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)

x 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

o 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.

(Exact name of registrant as specified in its charter)

Delaware	**04-3402944**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
160 Washington Street, Brookline, MA	**02447-0469**
(Address of principal executive offices)	(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 x NO o

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 x NO o

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 x	Accelerated filer o
Non-accelerated filer o	Smaller Reporting Company o

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

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

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 (unaudited)	December 31, 2010
ASSETS		
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
LIABILITIES AND EQUITY		
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

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, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 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

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, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 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

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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

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)

	Nine months ended September 30, 2011 (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)

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Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

(In thousands)

	Nine months ended September 30, 2011 (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.

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

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 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)				

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

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:

	Available for sale	
	Amortized cost	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:

	September 30, 2011					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	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

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)

	December 31, 2010					
	Less than 12 months		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 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)

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

	Nine months ended September 30, 2011		Nine months ended September 30, 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.

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
Allowance for loan losses						
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
Loans						
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

20

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
Allowance for loan losses						
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
Loans						
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:	

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	