
Net cash provided from financing activities	165,345		21,403
Net increase in cash and cash equivalents	39,973		1,698
Cash and cash equivalents at beginning of period	65,908		66,521
Cash and cash equivalents at end of period	\$ 105,881	\$	68,219
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest on deposits and borrowed funds	\$ 24,599	\$	27,388
Income taxes	15,542		15,778
Transfer from loans to other real estate owned	2,536		
Acquisition of First Ipswich Bancorp:			
Assets acquired (excluding cash and cash equivalents)	\$ 246,154	\$	
Liabilities assumed	251,946		

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Nine Months Ended September 30, 2011 and 2010

(Unaudited)

(1) Basis of Presentation and Recent Accounting Pronouncements

Basis of Presentation

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

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

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

Recent Accounting Pronouncements

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

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

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

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

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

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Nine Months Ended September 30, 2011 and 2010

(Unaudited)

No. 2011-05 only deals with presentation requirements, the adoption of ASU No. 2011-05 in January 2012, is not expected to have any impact on the Company's financial statements. The FASB recently announced the addition of a FASB agenda project to consider deferring certain aspects of ASU No. 2011-05, Presentation of Comprehensive Income related to the presentation of reclassification adjustments from other comprehensive income to net income.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles Goodwill and Other (Topic 350). ASU No. 2011-08 applies to all entities that have goodwill reported in their financial statements. Under the amendments, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. An entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of ASU No. 2011-08, in January 2012, is not expected to have a material impact on the Company's financial statements.

(2) Acquisitions (Dollars in thousands except share data or unless otherwise noted)

First Ipswich Bancorp

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

Total consideration paid in the acquisition consisted of approximately \$19.7 million in cash. The assets acquired and the liabilities assumed in the acquisition were recorded by the Company at their estimated fair values as of the Acquisition Date and the Company's consolidated results of operations for the nine months ended September 30, 2011 include the results of Ipswich since the Acquisition Date. Expenses relating to the

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

transaction amounted to \$224 and were recorded in professional services expense in the seven months ended September 30, 2011. The revenue and net income of Ipswich since the Acquisition Date included in the Company's consolidated statement of income for the nine months ended September 30, 2011 and the revenue and net income of the combined entity had the acquisition date been January 1, 2010 are as follows:

		Revenue	Net income
Ipswich	Actual for the seven months ended September 30, 2011	\$ 8,149	\$ 414
Supplemental pro forma:			
	Nine months ended September 30, 2011	110,493	20,493
	Nine months ended September 30, 2010	111,364	18,755

Supplemental pro forma net income for the nine months ended September 30, 2011 was adjusted to exclude \$1,556 (\$1,124 on an after-tax basis) of acquisition-related expenses incurred in that period and to include \$254 (\$149 on an after-tax basis) of net expense resulting from fair value adjustments. Pro forma net income for the nine months ended September 30, 2010 was adjusted to include \$1,556 (\$1,124 on an after-tax basis) of acquisition-related expenses and \$1,197 (\$704 on an after-tax basis) of net expense resulting from fair value adjustments. The goodwill represents the future economic benefits arising from other assets acquired that are not individually identified and separately recognized. None of the goodwill is expected to

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

be deductible for income tax purposes. The supplemental pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the financial results of the combined companies had the acquisition been completed at the beginning of the periods presented, nor is it indicative of future results for any other interim or full year period.

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

Assets:		
Cash and cash equivalents	\$	25,463
Securities available for sale		15,903
Restricted equity securities		2,766
Loans, net		203,119
Bank premises and equipment		9,618
Goodwill		2,962
Core deposit intangible		4,913
Deferred tax asset		2,593
Other assets		4,280
Total assets		271,617
Liabilities:		
Deposits		212,235
Federal Home Loan Bank advances		15,247
Other borrowings		17,331
Other liabilities		7,133
Total liabilities		251,946
Net assets acquired	\$	19,671

Goodwill resulting from the acquisition was determined as follows:

Cash paid in acquisition	\$	19,671
Ipswich stockholders' equity at acquisition date	\$	13,605
Adjustments to record assets acquired at fair value:		
Loans	\$	869
Bank premises and equipment		1,653
Reversal of existing goodwill		(628)

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Reversal of existing core deposit intangible	(236)	
Core deposit intangible	4,913	
Other assets	(142)	
	6,429	
Adjustments to record liabilities assumed at fair value:		
Deposits	345	
Borrowed funds	246	
Deferred income tax liability	2,333	
Other liabilities	401	
	3,325	
Net effect of fair value adjustments	3,104	
Fair value of net assets acquired		16,709
Goodwill resulting from acquisition		\$ 2,962

A net deferred tax liability totaling \$2,333 was established in connection with recording the related acquisition accounting adjustments (other than goodwill). Fair value adjustments to assets acquired and liabilities assumed are being amortized or accreted on a straight-line basis over periods consistent with the average life, useful life and/or contractual term of the related assets and liabilities. The core deposit intangible is being amortized over 11 years using an accelerated amortization method reflective of the manner in which the related benefit attributable to the deposits will be recognized.

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Nine Months Ended September 30, 2011 and 2010

(Unaudited)

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

Loans

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

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

Deposits

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

Federal Home Loan Bank Advances and Other Borrowings

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

Other Liabilities

The liability for pension payments to be made to two long-time retired executive officers of Ipswich was increased to the present value of future payments to be made to them based on their actuarially determined life expectancy.

Bancorp Rhode Island, Inc.

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

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

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

approximately 11.0 million shares of Company common stock. Elections will be subject to allocation procedures that are intended to insure that approximately 50% of the outstanding shares of Bancorp Rhode Island will be converted into Company common stock.

As of September 30, 2011, Bancorp Rhode Island and its subsidiaries had total assets of approximately \$1.6 billion, including total loans and leases of approximately \$1.1 billion, total deposits of approximately \$1.1 billion and total shareholders' equity of approximately \$139 million. BankRI is a full-service commercial bank with 17 branches in Rhode Island.

(3) Investment Securities (Dollars in thousands)

Securities available for sale are summarized below:

	September 30, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Debt securities:				
U.S. Government-sponsored enterprises	\$ 114,426	\$ 760	\$ 22	\$ 115,164
Municipal obligations	1,247	60	2	1,305
Auction rate municipal obligations	2,900		220	2,680
Corporate obligations	49,140	573	1,179	48,534
Collateralized mortgage obligations issued by U.S. Government-sponsored enterprises	3,407	98	9	3,496
Mortgage-backed securities issued by U.S. Government-sponsored enterprises	76,950	3,661	14	80,597
Private-label mortgage-backed securities	371	23	4	390
SBA commercial loan asset-backed securities	469	1	1	469
Total debt securities	248,910	5,176	1,451	252,635
Marketable equity securities	833	42		875
Total securities available for sale	\$ 249,743	\$ 5,218	\$ 1,451	\$ 253,510

	December 31, 2010		
	Amortized cost	Gross unrealized gains	Gross unrealized losses
			Estimated fair value

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Securities available for sale:

Debt securities:

U.S. Government-sponsored enterprises	\$	152,036	\$	465	\$	736	\$	151,765
Municipal obligations		750		41				791
Auction rate municipal obligations		3,200				235		2,965
Corporate obligations		46,312		1,197		788		46,721
Collateralized mortgage obligations issued by U.S. Government-sponsored enterprises		1,297		8				1,305
Mortgage-backed securities issued by U.S. Government-sponsored enterprises		97,146		3,415				100,561
Total debt securities		300,741		5,126		1,759		304,108
Marketable equity securities		366		66				432
Total securities available for sale	\$	301,107	\$	5,192	\$	1,759	\$	304,540

Debt securities of U.S. Government-sponsored enterprises include obligations issued by the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Government National Mortgage Association (GNMA), the Federal Home Loan Banks and the Federal Farm Credit Bank. At September 30, 2011, none of those obligations is backed by the full faith and credit of the U.S. Government, except for \$1,877 of GNMA mortgage-backed securities and collateralized mortgage obligations. The SBA commercial loan asset-backed securities are also backed by the full faith and credit of the U.S. Government.

[Table of Contents](#)**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Nine Months Ended September 30, 2011 and 2010****(Unaudited)**

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

	Amortized cost	Available for sale Estimated fair value
Within 1 year	\$ 23,753	\$ 24,002
After 1 year through 5 years	134,244	135,577
After 5 years through 10 years	72,956	75,929
Over 10 years	17,957	17,127
	\$ 248,910	\$ 252,635

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

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

	Less than 12 months Fair value	Unrealized losses	September 30, 2011 12 months or longer Fair value	Unrealized losses	Total Fair value	Unrealized losses
Debt securities:						
U.S. Government-sponsored enterprises	\$ 12,472	\$ 22	\$	\$	\$ 12,472	\$ 22
Municipal obligations	201	2			201	2
Auction rate municipal obligations			2,680	220	2,680	220
Corporate obligations:						
With other-than-temporary impairment loss			72	70	72	70
Without other-than-temporary impairment loss	6,731	492	1,773	617	8,504	1,109
Collateralized mortgage obligations	840	9			840	9
Mortgage-backed securities	1,843	14			1,843	14
	103	4			103	4

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Private-label mortgage-backed securities

SBA commercial loan asset-backed securities

	38	1			38	1
Total debt securities	22,228	544	4,525	907	26,753	1,451
Marketable equity securities						
Total temporarily impaired securities	\$ 22,228	\$ 544	\$ 4,525	\$ 907	\$ 26,753	\$ 1,451

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

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

At September 30, 2011, the Company did not intend to sell any of its debt securities and it is not likely that it will be required to sell the debt securities before the anticipated recovery of their remaining amortized cost. The unrealized losses on all debt securities within the securities portfolio without other-than-temporary impairment loss were considered by management to be temporary in nature. Full collection of those debt securities is expected because the financial condition of the issuers is considered to be sound, there has been no default in scheduled payments and the debt securities are rated investment grade except corporate obligations with an estimated fair value of \$2,085 and unrealized losses of \$645.

At September 30, 2011, corporate obligations included a debt security comprised of a pool of trust preferred securities issued by several financial institutions. Two of the issuers, representing 66% of the pool, have deferred regularly scheduled interest payments. Due to the lack of an orderly market for the debt security, its fair value was determined to be \$72 at September 30, 2011 and the unrealized loss on the security, based on an analysis of projected cash flows, was recognized as a charge to comprehensive income. Based on prior analyses of projected cash flows of this debt security, \$49 was charged to earnings as a credit loss in the first quarter of 2010 and \$69 was charged to earnings as a credit loss in the year 2009. On November 1, 2011, one of the issuers, representing 61% of the pool, announced it had signed a definitive agreement to sell its wholly-owned bank subsidiary and that it expects to pay all accrued interest to its trust preferred securities holders at the next scheduled payment date subsequent to closing of the sale.

A summary of the portion of impairment loss on debt securities recognized in earnings for which a portion of the other-than-temporary impairment was recognized in other comprehensive income follows:

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

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Nine Months Ended September 30, 2011 and 2010****(Unaudited)****(4) Restricted Equity Securities (Dollars in thousands, except for figures referred to in millions)**

Restricted equity securities are as follows:

	September 30, 2011	December 31, 2010
Federal Home Loan Bank of Boston stock	\$ 37,914	\$ 35,960
Federal Reserve Bank stock	994	
Massachusetts Savings Bank Life Insurance Company stock	253	253
Other stock	122	122
	\$ 39,283	\$ 36,335

As a voluntary member of the Federal Home Loan Bank of Boston (FHLB), the Company is required to invest in stock of the FHLB in an amount ranging from 3% to 4.5% of its outstanding advances from the FHLB, depending on the maturity of individual advances. Stock is purchased at par value. Upon redemption of the stock, which is at the discretion of the FHLB, the Company would receive an amount equal to the par value of the stock. On December 8, 2008, the FHLB placed a moratorium on all excess stock repurchases. At September 30, 2011, the Company's investment in FHLB stock exceeded its required investment by \$18,642.

On October 27, 2011, the FHLB announced preliminary unaudited financial results for the three months and nine months ending September 30, 2011 of \$50.0 million and \$94.9 million in net income, respectively. It previously reported net income of \$106.6 million in the year 2010. At September 30, 2011, the FHLB had retained earnings of \$336.1 million. Previously, the FHLB had set a retained earnings target of \$925.0 million, a target adopted in connection with the FHLB's revised operating plan to preserve capital in light of the various challenges to the FHLB, including the potential for realization of future losses primarily related to the FHLB's portfolio of held-to-maturity private-label mortgage-backed securities. The FHLB monitors its retained earnings target relative to the risks inherent in its balance sheet and operations, and has revised its retained earnings model periodically in an effort to better reflect trends and risks to the FHLB's net income stream that could result in further charges to retained earnings, including, but not limited to, the impact of losses in the FHLB's portfolio of private-label mortgage-backed securities.

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

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

meeting its retained earnings target over a five-year horizon and projected that the retained earnings target will be met within that time horizon. General economic developments more adverse than the FHLB's projections or other factors outside of the FHLB's control, however, could cause the FHLB to require additional time beyond the five year horizon to meet its retained earnings target.

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

The ability of the FHLB to pay dividends is subject to statutory and regulatory requirements. The FHLB has adopted a dividend payout restriction under which the FHLB may pay up to 50 percent of a prior quarter's net income while the FHLB's retained earnings are less than its targeted retained earnings level. On October 27, 2011, the FHLB board of directors declared a quarterly dividend equal to an annual yield of 0.30% to be paid on November 2, 2011. This represents the fourth consecutive quarter of dividend payments. No dividends were paid on FHLB stock in 2010.

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

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Nine Months Ended September 30, 2011 and 2010****(Unaudited)****(5) Loans (Dollars in thousands)**

A summary of loans follows:

	September 30, 2011	December 31, 2010
Commercial real estate loans:		
Commercial real estate mortgage	\$ 718,059	\$ 564,275
Multi-family mortgage	479,352	420,782
Construction	34,073	18,195
Total commercial real estate loans	1,231,484	1,003,252
Commercial loans:		
Commercial	155,246	96,735
Eastern Funding	231,389	203,816
Condominium association	43,862	42,399
Total commercial loans	430,497	342,950
Indirect automobile (auto) loans	558,728	541,053
Consumer loans:		
Residential mortgage	346,564	287,499
Home equity	73,696	58,621
Other consumer	5,531	4,966
Total consumer loans	425,791	351,086
Total loans excluding deferred loan origination costs	2,646,500	2,238,341
Deferred loan origination costs:		
Auto loans	12,977	12,636
Eastern Funding loans	1,094	1,202
Other loans	1,505	1,359
Total loans	\$ 2,662,076	\$ 2,253,538

(6) Allowance for Loan Losses (Dollars in thousands, except for figures referred to in millions)

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

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

		Nine months ended September 30,	
		2011	2010
Balance at beginning of period	\$	29,695	\$ 31,083
Provision for loan losses		3,114	2,479
Charge-offs		(2,358)	(4,016)
Recoveries		677	816
Balance at end of period	\$	31,128	\$ 30,362

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

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Nine Months Ended September 30, 2011 and 2010

(Unaudited)

Management has established a methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Company has segmented certain loans in the portfolio by product type into the following pools: (a) commercial real estate loans, (b) commercial loans, (c) auto loans and (d) consumer loans. Portfolio segments are further disaggregated into classes based on the associated risks within the segments. Commercial real estate loans are divided into the following three classes: commercial real estate mortgage loans, multi-family mortgage loans and construction loans. Commercial loans are divided into the following three classes: commercial loans, loans originated by Eastern Funding and loans to condominium associations. The auto loan segment is not divided into classes. Consumer loans are divided into three classes: residential mortgage loans, home equity loans and other consumer loans. For each class of loan, management makes significant judgments in selecting the estimation method that fits the credit characteristics of its class and portfolio segment.

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

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

Commercial Real Estate Loans

Commercial real estate loans are pooled by portfolio class. At September 30, 2011, loans outstanding in the three classes within this segment expressed as a percent of total loans outstanding (excluding deferred loan origination costs) were as follows: commercial real estate mortgage loans 27.1%, multi-family mortgage loans 18.1% and construction loans 1.3%. Loans in this portfolio segment that are on non-accrual status, troubled debt restructured loans and/or risk rated substandard or worse and which have an outstanding balance of \$500 and over are evaluated on an individual loan basis for impairment. For non-impaired commercial real estate loans, loss factors are applied to outstanding loans by risk rating for each of the three classes in the segment. The factors applied are based primarily on historic loan loss experience and an assessment of the internal and external factors mentioned above. Management has accumulated information on actual loan charge-offs and recoveries by class covering the past 26 years. The Company has a long history of low frequency of loss in these loan classes. As a result, determination of loss factors is based on considerable judgment by management, including evaluation of the risk characteristics related to current internal and external factors. Notable risk characteristics related to the commercial real estate mortgage and multi-family mortgage portfolios are the concentration in those classes of outstanding loans within the greater Boston metropolitan area, industry conditions and the effect the local economy could have on the collectability of those loans. Currently, the demand for multi-family apartments in the Boston metropolitan area is strong due to the limited supply of available apartments and strong demand from college students and older adults. Vacancy rates, however, are rising in retail and office properties.

While unemployment in Massachusetts is not as high as in other parts of the United States of America, it is nonetheless elevated. The medical and education industries, which are major employers in the greater Boston metropolitan area, may experience funding cutbacks by the federal government until there is improvement in the economy. Should the number of individuals employed in those industries decline or if total unemployment in the greater Boston metropolitan area remains elevated, the resulting negative consequences could affect occupancy rates in the properties financed by the Company and cause certain borrowers to be unable to service their debt obligations. At the end of the third quarter of 2011, the rate of unemployment in Massachusetts improved to 7.3% (preliminary estimate) from 7.6% at the end of the second quarter, 8.0% at the end of the first quarter and 8.3% a year ago.

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

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Nine Months Ended September 30, 2011 and 2010

(Unaudited)

Commercial Loans

Commercial loans are pooled by portfolio class. At September 30, 2011, loans outstanding in the three classes within this segment expressed as a percent of total loans outstanding (excluding deferred loan origination costs) were as follows: commercial loans 5.9%, Eastern Funding loans 8.7% and loans to condominium associations 1.7%.

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

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

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

Eastern Funding specializes in the financing of coin-operated laundry, dry cleaning and convenience store equipment and small businesses primarily in the greater New York/New Jersey metropolitan area, but also in locations throughout the United States of America. The loans are considered to be of higher risk because the borrowers are typically small business owners who operate with limited financial resources and are more likely to experience difficulties in meeting their debt obligations when the economy is weak or unforeseen adverse events arise. Among the factors taken into consideration in establishing the allowance for loan losses for this class were the annualized rate of growth of loans

outstanding (23% in 2010 and 18% in the first nine months of 2011), the decline in loans delinquent over 30 days from \$2.9 million (1.43% of loans outstanding) at December 31, 2010 to \$2.5 million (1.10%) at September 30, 2011, the decrease in the total of loans on watch, restructured loans and non-accrual loans from \$7.2 million at December 31, 2010 to \$6.3 million at September 30, 2011, and the decline in the annualized rate of net charge-offs, combined with write-downs of assets acquired, from 0.64% in the first nine months of 2010 to 0.34% in the first nine months of 2011. Part of the loan growth was attributable to the purchase of seasoned loans amounting to \$9.0 million in the third quarter of 2011 and \$11.8 in the third quarter of 2010.

Auto Loans

The auto loan portfolio segment is considered to be comprised of one class. At September 30, 2011, auto loans (excluding deferred loan origination costs) equaled 21.1% of the Company's total loan portfolio. Determination of the allowance for loan losses for this segment is based primarily on assessment of trends in loan underwriting, loan loss experience, the economy and industry conditions. Data are gathered on loan originations by year broken down into the following ranges of borrower credit scores: above 700, between 660 and 700, and below 660. Additionally, the migration of loan charge-offs and recoveries are analyzed by year of origination. Based on that data and taking into consideration other factors such as loan delinquencies and economic conditions, projections are made as to the amount of expected losses inherent in the segment.

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Nine Months Ended September 30, 2011 and 2010

(Unaudited)

Deterioration in the economy and rising unemployment caused higher levels of delinquencies and charge-offs in 2009 and 2008. As a result of tightened underwriting criteria, delinquencies and charge-offs declined thereafter. The annualized rate of net auto loan charge-offs based on the average balance of loans outstanding (excluding deferred loan origination costs) declined from 0.55% in the first three quarters of 2010 to 0.28% in the first three quarters of 2011. Auto loans delinquent over 30 days declined from \$7.6 million, or 1.41% of loans outstanding (excluding deferred loan origination costs), at December 31, 2010 to \$5.1 million (0.91%) at September 30, 2011. These favorable trends were the primary reasons for the reduction in the allowance for loan losses for this loan segment throughout 2010 and the first three quarters of 2011.

Consumer Loans

Consumer loans are pooled by portfolio class. At September 30, 2011, loans outstanding within the three classes within this segment expressed as a percent of total loans outstanding (excluding deferred loan origination costs) were as follows: residential mortgage loans 13.1%, home equity loans 2.8% and other consumer loans 0.2%. Loans within the three classes that become 90 days or more past due or are placed on non-accrual regardless of past due status are reviewed on an individual basis for impairment by assessing the net realizable value of underlying collateral and the economic condition of the borrower. For non-impaired loans, loss factors are applied to loans outstanding for each class. The factors applied are based primarily on historic loan loss experience, the value of underlying collateral, underwriting standards and trends in loan to value ratios, credit scores of borrowers, sales activity, selling prices, geographic concentrations and employment conditions.

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

Unallocated Allowance

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

because such an allocation would imply a degree of precision that does not exist.

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

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

	Commercial real estate	Commercial	Auto	Consumer	Unallocated	Total
<u>Allowance for loan losses</u>						
Balance at January 1, 2011	\$ 12,398	\$ 5,293	\$ 6,952	\$ 1,638	\$ 3,414	\$ 29,695
Provision (credit) for loan losses	601	359	113	(49)	29	1,053
Charge-offs		(339)	(620)	(1)		(960)
Recoveries		89	169	2		260
Balance at March 31, 2011	12,999	5,402	6,614	1,590	3,443	30,048
Provision (credit) for loan losses	1,680	(9)	(300)	48	(249)	1,170
Charge-offs		(143)	(463)			(606)
Recoveries		64	170	1		235
Balance at June 30, 2011	14,679	5,314	6,021	1,639	3,194	30,847
Provision for loan losses	308	535	14	14	20	891
Charge-offs	(30)	(185)	(575)	(2)		(792)
Recoveries		53	127	2		182
Balance at September 30, 2011	\$ 14,957	\$ 5,717	\$ 5,587	\$ 1,653	\$ 3,214	\$ 31,128
Ending balance:						
Impaired loans	\$	\$ 250	\$	\$ 35	\$	\$ 285
Non-impaired loans	\$ 14,957	\$ 5,467	\$ 5,587	\$ 1,618	\$ 3,214	\$ 30,843
<u>Loans</u>						
Ending balance	\$ 1,231,484	\$ 430,497	\$ 558,728	\$ 425,791	\$	\$ 2,646,500
Ending balance:						
Impaired loans	\$ 1,725	\$ 3,553	\$ 59	\$ 3,251	\$	\$ 8,588
Non-impaired loans	\$ 1,127,795	\$ 396,682	\$ 558,669	\$ 369,136	\$	\$ 2,452,282
Loans acquired with nonaccretable discount	\$ 101,964	\$ 30,262	\$	\$ 53,404	\$	\$ 185,630

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

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

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

Credit Quality Information

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

	Commercial real estate	Multi- family	Construction	Commercial	Eastern Funding	Condominium association	Other consumer
Loan rating:							
Pass	\$ 620,092	\$ 442,179	\$ 30,118	\$ 121,382	\$ 226,248	\$ 43,845	\$ 5,036
Criticized	15,349	21,430		3,602	5,141	17	
Acquired loans	82,618	15,743	3,955	30,262			495
	\$ 718,059	\$ 479,352	\$ 34,073	\$ 155,246	\$ 231,389	\$ 43,862	\$ 5,531

Auto

Credit score:

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Over 700	\$	469,191
661-700		67,862
660 and below		21,675
	\$	558,728

	Residential mortgage	Home equity
Loan-to-value ratio:		
Less than 50%	\$ 74,383	\$ 25,267
50% - 69%	119,860	19,491
70% - 79%	93,533	15,773
80% and over	15,795	3,249
Acquired loans	42,993	9,916
	\$ 346,564	\$ 73,696

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

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

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

Auto

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

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

Loan rating is the credit quality indicator used to monitor several loan classes. At the time of loan origination, a rating is assigned based on the financial strength of the borrower and the value of assets pledged as collateral. The officer responsible for handling each loan is required to initiate changes to risk ratings when changes in facts and circumstances occur that warrant an upgrade or downgrade in a loan rating. The reasonableness of loan ratings is assessed and monitored in several ways, including the periodic review of loans by credit personnel. Loans rated pass are performing in accordance with the terms of the loan and are less likely to result in loss because of the capacity of the borrower to pay and the adequacy of the value of assets pledged as collateral. Criticized loans include loans on watch, troubled debt restructured loans, loans on non-accrual and other impaired loans. These loans have a higher likelihood of loss. Depending on the size of a loan, loss exposure is evaluated on a loan by loan basis. As noted in the tables above, the total of commercial real estate loans classified as criticized increased from \$3.8 million at December 31, 2010 to \$15.3 million at September 30, 2011 and the total of multi-family loans classified as criticized increased from \$964 at December 31, 2010 to \$21.4 million at September 30, 2011. The increases resulted from the downgrading of loans to two borrowers. The downgrades were not because of newly emerging signs of weakness in the collectability of the loans, but rather because of the need to obtain more information about the global condition of the borrowers.

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

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

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

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

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

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

Age Analysis of Past Due Loans By Class

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

	31-60 days	61-90 days	Past due Greater than 90 days	Total	Current	Total loans	Loans past due greater than 90 days and accruing
Commercial real estate mortgage	\$ 1,877	\$ 955	\$ 2,443	\$ 5,275	\$ 630,166	\$ 635,441	\$ 2,443
Multi-family mortgage	488		2,544	3,032	460,577	463,609	1,171
Construction			550	550	29,568	30,118	550
Commercial	106	66	835	1,007	123,977	124,984	835
Commercial - Eastern Funding	730	586	1,232	2,548	228,841	231,389	
Condominium association			17	17	43,845	43,862	
Auto	4,622	384	59	5,065	553,663	558,728	
Residential mortgage	300	54	1,330	1,684	301,887	303,571	
Home equity			98	98	63,682	63,780	
Other consumer	4		11	15	5,021	5,036	
Acquired loans	195	443	2,757	3,395	182,587	185,982	
	\$ 8,322	\$ 2,488	\$ 11,876	\$ 22,686	\$ 2,623,814	\$ 2,646,500	\$ 4,999

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

	31-60 days	61-90 days	Past due Greater than 90 days	Total	Current	Total loans	Loans past due greater than 90 days and accruing
--	---------------	---------------	--	-------	---------	-------------	---

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Commercial real estate mortgage	\$	363	\$		\$	2,575	\$	2,938	\$	561,337	\$	564,275	\$	2,575
Multi-family mortgage		1,017				1,753		2,770		418,012		420,782		1,753
Construction										18,195		18,195		
Commercial						1,574		1,574		95,161		96,735		1,574
Commercial - Eastern Funding		1,264		1,062		595		2,921		200,895		203,816		
Condominium association				20				20		42,379		42,399		
Auto		6,999		447		158		7,604		533,449		541,053		
Residential mortgage		761						761		286,738		287,499		
Home equity		273						273		58,348		58,621		
Other consumer		38		6				44		4,922		4,966		
	\$	10,715	\$	1,535	\$	6,655	\$	18,905	\$	2,219,436	\$	2,238,341	\$	5,902

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

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

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

	At September 30, 2011			Three months ended September 30, 2011		Nine months ended September 30, 2011	
	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
With no related allowance recorded:							
Multi-family mortgage loans	\$ 1,373	\$ 1,373	\$	\$ 1,373	\$ 12	\$ 1,193	\$ 38
Construction loans	352	682		117		1,812	
Commercial loans Eastern Funding	2,768	2,822		2,898	37	2,894	94
Condominium association loans	17	17		6		2	
Auto loans	59	59		89		109	
Residential mortgage loans	2,827	2,827		3,337	34	3,956	113
Home equity loans	73	73		73	1	49	1
Other consumer loans	11	11		9		6	1
	7,480	7,864		7,902	84	10,021	247
With an allowance recorded:							
Commercial loans Eastern Funding	768	773	250	838	8	827	55
Residential mortgage loans	315	315	10	317	3	319	8
Home equity loans	25	25	25	25		25	1
	1,108	1,113	285	1,180	11	1,171	64
Total:							
Commercial real estate loans	1,725	2,055		1,490	12	3,005	38
Commercial loans	3,553	3,612	250	3,742	45	3,723	149
Auto loans	59	59		89		109	
Consumer loans	3,251	3,251	35	3,761	38	4,355	124
	\$ 8,588	\$ 8,977	\$ 285	\$ 9,082	\$ 95	\$ 11,192	\$ 311

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

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

Non-accrual Loans

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

	September 30, 2011	December 31, 2010
Commercial real estate mortgage	\$	\$
Multi-family mortgage	1,373	964
Construction		2,475
Commercial		
Commercial - Eastern Funding	1,892	2,478
Condominium association	17	

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Auto	59	158
Residential mortgage	1,330	1,363
Home equity	98	25
Other consumer	11	
Acquired loans	2,757	
Total	\$ 7,537	\$ 7,463

Table of Contents**BROOKLINE BANCORP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Nine Months Ended September 30, 2011 and 2010****(Unaudited)*****Troubled Debt Restructured Loans***

Modification of a loan is considered to be a troubled debt restructuring if a debtor is experiencing financial difficulties and the Company grants a concession to the debtor that it would not otherwise consider. The concession may include, but is not limited to, reduction of the stated interest rate of the loan, reduction of accrued interest, extension of the maturity date or reduction of the face amount or maturity amount of the debt. A concession has been granted when as a result of the restructuring, the Company does not expect to collect all amounts due, including interest at the original stated rate. A concession may have also been granted if the debtor is not able to access funds elsewhere at a market rate for debt with similar risk characteristics as the restructured debt. The Company's determination of whether a loan modification is troubled debt restructuring considers the individual facts and circumstances surrounding each modification.

The following tables set forth information pertaining to troubled debt restructurings that occurred during the three and nine months ended September 30, 2011.

	Three months ended			September 30, 2011			Nine months ended		
	Number of loans	Recorded investment At modification	At end of period	Number of loans	Recorded investment At modification	At end of period	Number of loans	Recorded investment At modification	At end of period
Commercial real estate loans		\$	\$	1	\$	1,725	\$	1,633	
Multi-family mortgage loans				1		29		29	
Construction loans									
Commercial Eastern Funding	6	534	527	11	1,376	1,316			
Auto loans									
Residential mortgage loans	2	358	358	8	1,699	1,696			
Home equity loans									
Other consumer loans	8	\$ 892	\$ 885	21	\$ 4,829	\$ 4,674			

There was no significant financial impact of the modification of performing or nonperforming loans for the nine months ended September 30, 2011. Allowances for loan losses associated with troubled debt restructurings are immaterial. There were no charge-offs to the loans included in the tables during the modification process.

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Of the \$4.7 million of loans modified during the nine-month period ended September 30, 2011, \$2.8 million were on accrual. The remaining balance of loans on non-accrual included commercial real estate loans of \$1.6 million, multi-family mortgage loans of \$29 and commercial loans at Eastern of \$262. Of the 21 modifications granted during the nine-month period ended September 30, 2011, subsequent defaults and re-modifications were as follows.

	Defaulted		Remodification	
	Number of loans	Recorded investment	Number of loans	Recorded investment
Commercial real estate loans		\$	1	\$ 1,633
Multi-family mortgage loans	1	29	1	29
Construction loans				
Commercial Eastern Funding	3	382	5	531
Auto loans				
Residential mortgage loans	2	491	4	988
Home equity loans				
Other consumer loans	6	\$ 902	11	\$ 3,181

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

A summary of deposits follows:

	September 30, 2011	December 31, 2010
Demand checking accounts	\$ 214,219	\$ 109,108
NOW accounts	116,206	120,599
Savings accounts	165,356	114,258
Money market savings accounts	875,877	675,328
Certificate of deposit accounts	807,947	791,606
Total deposits	\$ 2,179,605	\$ 1,810,899

(8) Borrowed Funds (Dollars in thousands)

Borrowed funds are comprised of the following:

	September 30, 2011	December 31, 2010
FHLB advances	\$ 437,974	\$ 375,569
Federal funds purchased		13,000
Repurchase agreements	6,947	
Total borrowed funds	\$ 444,921	\$ 388,569

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

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

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

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

Accumulated other comprehensive income at September 30, 2011 was comprised of (a) unrealized gains of \$2,387 (net of income taxes) on securities available for sale and (b) an unrealized gain of \$153 (net of income taxes) related to postretirement benefits. Accumulated other comprehensive income at December 31, 2010 was comprised of an unrealized gain of \$2,186 (net of income taxes) on securities available for sale and an unrealized gain of \$162 (net of income taxes) related to postretirement benefits. Reclassification amounts are determined using the average cost method. At September 30, 2011 and December 31, 2010, the resulting net income tax liability amounted to \$1,490 and \$1,363, respectively.

(10) Commitments and Contingencies (Dollars in thousands)

Loan Commitments

At September 30, 2011, the Company had outstanding commitments to originate loans of \$343,043, \$204,922 of which were commercial real estate mortgage loans, \$41,487 were multi-family mortgage loans, \$81,991 were commercial loans and \$14,643 were residential mortgage loans. Unused lines of credit available to customers were \$80,848, of which \$75,705 were equity lines of credit.

Legal Proceedings

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

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Nine Months Ended September 30, 2011 and 2010

(Unaudited)

(11) Dividend Declaration

On October 19, 2011, the Board of Directors of the Company approved and declared a regular quarterly cash dividend of \$0.085 per share payable on November 4, 2011 to stockholders of record on November 18, 2011.

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

Recognition and Retention Plan

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

Effective July 1, 2011, 139,791 shares of Company common stock were awarded under the 2011 RSP, 50% of which vest over three years with one-third of such shares vesting at each of the first, second and third anniversary dates of the awards. The remaining 50% of each award will vest three years after the award date based on the level of the Company's achievement of identified performance targets in comparison to the level of achievement of such identified performance targets by a defined peer group comprised of 22 financial institutions. The specific performance measure targets relate to return on assets, return on equity, asset quality and total return to stockholders (share price appreciation from date of award plus dividends paid as a percent of the Company's common stock share price on the date of award). If a participant leaves the Company prior to the third anniversary date of an award, any unvested shares will be forfeited. Dividends declared with respect to shares awarded will be held by the Company and paid to the participant only when the shares vest. During the three months ended September 30, 2011, 5,000 shares awarded under the 2011 RSP were forfeited.

The Company also has a recognition and retention plan, the "2003 RRP". Under the plan, shares of the Company's common stock were reserved for issuance as restricted stock awards to officers, employees and non-employee directors of the Company. On March 16, 2010, 7,470 shares were awarded which vested on March 16, 2011, on August 4, 2010, 25,000 shares were awarded which will vest on August 4, 2012, on October 6, 2010, 8,500 shares were awarded which will vest on October 6, 2012 and, on April 20, 2011, 2,500 shares were awarded which were subsequently forfeited during the three months ended September 30, 2011.

Total expense for shares awarded under the 2011 RSP and the 2003 RRP amounted to \$135, \$20, \$237 and \$60 for the three months and nine months ended September 30, 2011 and 2010, respectively. The compensation cost of non-vested RSP and RRP shares at September 30, 2011 is expected to be charged to expense as follows: \$172 during the three months ended December 31, 2011, \$468 in 2012 and \$366 in 2013. As of September 30, 2011, shares available for award under the 2003 RRP and 2011 RSP were 87,861 and 365,209, respectively.

Stock Option Plan

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

The exercise price of options awarded is the fair market value of the common stock of the Company on the date the award is made. Certain of the options include a reload feature whereby an optionee exercising an option by delivery of shares of common stock would automatically be granted an additional option at the fair market value of stock when such additional option is granted equal to the number of shares so delivered. If an individual to whom a stock option was granted ceases to maintain continuous service by reason of normal retirement, death or disability, or following a change in control, all options and rights granted and not fully exercisable become exercisable in full upon the happening of such an event and shall remain exercisable for a period ranging from three months to five years. On April 20, 2011, 2,500 options were awarded which were subsequently forfeited during the three months ended September 30, 2011. As of September 30, 2011, 1,391,655 options were available for award under the Company's 2003 Stock Option Plan.

Total expense for the stock option plan amounted to \$3, \$77, \$45 and \$248 for the three months and nine months ended September 30, 2011 and 2010, respectively.

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

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

Options outstanding at January 1, 2011	1,128,345
Options awarded at \$9.01 per option	2,500
Options forfeited at \$9.01 per option	(2,500)
Options forfeited at \$15.02 per option	(20,000)
Options outstanding at September 30, 2011	1,108,345
Exercisable as of September 30, 2011 at:	
\$ 9.00 per option	72,512
\$ 10.71 per option	52,333
\$ 10.78 per option	45,000
\$ 11.84 per option	50,000
\$ 12.91 per option	5,000
\$ 15.02 per option	876,000
	1,100,845
Aggregate intrinsic value of options outstanding and exercisable	\$
Weighted average exercise price per option outstanding	\$ 14.06
Weighted average exercise price per option exercisable	\$ 14.09
Weighted average fair value per option of options granted during the period	\$ 2.04
Weighted average remaining contractual life in years of options outstanding at end of period	3.4

Employee Stock Ownership Plan

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

A loan obtained by the ESOP from the Company to purchase Company common stock is payable in quarterly installments over 30 years and bears interest at 8.50% per annum. The loan can be prepaid without penalty. Loan payments are principally funded by cash contributions from the Bank, subject to federal tax law limits. The outstanding balance of the loan at September 30, 2011 and December 31, 2010, which was \$2,814 and \$3,002, respectively, is eliminated in consolidation.

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

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

At September 30, 2011, the ESOP held 389,763 unallocated shares at an aggregate cost of \$2,125; the market value of such shares at that date was \$3,005. For the nine months ended September 30, 2011 and 2010, \$325 and \$359, respectively, was charged to compensation expense based on the commitment to release to eligible employees 34,659 shares and 36,135 shares in those respective periods.

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

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

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

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

	Three months ended		September 30,		Nine months ended		September 30,	
	2011		2010		2011		2010	
Service cost	\$	20	\$	16	\$	61	\$	48
Interest cost		17		14		52		42
Prior service cost		(5)		(6)		(16)		(18)
Actuarial gain				(3)				(9)
Net periodic benefit costs	\$	32	\$	21	\$	97	\$	63

Benefits paid amounted to \$12 and \$8 for the nine months ended September 30, 2011 and 2010, respectively.

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

Regulations impose limitations on all capital distributions by savings institutions. Capital distributions include cash dividends, payments to repurchase or otherwise acquire the institution's shares, payments to shareholders of another institution in a cash-out merger and other distributions charged against capital. The regulations establish three tiers of institutions. An institution, such as Brookline, that exceeds all capital requirements before and after a proposed capital distribution (Tier 1 institution) may, after prior notice but without the approval of regulators, make capital distributions during a year up to 100% of its current year net income plus its retained net income for the preceding two years not previously distributed. Any additional capital distributions require regulatory approval. The Office of the Comptroller of the Currency (the OCC) has restricted Ipswich from paying dividends to the Company through the year 2013.

Common Stock Repurchases

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

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

Restricted Retained Earnings

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

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

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

	September 30, 2011		December 31, 2010	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial assets:				
Cash and due from banks	\$ 22,919	\$ 22,919	\$ 18,451	\$ 18,451
Short-term investments	82,962	82,962	47,457	47,457
Securities	292,793	292,793	340,875	340,875
Loans, net	2,630,948	2,643,276	2,223,843	2,253,412
Accrued interest receivable	9,255	9,255	8,596	8,596
Financial liabilities:				
Demand, NOW, savings and money market savings deposits	1,371,658	1,371,658	1,019,293	1,019,293
Certificates of deposit	807,947	815,641	791,606	795,210
Federal Home Loan Bank advances	437,974	451,125	375,569	379,646
Other borrowed funds	6,947	6,946	13,000	13,000

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

	Level 1	Level 2	Level 3	Total
Assets measured at fair value on a recurring basis:				
Securities available for sale:				
U.S. Government-sponsored enterprises	\$	\$ 115,164	\$	\$ 115,164
Municipal obligations		1,305		1,305
Auction rate municipal obligations			2,680	2,680
Corporate obligations		47,790	744	48,534
Collateralized mortgage obligations issued by U.S. Government-sponsored enterprises		3,496		3,496
Mortgage-backed securities issued by U.S. Government-sponsored enterprises		80,597		80,597
Private-label mortgage-backed securities		390		390

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

SBA commercial loan asset-backed securities			469			469
Marketable equity securities	875					875
Securities available for sale	\$ 875	\$ 249,211	\$ 3,424	\$ 253,510		
Assets measured at fair value on a non-recurring basis:						
Other real estate owned	\$	\$ 2,262	\$	\$ 2,262		
Reposessed vehicles		558		558		
Reposessed equipment		129		129		

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

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

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

The securities comprising the balance in the level 3 column at September 30, 2011 included the amortized cost of \$2,900 of auction rate municipal obligations and \$1,077 of pools of trust preferred obligations, all of which lacked quoted prices in active markets. Based on an evaluation of market factors, the fair value of the auction rate municipal obligations was estimated to be \$2,680 and, based on cash flow analyses, the fair value of the pools of trust preferred obligations was estimated to be \$744.

During the nine months ended September 30, 2011, the fair value of securities available for sale using significant unobservable inputs (level 3) decreased by \$179 as a result of a \$15 pay down of a trust preferred obligation, a \$300 pay down of an auction rate municipal obligation, offset by a \$121 net increase in the estimated fair value of the pools of trust preferred obligations and a \$15 net increase in the estimated fair value of auction rate municipal obligations.

During the nine months ended September 30, 2010, the fair value of securities available for sale using significant unobservable inputs (level 3) decreased by \$18. Auction rate municipal obligations increased \$25 due to a market valuation adjustment after a recent tender offer by one of the issuers of the obligations. Corporate obligations decreased as a result of a \$15 pay down of a trust preferred obligation and a \$28 net reduction in

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

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

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

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

Securities

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

Loans

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

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Nine Months Ended September 30, 2011 and 2010

(Unaudited)

Deposit Liabilities

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

Federal Home Loan Bank Advances

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

Other Financial Assets and Liabilities

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

Off-Balance Sheet Financial Instruments

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

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

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

Table of Contents

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

Forward Looking Statements

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

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

Forward-looking statements, implicitly and explicitly, include assumptions underlying the statements. While the Company believes the expectations reflected in its forward-looking statements are reasonable, the statements involve risks and uncertainties that are subject to change based on various factors, some of which are outside the control of the Company. The following factors, among others, could cause the Company's actual performance to differ materially from the expectations, forecasts and projections expressed in the forward-looking statements: general and local economic conditions, changes in interest rates, demand for loans, real estate values, deposit flows, regulatory considerations, competition, technological developments, retention and recruitment of qualified personnel, and market acceptance of the Company's pricing, products and services, as well as the other risks and uncertainties detailed in the Company's Annual Report on Form 10-K, as amended, and updated in the Company's Quarterly Reports on Form 10-Q and other filings submitted to the Securities and Exchange Commission. Forward-looking statements speak only as of the date on which they are made. The Company does not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made.

Executive Level Overview

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

Operating Highlights

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	(In thousands except per share amounts)			
Net interest income	\$	27,644	\$	24,268
			\$	80,979
			\$	71,141

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Provision for credit losses	891	551	2,789	2,479
Fees, charges and other income	1,732	927	4,698	2,885
Loss from investments in low income housing	(500)		(500)	
Penalty from prepayment of borrowed funds		(555)		(1,468)
Gain on sales of securities			80	834
Impairment loss on securities				(49)
Non-interest expense	17,079	11,893	46,405	35,590
Income before income taxes	10,906	12,196	36,063	35,274
Provision for income taxes	4,324	4,923	14,604	14,239
Net income attributable to noncontrolling interest in subsidiary	307	235	916	561
Net income attributable to Brookline Bancorp, Inc.	6,275	7,038	20,543	20,474
Basic earnings per common share	\$ 0.11	\$ 0.12	\$ 0.35	\$ 0.35
Diluted earnings per common share	0.11	0.12	0.35	0.35
Interest rate spread	3.44%	3.43%	3.44%	3.33%
Net interest margin	3.69%	3.76%	3.71%	3.70%

Table of Contents**Financial Condition Highlights**

	At September 30, 2011	At December 31, 2010 (In thousands)	At September 30, 2010
Total assets	\$ 3,157,498	\$ 2,720,542	\$ 2,660,398
Net loans	2,630,948	2,223,843	2,158,652
Deposits	2,179,605	1,810,899	1,760,271
Borrowed funds	444,921	388,569	378,234
Brookline Bancorp, Inc. stockholders' equity	501,890	495,443	495,257
Stockholders' equity to total assets	15.90%	18.21%	18.62%
Allowance for loan losses	\$ 31,128	\$ 29,695	\$ 30,362
Non-performing loans	7,537	7,463	5,144
Non-performing assets	10,486	8,166	6,022
Restructured loans on accrual	3,456	4,946	7,396

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

- Completion of the acquisition of First Ipswich Bancorp and its subsidiaries (Ipswich) effective February 28, 2011. As of that date, the acquisition added to the Company's balance sheet total assets of \$271 million, including total loans of \$203 million, total deposits of \$212 million, goodwill of \$3.0 million and a core deposit intangible of \$4.9 million. See note 2 of the Notes to Consolidated Financial Statements presented elsewhere herein for additional information regarding the acquisition.
- On April 19, 2011, the Company and Bancorp Rhode Island, Inc. (Bancorp Rhode Island) entered into a Merger Agreement pursuant to which Bancorp Rhode Island will merge with and into the Company (the Merger). See note 2 of the Notes to Consolidated Financial Statements presented elsewhere herein for information regarding the acquisition.
- Net income for the 2011 third quarter and the 2011 nine month period was reduced by \$487,000 (\$0.008 per share on a basic and diluted basis) and \$1,411,000 (\$0.024 per share on a basic and diluted basis), respectively, as a result of non-tax deductible professional fees and other expenses relating to the transactions mentioned above.
- Loan and deposit growth, excluding \$203 million of loans acquired and \$212 million of deposits assumed from First Ipswich Bancorp as of the February 28, 2011 acquisition date, was as follows (dollars in millions):

2011 third quarter		2011 nine month period	
Amount	Annualized growth rate	Amount	Annualized growth rate

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Loans

Commercial real estate loans	\$	60.6	20.7%	\$	120.7	12.0%
Commercial loans		33.0	33.2		52.6	15.3
Indirect automobile loans		(18.7)	(13.0)		17.7	3.3
Consumer loans		(1.2)	(1.1)		14.0	4.0
Total (excluding deferred loan origination costs)	\$	73.7	11.5%	\$	205.0	9.2%

Deposits

Transaction deposits	\$	34.5	10.3%	\$	198.7	26.0%
Certificates of deposit		(14.0)	(6.8)		(42.2)	(7.1)
Total	\$	20.5	3.8%	\$	156.5	11.5%

Part of the commercial loan growth in the 2011 third quarter resulted from the purchase of \$9.0 million of seasoned loans by Eastern Funding.

- Net interest margin 3.69% in the 2011 third quarter compared to 3.70% in the 2011 second quarter and 3.71% in the 2011 nine month period compared to 3.70% in the 2010 nine month period.

Table of Contents

- Provision for credit losses - \$891,000 in the 2011 third quarter compared to \$839,000 in the 2011 second quarter and \$2,789,000 in the 2011 nine month period compared to \$2,479,000 in the 2010 nine month period. The 2011 provisions reflect lower levels of net charge-offs, reduction in reserve factors applied to higher rated loans and higher provisions attributable to loan growth.

- Non-performing assets declined from \$11.8 million at June 30, 2011 to \$10.5 million at September 30, 2011 due in part to a \$719,000 charge to earnings resulting from a write-down in a property under construction acquired through foreclosure. Sale of the property, which had a net carrying value of \$1,582,000 at September 30, 2011, is expected to occur in the 2011 fourth quarter.

- In 2011 and the latter part of 2010, the Company invested in low income housing projects. The return on such investments is derived from tax benefits and tax credits realized over several years. Typically, in the first year of an investment, operating losses exceed tax benefits and tax credits. In the 2011 third quarter, a \$500,000 charge to non-interest income representing housing project operating losses exceeded related tax benefits and tax credits, resulting in an after-tax loss of \$78,000 within that quarter. The investments are expected to generate net income commencing in 2012.

- In the 2011 third quarter, non-interest expenses included approximately \$465,000 for matters related to conversion to a new data processing system that will occur in 2012, expenses related to the acquisition of a building that will serve as the administrative headquarters of the Company in the fourth quarter of 2012, legal fees related to a property under construction acquired through foreclosure, other loan collection matters, litigation and SEC filings, and the formatting of quarterly SEC filings to conform with eXtensible business reporting language (XBRL) requirements.

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

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

	Three months ended September 30,					
	2011			2010		
	Average balance	Interest (1)	Average yield/cost (Dollars in thousands)	Average balance	Interest (1)	Average yield/cost
Assets						
Interest-earning assets:						
Short-term investments	\$ 83,708	\$ 28	0.13%	\$ 58,766	\$ 32	0.22%
Debt securities (2)	262,511	1,495	2.28	310,337	1,932	2.49
Equity securities (2)	40,137	58	0.56	36,810	5	0.06
Commercial real estate loans (3)	1,200,838	15,456	5.15	942,215	12,605	5.35
Commercial loans (3)	414,346	6,786	6.54	303,112	5,322	7.01
Indirect automobile loans (3)	580,886	6,924	4.73	556,470	8,098	5.77
Consumer loans (3)	424,800	4,612	4.34	370,700	4,462	4.81
Total interest-earning assets	3,007,226	35,359	4.70%	2,578,410	32,456	5.02%
Allowance for loan losses	(31,137)			(30,517)		
Non-interest earning assets	151,940			108,199		
Total assets	\$ 3,128,029			\$ 2,656,092		
Liabilities and Equity						
Interest-bearing liabilities:						
Deposits:						
NOW accounts	\$ 132,780	59	0.18%	\$ 109,890	40	0.14%
Savings accounts	166,117	250	0.60	106,685	214	0.80
Money market savings accounts	859,060	1,971	0.91	629,712	1,640	1.03
Certificates of deposit	812,896	2,690	1.31	782,888	3,202	1.62
Total interest-bearing deposits (4)	1,970,853	4,970	1.00	1,629,175	5,096	1.24
Federal Home Loan Bank advances	429,114	2,661	2.43	401,679	3,084	3.00
Other borrowings	5,605	11	0.77	4,652	3	0.25
Total interest bearing liabilities	2,405,572	7,642	1.26%	2,035,506	8,183	1.59%
Non-interest-bearing demand checking accounts (4)	191,832			101,075		
Other liabilities	25,466			22,433		

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Total liabilities	2,622,870		2,159,014	
Brookline Bancorp, Inc. stockholders' equity	502,345		494,890	
Noncontrolling interest in subsidiary	2,814		2,188	
Total liabilities and equity	\$ 3,128,029		\$ 2,656,092	
Net interest income (tax equivalent basis)/interest rate spread (5)	27,717	3.44%	24,273	3.43%
Less adjustment of tax exempt income	73		5	
Net interest income	\$ 27,644		\$ 24,268	
Net interest margin (6)		3.69%		3.76%

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

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

(4) Including non-interest bearing checking accounts, the average interest rate on total deposits was 0.91% in the three months ended September 30, 2011 and 1.17% in the three months ended September 30, 2010.

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

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

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Table of Contents

	Nine months ended September 30,					
	2011			2010		
	Average balance	Interest (1)	Average yield/cost (Dollars in thousands)	Average balance	Interest (1)	Average yield/cost
Assets						
Interest-earning assets:						
Short-term investments	\$ 69,653	\$ 77	0.15%	\$ 61,175	\$ 76	0.17%
Debt securities (2)	294,161	5,020	2.28	298,313	5,827	2.60
Equity securities (2)	39,362	163	0.55	37,613	54	0.19
Commercial real estate loans (3)	1,139,441	44,594	5.22	931,547	37,598	5.38
Commercial loans (3)	390,518	19,517	6.67	304,370	15,817	6.93
Indirect automobile loans (3)	576,188	21,345	4.95	554,834	24,767	5.97
Consumer loans (3)	407,631	13,444	4.40	379,861	13,948	4.90
Total interest-earning assets	2,916,954	104,160	4.76%	2,567,713	98,087	5.10%
Allowance for loan losses	(30,335)			(30,760)		
Non-interest earning assets	135,360			109,559		
Total assets	\$ 3,021,979			\$ 2,646,512		
Liabilities and Equity						
Interest-bearing liabilities:						
Deposits:						
NOW accounts	\$ 131,205	166	0.17%	\$ 105,696	112	0.14%
Savings accounts	155,011	734	0.63	102,196	617	0.81
Money market savings accounts	801,689	5,667	0.95	590,723	4,877	1.10
Certificates of deposit	815,816	8,436	1.38	792,494	10,749	1.81
Total deposits (4)	1,903,721	15,003	1.05	1,591,109	16,355	1.37
Federal Home Loan Bank advances	413,587	7,852	2.50	441,905	10,557	3.15
Other borrowings	8,161	113	1.83	1,568	3	0.22
Total interest bearing liabilities	2,325,469	22,968	1.32%	2,034,582	26,915	1.77%
Non-interest-bearing demand checking accounts (4)	167,952			94,373		
Other liabilities	26,238			23,307		
Total liabilities	2,519,659			2,152,262		
Brookline Bancorp, Inc. stockholders equity	499,652			492,113		
Noncontrolling interest in subsidiary	2,668			2,137		
Total liabilities and equity	\$ 3,021,979			\$ 2,646,512		
Net interest income (tax equivalent basis)/interest rate spread (5)		81,192	3.44%		71,172	3.33%
Less adjustment of tax exempt income		213			31	
Net interest income	\$	80,979		\$	71,141	

Net interest margin (6)	3.71%	3.70%
-------------------------	-------	-------

-
- (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) Average balances include unrealized gains (losses) on securities available for sale. Equity securities include marketable equity securities and restricted equity securities.
- (3) Loans on non-accrual status are included in average balances.
- (4) Including non-interest bearing checking accounts, the average interest rate on total deposits was 0.97% in the nine months ended September 30, 2011 and 1.30% in the nine months ended September 30, 2010.
- (5) Interest rate spread represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.
- (6) Net interest margin represents net interest income (tax equivalent basis) divided by average interest-earning assets.

Highlights relating to the above table and the table on the preceding page follow.

- Net interest income was \$3.4 million, or 13.9%, higher in the 2011 third quarter than in the 2010 third quarter as the average balance of interest-earning assets increased \$428.8 million (16.6%), \$243.6 million of which resulted from the Ipswich acquisition. Net interest income was \$9.8 million, or 13.8%, higher in the 2011 nine month period than in the 2010 nine month period as the average balance of interest-earning assets increased \$349.2 million (13.6%), \$189.2 million of which resulted from the Ipswich acquisition.

- Despite a \$19.4 million increase in the average balance of interest-earning assets in the 2011 third quarter, net interest income only increased \$14,000 in that quarter compared to the 2011 second quarter due to the decline in net interest margin to 3.69% from 3.70% in those respective quarters. The reduction was due in part to the current low interest rate environment.

Table of Contents

- The Company reduced its purchase of investment securities because of limited investment opportunities that would provide acceptable risk-adjusted returns. Pricing for new loans is currently very competitive in all loan segments, especially with respect to auto loans. The \$18.7 million decline in auto loans outstanding in the 2011 third quarter resulted primarily from our decision to not originate new loans at unprofitable interest rates. While there are recent signs of improvement in auto loan pricing, continuation of the factors which caused net interest margin to decline in the 2011 third quarter could result in further reductions in net interest margin in coming quarters.
- The average balance of non-interest-bearing checking accounts increased \$15.8 million (9.0%) in the 2011 third quarter. The average balance of transaction deposits (including non-interest-bearing checking accounts) expressed as a percent of the average balance of total deposits increased from 54.8% in the 2010 third quarter to 61.1% in the 2011 second quarter and 62.4% in the 2011 third quarter. The improvement was attributable to an increased focus on gathering transaction deposits and the desire of depositors to keep their funds in more liquid accounts during the low interest rate environment that has been in existence for some time.

Provision for Credit Losses

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

The provisions for credit losses in the 2011 and 2010 third quarters were \$891,000 and \$551,000, respectively, while net loan charge-offs in those periods were \$610,000 (an annualized rate of 0.09% based on average loans outstanding) and \$826,000 (0.15%), respectively. The provisions for credit losses in the 2011 and 2010 nine month periods were \$2,789,000 and \$2,479,000, respectively, while net charge-offs in those periods were \$1,681,000 (0.10%) and \$3,200,000 (0.20%), respectively.

The provisions for loan losses for the commercial real estate loan segment were \$308,000 and \$140,000, respectively, in the 2011 and 2010 third quarters, and \$2,589,000 and \$215,000, respectively, in the 2011 and 2010 nine month periods. Net charge-offs (recoveries) were \$30,000 and (\$1,000), respectively, in the 2011 and 2010 third quarters and \$30,000 and \$299,000, respectively, in the 2011 and 2010 nine month periods. A net charge-off of \$300,000 related to one commercial real estate loan for which a specific reserve had been previously established was recorded in the first quarter of 2010. The higher provisions in the 2011 periods were due primarily to loan growth and the downgrading of loans to two borrowers aggregating \$30.6 million in the 2011 second quarter. In the 2011 third quarter, reserve factors applied to loans with above average risk ratings were reduced in recognition of the historically better charge-off experience related to such loans. The change in the reserve factors lowered the provision for loan losses otherwise required in the 2011 third quarter related to commercial real estate loans and commercial loans by \$601,000 and \$80,000, respectively.

The provisions for loan losses for the commercial loan segment were \$535,000 and \$237,000, respectively, in the 2011 and 2010 third quarters; net charge-offs in those periods were \$132,000 and \$212,000, respectively. The higher provision in the 2011 quarter was due primarily to loan growth. The provisions for loan losses for the commercial loan segment were \$885,000 and \$1,149,000, respectively, in the 2011 and 2010 nine month periods; net charge-offs in those periods were \$461,000 and \$661,000, of which \$423,000 and \$664,000, respectively, related to the Eastern Funding loan portfolio. The annualized rate of Eastern Funding net charge-offs, combined with write-downs of assets acquired, declined from 0.64% in the 2010 nine month period to 0.34% in the 2011 nine month period.

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

The provision for auto loan losses was \$14,000 in the 2011 third quarter compared to \$175,000 in the 2010 third quarter; net charge-offs in those periods were \$448,000 (an annualized rate of 0.32% based on average loans outstanding during that period excluding deferred loan origination costs) and \$627,000 (0.46%), respectively. The provision (credit) for auto loan losses was (\$173,000) in the 2011 nine month period and \$1,171,000 in the 2010 nine month period while net charge-offs in those periods were \$1,192,000 (0.28%) and \$2,227,000 (0.55%), respectively. Provisions for auto loan losses were lower than net charge-offs due to reductions in the allowance for auto loan losses. The reductions were based on the improvement in the rate of net charge-offs and other credit quality metrics. The allowance for loan losses allocated to the auto loan portfolio was \$5,587,000, or 1.00% of loans outstanding (excluding deferred loan origination costs), at September 30, 2011 compared to \$6,021,000 (1.04%) at June 30, 2011 and \$6,952,000 (1.28%) at December 31, 2010.

Regarding the consumer loan segment, provisions for loan losses were \$14,000 and \$13,000 in the 2011 third quarter and nine month period, respectively, and credits of \$1,000 and \$7,000 were recorded in the 2010 respective periods. Net charge-offs in the consumer loan segment were modest in the 2011 and 2010 nine month periods. The provisions and credits resulted primarily from changes in loans outstanding.

The unallocated portion of the allowance for loan losses, which was increased by \$29,000 in the 2011 first quarter and reduced by \$249,000 in the 2011 second quarter, remained unchanged in the 2011 third quarter. In 2010, the unallocated

Table of Contents

allowance was reduced by \$49,000 in the first quarter and remained unchanged in the second and third quarters. The changes resulted from consideration of all factors evaluated in arriving at the total allowance for loan losses.

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

Securities Transactions and Prepayment of Borrowings

The Company sold marketable equity securities in the 2011 first quarter at a gain of \$80,000 and investment securities (primarily equity securities) in the 2010 second quarter at a gain of \$834,000. In the 2010 first quarter, an impairment loss of \$49,000 was recognized on a debt security comprised of a pool of trust preferred securities.

In the 2010 third quarter, \$15.9 million of borrowings from the FHLB with a weighted average interest rate of 4.24% and maturing within approximately ten months were prepaid resulting in a penalty of \$555,000 and, in the same quarter, \$12.0 million was re-borrowed from the FHLB at a weighted average interest rate of 0.93% and a weighted average life to maturity of 2.5 years. In the 2010 second quarter, \$24 million of FHLB borrowings with a weighted average rate of 4.03% and maturing within approximately one year were prepaid resulting in a penalty of \$913,000 and, in the same quarter, \$24 million was re-borrowed from the FHLB at a weighted average annual rate of 2.02% for 3.26 years.

Other Operating Highlights

Fees, Charges and Other Income. Income from these sources increased from \$927,000 in the 2010 third quarter to \$1,732,000 in the 2011 third quarter and from \$2,885,000 in the 2010 nine month period to \$4,698,000 in the 2011 nine month period. The increases resulted primarily from \$285,000 in gains related to the sale of residential mortgage loans in the 2011 nine month period compared to \$61,000 in the 2010 nine month period and inclusion of fees, charges and other income earned by Ipswich of \$632,000 in the 2011 third quarter and \$1,506,000 since the acquisition as of February 28, 2011.

Loss from Investments in Low Income Housing. As mentioned earlier herein, a loss of \$500,000 was recognized in the 2011 third quarter relating to investments in low income housing projects made in 2011 and the latter part of 2010. The return on such investments is derived from tax benefits and tax credits; such tax benefits and tax credits amounted to \$422,000 in the 2011 third quarter, resulting in an after-tax loss of \$78,000 for that quarter. The investments in low income housing made in 2011 and 2010 are expected to generate net income in 2012.

Non-Interest Expense. Total non-interest expenses were \$17.1 million in the 2011 third quarter compared to \$11.9 million in the 2010 third quarter. The increase was due primarily to (a) inclusion of Ipswich non-interest expenses (\$2.7 million), (b) higher compensation and benefits expense resulting from added personnel, salary increases, higher bonuses and medical benefits expense, (c) \$487,000 of professional fees and other expenses relating to the contemplated Bancorp Rhode Island transaction, (d) a \$719,000 charge to earnings resulting from a write-down in

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

a property under construction acquired through foreclosure and (e) approximately \$465,000 for matters relating to conversion to a new data processing system that will occur in 2012, the acquisition of a building that will serve as the administrative headquarters of the Company in the fourth quarter of 2012, legal fees related to a property under construction acquired through foreclosure, other loan collection matters, litigation and SEC filings, and the formatting of quarterly SEC filings to conform with XBRL requirements.

Total expenses in the 2011 nine month period were \$46.4 million compared to \$35.6 million in the 2010 nine month period. The increase was due primarily to inclusion of Ipswich non-interest expenses of \$6.2 million, \$1.4 million of professional fees and other expenses relating to the Ipswich acquisition and the contemplated Bancorp Rhode Island transaction, expenses described under (b), (d) and (e) in the preceding paragraph, and expenses associated with opening two new branches in June 2010.

Provision for Income Taxes. The effective rate of income taxes was 39.6% in the 2011 third quarter compared to 40.4% in the 2010 third quarter and 40.5% in the 2011 nine month period compared to 40.4% in the 2010 third quarter. The lower effective rate in the 2011 third quarter was due in part to the tax credits resulting from the investments in low income housing mentioned earlier herein and interest income on revenue bonds included in commercial real estate loans exempt from federal taxation.

Table of Contents

Commentary on Certain Investment Securities

Auction Rate Municipal Obligations

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

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

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

Corporate Obligations

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

The book value of PreTSL VI was \$141,000 and its estimated fair value was \$70,000. See note 3 of the Notes to Consolidated Financial Statements for further information regarding this security.

The book value of PreTSL XXVIII was \$936,000 at September 30, 2011 and the estimated fair value, based on analytical modeling taking into consideration a range of factors normally found in an orderly market, was \$673,000 at that date. The unrealized loss of \$263,000 was not considered to be an other-than-temporary impairment loss because projected cash flows exceeded the book value of the security and we have

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

first priority to future cash redemptions. None of the 56 issuers in the pool represent more than 4% of the entire pool. Seventeen issuers representing approximately 25% of the remaining aggregate investment pool at September 30, 2011 either were in default or have deferred regularly scheduled interest payments.

At September 30, 2011, the aggregate carrying value of other trust preferred securities owned by the Company was \$2,855,000 and the aggregate estimated fair value was \$2,338,000. The aggregate unrealized loss on these securities of \$517,000 was not considered to be an other-than-temporary impairment loss because of the financial soundness and prospects of the issuers and our ability and intent to hold the securities for a period of time to recover the unrealized losses.

Included in corporate obligations at September 30, 2011 owned by Ipswich is a debt security issued by Lehman Brothers Holdings that is in default and unrated. The \$1,220,000 face amount of the bond had been previously written-down by Ipswich in 2008 as an impairment loss charged to earnings. The estimated fair value of the bond at September 30, 2011 was \$270,000 and the unrealized loss on the bond of \$37,000 was recognized as a charge to comprehensive income.

Private-Label Mortgage-Backed Securities

The private-label mortgage-backed securities at September 30, 2011 are owned by Ipswich. An impairment loss on these securities was charged to earnings in 2008. At September 30, 2011, the aggregate carrying value of the securities was \$371,000 and the aggregate estimated fair value was \$390,000. At that date, the securities were rated below investment grade.

Table of Contents**Non-Performing Assets, Restructured Loans and Allowance for Loan Losses**

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

	September 30, 2011	December 31, 2010
	(Dollars in thousands)	
Non-accrual loans:		
Multi-family	\$ 1,373	\$ 964
Construction		2,475
Eastern Funding	1,892	2,478
Condominium association	17	
Auto	59	158
Residential	1,330	1,363
Home equity	98	25
Other consumer	11	
Acquired loans	2,757	
Total non-accrual loans	7,537	7,463
Reposessed vehicles	558	524
Reposessed equipment	129	179
Other real estate owned	2,262	
Total non-performing assets	\$ 10,486	\$ 8,166
Restructured loans on accrual	\$ 3,456	\$ 4,946
Allowance for loan losses	\$ 31,128	\$ 29,695
Allowance for loan losses as a percent of total loans	1.17%	1.32%
Non-accrual loans as a percent of total loans	0.28%	0.33%
Non-performing assets as a percent of total assets	0.33%	0.30%

Loans are placed on non-accrual status either when reasonable doubt exists as to the full timely collection of interest and principal or automatically when a loan becomes past due 90 days. Restructured loans represent performing loans for which concessions (such as reductions of interest rates to below market terms and/or extension of repayment terms) were granted due to a borrower's financial condition. Of the restructured loans on accrual at September 30, 2011, \$1,644,000 were loans originated by Eastern Funding and \$1,812,000 were residential mortgage loans. Of the restructured loans on accrual at December 31, 2010, \$1,583,000 were loans originated by Eastern Funding and \$3,363,000 were residential mortgage loans.

At September 30, 2011 and December 31, 2010, loans past due 90 days or more and still on accrual amounted to \$4,999,000 and \$5,902,000, respectively. The loans were comprised primarily of commercial real estate loans, multi-family mortgage loans and commercial loans that matured and the borrowers continued to make their regular principal and interest payments at amounts as if their loans had been renewed when, in fact, the renewals had not yet taken place. It is expected that the loans will be renewed or paid in full without any loss.

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

Asset/Liability Management

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

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

Table of Contents

Liquidity and Capital Resources

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

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

The Company utilizes advances from the FHLB to fund growth and to manage part of the interest rate sensitivity of its assets and liabilities. Total advances outstanding at September 30, 2011 amounted to \$438.0 million and the Company had the capacity to increase that amount to \$794.7 million.

On September 30, 2011, the Massachusetts Department of Revenue issued a draft directive prohibiting a corporation from pledging more than 50 percent of security corporation stock it owns to secure a borrowing, effective for tax years beginning on or after October, 2012. The Bank currently utilizes the stock of two of its security corporations to secure FHLB advances. Should this draft directive become effective, the Bank may have fewer assets available to secure FHLB advances, or may have a higher tax rate if it chose to utilize security corporations to a lesser extent.

The Company's most liquid assets are cash and due from banks, short-term investments and debt securities that generally mature within 90 days. At September 30, 2011, such assets amounted to \$107.4 million, or 3.4% of total assets.

At September 30, 2011, both Brookline and Ipswich exceeded all regulatory capital requirements. Brookline's Tier I capital was \$378.9 million, or 13.5% of adjusted assets, and Ipswich's Tier I capital was \$24.8 million, or 12.6% of adjusted assets. The minimum required Tier I capital ratio is 4.00%.

Item 3. Quantitative and Qualitative Disclosures about Market Risks

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

Item 4. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. In designing and evaluating the Company's disclosure controls and procedures, the Company and its management recognize that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2011.

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

During the third quarter of 2011 and subsequent to September 30, 2011, the Company, as a result of its transition to a new Chief Financial Officer, reassigned various financial reporting responsibilities to ensure the appropriate segregation of duties over financial reporting, bolstered the financial reporting process in its finance departments and across key business units, and implemented new policies and procedures over the preparation, review and recording of financial data.

The Company will continue to proactively review its disclosure controls and procedures, including its internal controls and procedures for financial reporting, and may make further changes aimed at enhancing their effectiveness to ensure that the Company's process evolves along with the continued growth of the Company.

Table of Contents

Part II - Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Material changes from the risk factors presented in the Company's Form 10-K for the year ended December 31, 2010, as amended, are as follows.

Our Move to a New Building May Result in Added Costs and Expenses That Could Negatively Impact Our Results.

At present, we conduct administrative and certain other activities of the Company at our main office and at three buildings in which space is leased. In June 2011, we acquired a vacant eight story building in Boston at a cost of approximately \$13.8 million. We expect to move into the building in the fourth quarter of 2012 and to rent approximately half of the space in the building to third party tenants. If unforeseen problems arise in the construction and renovation of the acquired building or if we are unable to rent space to third party tenants, additional costs and expenses could negatively impact our results of operations.

We May Be Negatively Impacted by Certain Risks Inherent in Our Recent and Pending Acquisitions.

In February 2011, the Company acquired a new banking subsidiary, Ipswich, and currently has pending a proposed merger with Bancorp Rhode Island, which is expected to close in the fourth quarter of 2011 and, if consummated, will result in the addition of BankRI as a new banking subsidiary. The success of our acquisitions may depend on, among other things, our ability to complete a pending acquisition, realize anticipated cost savings, and integrate the business of the acquired banking subsidiaries into the Company in a manner that does not result in decreased revenues resulting from any disruption of existing customer relationships of the acquired company. If we are not able to achieve these objectives, the anticipated benefits of an acquisition may not be realized fully or at all or may take longer to realize than planned.

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

a) Not applicable.

b) Not applicable.

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

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced program (1) (2) (3)	Maximum number of shares that may yet be purchased under the program (1) (2) (3)
July 1 through September 30, 2011		\$	2,195,590	4,804,410

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

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

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

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

Table of Contents

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Reserved and Removed).

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibits

Exhibit 11*	Statement Regarding Computation of Per Share Earnings
Exhibit 31.1*	Certification of Chief Executive Officer
Exhibit 31.2*	Certification of Chief Financial Officer
Exhibit 32.1**	Section 1350 Certification of Chief Executive Officer
Exhibit 32.2**	Section 1350 Certification of Chief Financial Officer
Exhibit 101***	The following materials from Brookline Bancorp, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010, (ii) Consolidated Statements of Income for the three months and nine months ended September 30, 2011 and 2010, (iii) Consolidated Statements of Comprehensive Income for the three months and nine months ended September 30, 2011 and 2010, (iv) Consolidated Statements of Changes in Equity for the nine months ended September 30, 2011 and 2010, (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010 and (vi) Notes to Unaudited Consolidated Financial Statements.

* Filed herewith.

** Furnished herewith.

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

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 9, 2011

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

Date: November 9, 2011

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