

BROOKLINE BANCORP INC

Form 10-Q

August 08, 2014

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

Commission file number 0-23695

Brookline Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

04-3402944

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

131 Clarendon Street, Boston, MA

(Address of principal executive offices)

02117-9179

(Zip Code)

(617) 425-4600

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller Reporting Company ☐

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

At August 8, 2014, the number of shares of common stock, par value \$0.01 per share, outstanding was 70,015,431.



Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES  
FORM 10-Q

Index

|                                                                                                                                   | Page      |
|-----------------------------------------------------------------------------------------------------------------------------------|-----------|
| <u>Part I</u>                                                                                                                     |           |
| <u>Financial Information</u>                                                                                                      |           |
| <u>Item 1.</u>                                                                                                                    |           |
| <u>Unaudited Consolidated Financial Statements</u>                                                                                |           |
| <u>Unaudited Consolidated Balance Sheets at June 30, 2014 and December 31, 2013</u>                                               | <u>1</u>  |
| <u>Unaudited Consolidated Statements of Income for the Three Months and Six Months Ended June 30, 2014 and 2013</u>               | <u>2</u>  |
| <u>Unaudited Consolidated Statements of Comprehensive Income for the Three Months and Six Months Ended June 30, 2014 and 2013</u> | <u>3</u>  |
| <u>Unaudited Consolidated Statements of Changes in Equity for the Six Months Ended June 30, 2014 and 2013</u>                     | <u>4</u>  |
| <u>Unaudited Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013</u>                            | <u>6</u>  |
| <u>Notes to Unaudited Consolidated Financial Statements</u>                                                                       | <u>8</u>  |
| <u>Item 2.</u>                                                                                                                    |           |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                      | <u>50</u> |
| <u>Item 3.</u>                                                                                                                    |           |
| <u>Quantitative and Qualitative Disclosures about Market Risk</u>                                                                 | <u>85</u> |
| <u>Item 4.</u>                                                                                                                    |           |
| <u>Controls and Procedures</u>                                                                                                    | <u>87</u> |
| <u>Part II</u>                                                                                                                    |           |
| <u>Other Information</u>                                                                                                          |           |
| <u>Item 1.</u>                                                                                                                    |           |
| <u>Legal Proceedings</u>                                                                                                          | <u>88</u> |
| <u>Item 1A.</u>                                                                                                                   |           |
| <u>Risk Factors</u>                                                                                                               | <u>88</u> |
| <u>Item 2.</u>                                                                                                                    |           |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                                                | <u>88</u> |
| <u>Item 3.</u>                                                                                                                    |           |
| <u>Defaults Upon Senior Securities</u>                                                                                            | <u>88</u> |
| <u>Item 4.</u>                                                                                                                    |           |
| <u>Mine Safety Disclosures</u>                                                                                                    | <u>88</u> |
| <u>Item 5.</u>                                                                                                                    |           |
| <u>Other Information</u>                                                                                                          | <u>88</u> |
| <u>Item 6.</u>                                                                                                                    |           |
| <u>Exhibits</u>                                                                                                                   | <u>89</u> |
| <u>Signatures</u>                                                                                                                 | <u>90</u> |



Table of Contents

## PART I — FINANCIAL INFORMATION

## Item 1. Unaudited Consolidated Financial Statements

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Unaudited Consolidated Balance Sheets

|                                                                                                      | At June 30,<br>2014              | At December 31,<br>2013 |
|------------------------------------------------------------------------------------------------------|----------------------------------|-------------------------|
|                                                                                                      | (In Thousands Except Share Data) |                         |
| <b>ASSETS</b>                                                                                        |                                  |                         |
| Cash and due from banks                                                                              | \$58,962                         | \$37,148                |
| Short-term investments                                                                               | 20,771                           | 55,357                  |
| Total cash and cash equivalents                                                                      | 79,733                           | 92,505                  |
| Investment securities available-for-sale                                                             | 528,586                          | 492,428                 |
| Investment securities held-to-maturity (fair value of \$500)                                         | 500                              | 500                     |
| Total investment securities                                                                          | 529,086                          | 492,928                 |
| Loans and leases held-for-sale                                                                       | 13,890                           | 13,372                  |
| Loans and leases:                                                                                    |                                  |                         |
| Commercial real estate loans                                                                         | 2,314,585                        | 2,203,623               |
| Commercial loans and leases                                                                          | 1,076,953                        | 965,610                 |
| Indirect automobile loans                                                                            | 376,314                          | 400,531                 |
| Consumer loans                                                                                       | 836,061                          | 792,701                 |
| Total loans and leases                                                                               | 4,603,913                        | 4,362,465               |
| Allowance for loan and lease losses                                                                  | (51,686)                         | (48,473)                |
| Net loans and leases                                                                                 | 4,552,227                        | 4,313,992               |
| Restricted equity securities                                                                         | 71,446                           | 66,559                  |
| Premises and equipment, net of accumulated depreciation of \$41,067 and \$44,420, respectively       | 82,166                           | 80,505                  |
| Deferred tax asset                                                                                   | 27,799                           | 31,710                  |
| Goodwill                                                                                             | 137,890                          | 137,890                 |
| Identified intangible assets, net of accumulated amortization of \$24,583 and \$22,895, respectively | 15,199                           | 16,887                  |
| Other real estate owned and repossessed assets                                                       | 1,246                            | 1,578                   |
| Other assets                                                                                         | 76,804                           | 77,180                  |
| Total assets                                                                                         | \$5,587,486                      | \$5,325,106             |
| <b>LIABILITIES AND EQUITY</b>                                                                        |                                  |                         |
| Deposits:                                                                                            |                                  |                         |
| Non-interest-bearing deposits:                                                                       |                                  |                         |
| Demand checking accounts                                                                             | \$716,883                        | \$707,023               |
| Interest-bearing deposits:                                                                           |                                  |                         |
| NOW accounts                                                                                         | 209,682                          | 210,602                 |
| Savings accounts                                                                                     | 518,343                          | 494,734                 |
| Money market accounts                                                                                | 1,516,023                        | 1,487,979               |
| Certificate of deposit accounts                                                                      | 900,216                          | 934,668                 |
| Total interest-bearing deposits                                                                      | 3,144,264                        | 3,127,983               |
| Total deposits                                                                                       | 3,861,147                        | 3,835,006               |
| Borrowed funds:                                                                                      |                                  |                         |
| Advances from the FHLBB                                                                              | 1,005,644                        | 768,773                 |
| Other borrowed funds                                                                                 | 35,360                           | 43,782                  |
| Total borrowed funds                                                                                 | 1,041,004                        | 812,555                 |

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

|                                        |           |           |
|----------------------------------------|-----------|-----------|
| Mortgagors' escrow accounts            | 8,359     | 7,889     |
| Accrued expenses and other liabilities | 45,411    | 51,485    |
| Total liabilities                      | 4,955,921 | 4,706,935 |

Commitments and contingencies (Note 13)

Stockholders' Equity:

Brookline Bancorp, Inc. stockholders' equity:

|                                                                                         |             |             |
|-----------------------------------------------------------------------------------------|-------------|-------------|
| Common stock, \$0.01 par value; 200,000,000 shares authorized; 75,744,445 shares issued | 757         | 757         |
| Additional paid-in capital                                                              | 617,709     | 617,538     |
| Retained earnings, partially restricted                                                 | 73,373      | 64,903      |
| Accumulated other comprehensive loss                                                    | (3,209)     | ) (7,915)   |
| Treasury stock, at cost; 5,144,807 shares and 5,171,985 shares, respectively            | (59,487)    | ) (59,826)  |
| Unallocated common stock held by ESOP; 271,524 shares and 291,666 shares, respectively  | (1,480)     | ) (1,590)   |
| Total Brookline Bancorp, Inc. stockholders' equity                                      | 627,663     | 613,867     |
| Noncontrolling interest in subsidiary                                                   | 3,902       | 4,304       |
| Total stockholders' equity                                                              | 631,565     | 618,171     |
| Total liabilities and stockholders' equity                                              | \$5,587,486 | \$5,325,106 |

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Unaudited Consolidated Statements of Income

|                                                              | Three Months Ended June 30,      |           | Six Months Ended June 30,        |            |
|--------------------------------------------------------------|----------------------------------|-----------|----------------------------------|------------|
|                                                              | 2014                             | 2013      | 2014                             | 2013       |
|                                                              | (In Thousands Except Share Data) |           | (In Thousands Except Share Data) |            |
| Interest and dividend income:                                |                                  |           |                                  |            |
| Loans and leases                                             | \$ 50,433                        | \$ 50,644 | \$ 102,375                       | \$ 100,063 |
| Debt securities                                              | 2,360                            | 1,934     | 4,619                            | 3,786      |
| Marketable and restricted equity securities                  | 539                              | 303       | 988                              | 612        |
| Short-term investments                                       | 14                               | 19        | 58                               | 50         |
| Total interest and dividend income                           | 53,346                           | 52,900    | 108,040                          | 104,511    |
| Interest expense:                                            |                                  |           |                                  |            |
| Deposits                                                     | 4,201                            | 4,743     | 8,492                            | 9,578      |
| Borrowed funds                                               | 2,711                            | 2,794     | 5,380                            | 5,903      |
| Total interest expense                                       | 6,912                            | 7,537     | 13,872                           | 15,481     |
| Net interest income                                          | 46,434                           | 45,363    | 94,168                           | 89,030     |
| Provision for credit losses                                  | 2,276                            | 2,439     | 4,719                            | 4,294      |
| Net interest income after provision for credit losses        | 44,158                           | 42,924    | 89,449                           | 84,736     |
| Non-interest income:                                         |                                  |           |                                  |            |
| Deposit fees                                                 | 2,204                            | 1,929     | 4,163                            | 3,995      |
| Loan fees                                                    | 124                              | 386       | 560                              | 807        |
| Loss from investments in affordable housing projects         | (539)                            | ) (624    | ) (1,043                         | ) (936     |
| Loss on sales of securities, net                             | (13                              | ) —       | (13                              | ) —        |
| Gain on sales of loans and leases held-for-sale              | 54                               | 183       | 656                              | 481        |
| (Loss)/Gain on sale/disposals of premises and equipment, net | (6                               | ) (21     | ) 1,504                          | (21        |
| Other                                                        | 1,466                            | 1,286     | 2,587                            | 2,140      |
| Total non-interest income                                    | 3,290                            | 3,139     | 8,414                            | 6,466      |
| Non-interest expense:                                        |                                  |           |                                  |            |
| Compensation and employee benefits                           | 17,295                           | 16,697    | 35,327                           | 32,994     |
| Occupancy                                                    | 3,154                            | 2,865     | 7,559                            | 5,948      |
| Equipment and data processing                                | 4,348                            | 4,262     | 8,725                            | 8,362      |
| Professional services                                        | 1,487                            | 1,513     | 3,214                            | 3,014      |
| FDIC insurance                                               | 847                              | 936       | 1,707                            | 1,870      |
| Advertising and marketing                                    | 776                              | 768       | 1,441                            | 1,438      |
| Amortization of identified intangible assets                 | 827                              | 1,177     | 1,688                            | 2,342      |
| Other                                                        | 2,488                            | 2,598     | 5,137                            | 5,617      |
| Total non-interest expense                                   | 31,222                           | 30,816    | 64,798                           | 61,585     |
| Income before provision for income taxes                     | 16,226                           | 15,247    | 33,065                           | 29,617     |
| Provision for income taxes                                   | 5,774                            | 5,382     | 11,769                           | 10,511     |
| Net income before noncontrolling interest in subsidiary      | 10,452                           | 9,865     | 21,296                           | 19,106     |

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

|                                                                            |            |            |            |            |
|----------------------------------------------------------------------------|------------|------------|------------|------------|
| Less net income attributable to noncontrolling interest in subsidiary      | 476        | 375        | 898        | 802        |
| Net income attributable to Brookline Bancorp, Inc.                         | \$ 9,976   | \$ 9,490   | \$ 20,398  | \$ 18,304  |
| Earnings per common share:                                                 |            |            |            |            |
| Basic                                                                      | \$ 0.14    | \$ 0.14    | \$ 0.29    | \$ 0.26    |
| Diluted                                                                    | 0.14       | 0.14       | 0.29       | 0.26       |
| Weighted average common shares outstanding during the period:              |            |            |            |            |
| Basic                                                                      | 69,886,576 | 69,774,703 | 69,881,055 | 69,768,777 |
| Diluted                                                                    | 70,012,377 | 69,833,541 | 69,998,219 | 69,823,615 |
| Dividends declared per common share                                        | \$ 0.085   | \$ 0.085   | \$ 0.170   | \$ 0.170   |
| See accompanying notes to the unaudited consolidated financial statements. |            |            |            |            |

Table of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Unaudited Consolidated Statements of Comprehensive Income

|                                                                                      | Three Months Ended June 30, |          | Six Months Ended June 30, |           |
|--------------------------------------------------------------------------------------|-----------------------------|----------|---------------------------|-----------|
|                                                                                      | 2014                        | 2013     | 2014                      | 2013      |
|                                                                                      | (In Thousands)              |          |                           |           |
| Net income before noncontrolling interest in subsidiary                              | \$ 10,452                   | \$ 9,865 | \$ 21,296                 | \$ 19,106 |
| Other comprehensive income (loss), net of taxes:                                     |                             |          |                           |           |
| Investment securities available-for-sale:                                            |                             |          |                           |           |
| Unrealized securities holding gains (losses)                                         | 4,350                       | (10,773  | ) 7,643                   | (12,791   |
| Income tax (expense) benefit                                                         | (1,631                      | ) 4,093  | (2,893                    | ) 4,861   |
| Net unrealized securities holding gains (losses) before reclassification adjustments | 2,719                       | (6,680   | ) 4,750                   | (7,930    |
| Less reclassification adjustments for securities losses included in net income:      |                             |          |                           |           |
| Loss on sales of securities, net                                                     | (13                         | ) —      | (13                       | ) —       |
| Income tax benefit                                                                   | 5                           | —        | 5                         | —         |
| Net reclassification adjustments for securities losses included in net income        | (8                          | ) —      | (8                        | ) —       |
| Net securities holding gains (losses)                                                | 2,727                       | (6,680   | ) 4,758                   | (7,930    |
| Postretirement benefits:                                                             |                             |          |                           |           |
| Adjustment of accumulated obligation for postretirement benefits                     | —                           | 8        | (85                       | ) 8       |
| Income tax (expense) benefit                                                         | —                           | (2       | ) 33                      | (2        |
| Net adjustment of accumulated obligation for postretirement benefits                 | —                           | 6        | (52                       | ) 6       |
| Other comprehensive income (loss), net of taxes                                      | 2,727                       | (6,674   | ) 4,706                   | (7,924    |
| Comprehensive income                                                                 | 13,179                      | 3,191    | 26,002                    | 11,182    |
| Net income attributable to noncontrolling interest in subsidiary                     | 476                         | 375      | 898                       | 802       |
| Comprehensive income attributable to Brookline Bancorp, Inc.                         | \$ 12,703                   | \$ 2,816 | \$ 25,104                 | \$ 10,380 |

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Unaudited Consolidated Statements of Changes in Equity

Six Months Ended June 30, 2014 and 2013

|                                                                                | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>(Loss)<br>Income | Treasury<br>Stock | Unallocated<br>Common Stock<br>Held by ESOP | Total Brookline<br>Bancorp, Inc.<br>Stockholders'<br>Equity | Noncontrolling<br>Interest in<br>Subsidiary | Total<br>Equity |
|--------------------------------------------------------------------------------|-----------------|----------------------------------|----------------------|-----------------------------------------------------------|-------------------|---------------------------------------------|-------------------------------------------------------------|---------------------------------------------|-----------------|
| (In Thousands Except Share Data)                                               |                 |                                  |                      |                                                           |                   |                                             |                                                             |                                             |                 |
| Balance at<br>December 31, 2013                                                | \$757           | \$617,538                        | \$64,903             | \$ (7,915 )                                               | \$ (59,826)       | \$ (1,590 )                                 | \$ 613,867                                                  | \$ 4,304                                    | \$618,171       |
| Net income<br>attributable to<br>Brookline<br>Bancorp, Inc.                    | —               | —                                | 20,398               | —                                                         | —                 | —                                           | 20,398                                                      | —                                           | 20,398          |
| Net income<br>attributable to<br>noncontrolling<br>interest in<br>subsidiary   | —               | —                                | —                    | —                                                         | —                 | —                                           | —                                                           | 898                                         | 898             |
| Issuance of<br>noncontrolling<br>units                                         | —               | —                                | —                    | —                                                         | —                 | —                                           | —                                                           | 60                                          | 60              |
| Other<br>comprehensive<br>income                                               | —               | —                                | —                    | 4,706                                                     | —                 | —                                           | 4,706                                                       | —                                           | 4,706           |
| Common stock<br>dividends of \$0.17<br>per share                               | —               | —                                | (11,928 )            | —                                                         | —                 | —                                           | (11,928 )                                                   | —                                           | (11,928 )       |
| Dividend to owners<br>of noncontrolling<br>interest in<br>subsidiary           | —               | —                                | —                    | —                                                         | —                 | —                                           | —                                                           | (1,360 )                                    | (1,360 )        |
| Compensation<br>under recognition<br>and retention plan                        | —               | 96                               | —                    | —                                                         | 339               | —                                           | 435                                                         | —                                           | 435             |
| Common stock<br>held by ESOP<br>committed to be<br>released (20,142<br>shares) | —               | 75                               | —                    | —                                                         | —                 | 110                                         | 185                                                         | —                                           | 185             |

|                             |       |           |          |             |            |             |            |          |           |
|-----------------------------|-------|-----------|----------|-------------|------------|-------------|------------|----------|-----------|
| Balance at June 30,<br>2014 | \$757 | \$617,709 | \$73,373 | \$ (3,209 ) | \$(59,487) | \$ (1,480 ) | \$ 627,663 | \$ 3,902 | \$631,565 |
|-----------------------------|-------|-----------|----------|-------------|------------|-------------|------------|----------|-----------|

4

---

Table of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Unaudited Consolidated Statements of Changes in Equity (Continued)

Six Months Ended June 30, 2014 and 2013

|                                                                                | Common<br>Stock                  | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Treasury<br>Stock | Unallocated<br>Common Stock<br>Held by ESOP | Total Brookline<br>Bancorp, Inc.<br>Stockholders<br>Equity | Noncontrolling<br>Interest in<br>Subsidiary | Total<br>Equity |
|--------------------------------------------------------------------------------|----------------------------------|----------------------------------|----------------------|-----------------------------------------------------------|-------------------|---------------------------------------------|------------------------------------------------------------|---------------------------------------------|-----------------|
|                                                                                | (In Thousands Except Share Data) |                                  |                      |                                                           |                   |                                             |                                                            |                                             |                 |
| Balance at<br>December 31, 2012                                                | \$757                            | \$618,426                        | \$53,358             | \$ 3,483                                                  | \$(62,107)        | \$ (1,820 )                                 | \$ 612,097                                                 | \$ 3,712                                    | \$615,809       |
| Net income<br>attributable to<br>Brookline<br>Bancorp, Inc.                    | —                                | —                                | 18,304               | —                                                         | —                 | —                                           | 18,304                                                     | —                                           | 18,304          |
| Net income<br>attributable to<br>noncontrolling<br>interest in<br>subsidiary   | —                                | —                                | —                    | —                                                         | —                 | —                                           | —                                                          | 802                                         | 802             |
| Other<br>comprehensive loss                                                    | —                                | —                                | —                    | (7,924 )                                                  | —                 | —                                           | (7,924 )                                                   | —                                           | (7,924 )        |
| Common stock<br>dividends of \$0.17<br>per share                               | —                                | —                                | (11,915 )            | —                                                         | —                 | —                                           | (11,915 )                                                  | —                                           | (11,915 )       |
| Dividend to owners<br>of noncontrolling<br>interest in<br>subsidiary           | —                                | —                                | —                    | —                                                         | —                 | —                                           | —                                                          | (927 )                                      | (927 )          |
| Compensation<br>under recognition<br>and retention plan                        | —                                | 536                              | —                    | —                                                         | —                 | —                                           | 536                                                        | —                                           | 536             |
| Common stock<br>held by ESOP<br>committed to be<br>released (21,126<br>shares) | —                                | 71                               | —                    | —                                                         | —                 | 115                                         | 186                                                        | —                                           | 186             |
| Balance at June 30,<br>2013                                                    | \$757                            | \$619,033                        | \$59,747             | \$ (4,441 )                                               | \$(62,107)        | \$ (1,705 )                                 | \$ 611,284                                                 | \$ 3,587                                    | \$614,871       |

See accompanying notes to the unaudited consolidated financial statements.

5

---

Table of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Unaudited Consolidated Statements of Cash Flows

|                                                                                                      | Six Months Ended June 30, |           |
|------------------------------------------------------------------------------------------------------|---------------------------|-----------|
|                                                                                                      | 2014                      | 2013      |
|                                                                                                      | (In Thousands)            |           |
| Cash flows from operating activities:                                                                |                           |           |
| Net income attributable to Brookline Bancorp, Inc.                                                   | \$20,398                  | \$18,304  |
| Adjustments to reconcile net income to net cash provided from operating activities:                  |                           |           |
| Net income attributable to noncontrolling interest in subsidiary                                     | 898                       | 802       |
| Provision for credit losses                                                                          | 4,719                     | 4,294     |
| Origination of loans and leases to be sold                                                           | (15,784                   | ) (23,378 |
| Proceeds from loans and leases sold                                                                  | 15,922                    | 22,871    |
| Proceeds from sales of other real estate owned and repossessed assets                                | 6,795                     | 5,495     |
| Deferred income tax expense                                                                          | 1,046                     | (676      |
| Depreciation of premises and equipment                                                               | 3,416                     | 2,822     |
| Amortization of investment securities premiums and discounts, net                                    | 1,448                     | 1,809     |
| Amortization of deferred loan and lease origination costs, net                                       | 4,991                     | 5,160     |
| Amortization of identified intangible assets                                                         | 1,688                     | 2,342     |
| Accretion of acquisition fair value adjustments, net                                                 | (6,884                    | ) (4,008  |
| Gain on sales of loans and leases held-for-sale                                                      | (656                      | ) (481    |
| Loss on sales of investment securities, net                                                          | 13                        | —         |
| Gain on sales of other real estate owned and repossessed assets                                      | (27                       | ) (24     |
| Write-down of other real estate owned and repossessed assets                                         | 189                       | 178       |
| (Gain)/loss on sale/disposals of premises and equipment, net                                         | (1,504                    | ) 21      |
| Compensation under recognition and retention plans                                                   | 435                       | 536       |
| Loss from investments in affordable housing projects                                                 | 1,043                     | 936       |
| ESOP shares committed to be released                                                                 | 185                       | 186       |
| Net change in:                                                                                       |                           |           |
| Cash surrender value of bank-owned life insurance                                                    | (519                      | ) (551    |
| Other assets                                                                                         | (148                      | ) 11,627  |
| Accrued expenses and other liabilities                                                               | (6,279                    | ) (13,559 |
| Net cash provided from operating activities                                                          | 31,385                    | 34,706    |
| Cash flows from investing activities:                                                                |                           |           |
| Proceeds from sales of investment securities available-for-sale                                      | 5,083                     | —         |
| Proceeds from maturities, calls and principal repayments of investment securities available-for-sale | 34,062                    | 69,826    |
| Purchases of investment securities available-for-sale                                                | (69,108                   | ) (82,283 |
| Proceeds from maturities, calls, and principal repayments of investment securities held-to-maturity  | 500                       | —         |
| Purchases of investment securities held-to-maturity                                                  | (500                      | ) —       |
| Proceeds from redemption of restricted equity securities                                             | —                         | 2,108     |
| Purchases of restricted equity securities                                                            | (4,887                    | ) (74     |
| Net increase in loans and leases                                                                     | (248,738                  | ) (38,673 |
| Proceeds from sales of premises and equipment                                                        | 1,972                     | 81        |
| Purchase of premises and equipment, net                                                              | (5,635                    | ) (9,072  |
| Net cash used for investing activities                                                               | (287,251                  | ) (58,087 |

(Continued)



Table of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Unaudited Consolidated Statements of Cash Flows (Continued)

|                                                                         | Six Months Ended June 30, |             |
|-------------------------------------------------------------------------|---------------------------|-------------|
|                                                                         | 2014                      | 2013        |
|                                                                         | (In Thousands)            |             |
| Cash flows from financing activities:                                   |                           |             |
| Increase in demand checking, NOW, savings and money market accounts     | 60,593                    | 79,161      |
| Decrease in certificates of deposit                                     | (34,584)                  | (38,717)    |
| Proceeds from FHLBB advances                                            | 1,606,764                 | 1,767,800   |
| Repayment of FHLBB advances                                             | (1,368,461)               | (1,771,275) |
| Repayment of subordinated debt                                          | —                         | (18,567)    |
| Decrease in other borrowed funds, net                                   | (8,460)                   | —           |
| Increase in mortgagors' escrow accounts                                 | 470                       | 519         |
| Payment of dividends on common stock                                    | (11,928)                  | (11,915)    |
| Proceeds from issuance of noncontrolling units                          | 60                        | —           |
| Payment of dividends to owners of noncontrolling interest in subsidiary | (1,360)                   | (927)       |
| Net cash provided from financing activities                             | 243,094                   | 6,079       |
| Net decrease in cash and cash equivalents                               | (12,772)                  | (17,302)    |
| Cash and cash equivalents at beginning of period                        | 92,505                    | 117,097     |
| Cash and cash equivalents at end of period                              | \$79,733                  | \$99,795    |
| Supplemental disclosures of cash flow information:                      |                           |             |
| Cash paid during the period for:                                        |                           |             |
| Interest on deposits, borrowed funds and subordinated debt              | \$15,438                  | \$17,884    |
| Income taxes                                                            | 8,490                     | 11,301      |
| Non-cash investing activities:                                          |                           |             |
| Transfer from loans to other real estate owned                          | \$6,625                   | \$5,650     |

See accompanying notes to the unaudited consolidated financial statements.

Table Of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

(1) Basis of Presentation

Overview

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

Brookline Bank, which includes its wholly-owned subsidiaries BBS Investment Corp. and Longwood Securities Corp., and its 84.7%-owned subsidiary, Eastern Funding LLC (“Eastern Funding”), operates 23 full-service banking offices in the greater Boston metropolitan area. BankRI, which includes its wholly-owned subsidiaries BRI Investment Corp., Macrolease Corporation (“Macrolease”), Acorn Insurance Agency and BRI Realty Corp., operates 19 full-service banking offices in the greater Providence area. First Ipswich, which includes its wholly-owned subsidiaries First Ipswich Securities II Corp. and First Ipswich Insurance Agency, operates 6 full-service banking offices on the north shore of eastern Massachusetts and in the Boston metropolitan area.

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

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

The Federal Deposit Insurance Corporation (“FDIC”) offers insurance coverage on all deposits up to \$250,000 per depositor at each of the three Banks. As FDIC-insured depository institutions, all three Banks are also secondarily subject to supervision, examination and regulation by the FDIC. Additionally, as a Massachusetts-chartered savings bank, Brookline Bank is also insured by the Depositors Insurance Fund (“DIF”), a private industry-sponsored insurance company. The DIF insures savings bank deposits in excess of the FDIC insurance limits. As such, Brookline Bank offers 100% insurance on all deposits as a result of a combination of insurance from the FDIC and the DIF. Brookline Bank is required to file reports with the DIF.

Basis of Financial Statement Presentation

The unaudited consolidated financial statements of the Company presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q and do not include all of

the information and note disclosures required by U.S. generally accepted accounting principles (“GAAP”). In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures considered necessary for the fair presentation of the accompanying consolidated financial statements have been included. Interim results are not necessarily reflective of the results of the entire year. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

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

Table Of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

In preparing these consolidated financial statements, management is required to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and disclosure of contingent assets and liabilities. Actual results could differ from those estimates based upon changing conditions, including economic conditions and future events. Material estimates that are particularly susceptible to significant change in the near-term include the determination of the allowance for loan and lease losses, the determination of fair market values of assets and liabilities, including acquired loans and leases, the review of goodwill and intangibles for impairment and the review of deferred tax assets for valuation allowances.

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

Reclassification

Certain previously reported amounts have been reclassified to conform to the current year's presentation. These reclassifications did not change stockholders' equity and net income reported.

(2) Recent Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. This ASU eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement. In addition, the ASU requires a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The ASU is effective for annual periods beginning after December 15, 2014 and interim periods beginning after December 15, 2015; early application is not permitted. The Company is currently assessing the applicability of this ASU and has not determined the impact, if any, as of June 30, 2014.

In May 2014, the FASB issued ASU 2014-09, Revenue From Contracts with Customers. This ASU provides a single principles-based, five-step model to be applied to all contracts with customers. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. The ASU is effective for annual periods (including interim reporting periods within those periods) beginning after December 15, 2016; early application is not permitted. The Company is currently assessing the applicability of this ASU and has not determined the impact, if any, as of June 30, 2014.

In January 2014, the FASB issued ASU 2014-04, Receivables-Troubled Debt Restructurings by Creditors. This ASU provides clarification on when an in substance repossession or foreclosure occurs resulting in the creditor derecognizing the loan and recognizing the collateral. Currently, there is no definition of in substance repossession or foreclosure and physical possession in the accounting literature. This ASU is applied retrospectively or effective prospectively for all annual periods presented beginning after December 15, 2014; early adoption is permitted. The Company has not chosen to early adopt ASU 2014-04 and is currently assessing the applicability of this ASU and has not determined the impact, if any, as of June 30, 2014.

In January 2014, the FASB issued ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. This ASU provides guidance on accounting for investments by a reporting entity in flow-through limited liability entities. Currently, investments in qualified affordable housing projects are accounted for either by the effective yield, equity or cost method. This ASU allows for reporting entities to make a policy election on how to account for their investments. This ASU is applied retrospectively or effective prospectively for all annual periods presented beginning after December 15, 2014; early adoption is permitted. The Company has not chosen to early adopt ASU 2014-01 and is currently assessing the applicability of this ASU and has not determined the impact, if any, as of June 30, 2014.

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

## (3) Investment Securities

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

|                                                | At June 30, 2014     |                              |                               |                         |
|------------------------------------------------|----------------------|------------------------------|-------------------------------|-------------------------|
|                                                | Amortized<br>Cost    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|                                                | (In Thousands)       |                              |                               |                         |
| Debt securities:                               |                      |                              |                               |                         |
| GSEs                                           | \$ 15,968            | \$ 21                        | \$ 11                         | \$ 15,978               |
| GSE CMOs                                       | 254,863              | 146                          | 7,462                         | 247,547                 |
| GSE MBSs                                       | 220,848              | 2,559                        | 1,560                         | 221,847                 |
| SBA commercial loan asset-backed securities    | 227                  | —                            | 1                             | 226                     |
| Corporate debt obligations                     | 39,759               | 582                          | 11                            | 40,330                  |
| Trust preferred securities                     | 1,462                | —                            | 163                           | 1,299                   |
| Total debt securities                          | 533,127              | 3,308                        | 9,208                         | 527,227                 |
| Marketable equity securities                   | 1,264                | 96                           | 1                             | 1,359                   |
| Total investment securities available-for-sale | \$534,391            | \$ 3,404                     | \$ 9,209                      | \$528,586               |
| Investment securities held-to-maturity         | \$500                | \$—                          | \$—                           | \$500                   |
|                                                |                      |                              |                               |                         |
|                                                | At December 31, 2013 |                              |                               |                         |
|                                                | Amortized<br>Cost    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|                                                | (In Thousands)       |                              |                               |                         |
| Debt securities:                               |                      |                              |                               |                         |
| GSEs                                           | \$ 12,138            | \$ 42                        | \$—                           | \$ 12,180               |
| GSE CMOs                                       | 254,331              | 86                           | 10,773                        | 243,644                 |
| GSE MBSs                                       | 202,478              | 1,852                        | 4,929                         | 199,401                 |
| Private-label CMOs                             | 3,258                | 115                          | 18                            | 3,355                   |
| SBA commercial loan asset-backed securities    | 245                  | —                            | 2                             | 243                     |
| Auction-rate municipal obligations             | 1,900                | —                            | 125                           | 1,775                   |
| Municipal obligations                          | 1,068                | 18                           | —                             | 1,086                   |
| Corporate debt obligations                     | 27,751               | 506                          | 33                            | 28,224                  |
| Trust preferred securities                     | 1,461                | —                            | 251                           | 1,210                   |
| Total debt securities                          | 504,630              | 2,619                        | 16,131                        | 491,118                 |
| Marketable equity securities                   | 1,259                | 61                           | 10                            | 1,310                   |
| Total investment securities available-for-sale | \$505,889            | \$ 2,680                     | \$ 16,141                     | \$492,428               |
| Investment securities held-to-maturity         | \$500                | \$—                          | \$—                           | \$500                   |

At June 30, 2014, the fair value of all securities available-for-sale was \$528.6 million, with net unrealized losses of \$5.8 million, compared to a fair value of \$492.4 million and net unrealized losses of \$13.5 million at December 31, 2013. At June 30, 2014, \$344.5 million, or 65.2%, of the portfolio, had gross unrealized losses, compared to \$383.3

million, or 77.8%, at December 31, 2013. The total gross unrealized loss at June 30, 2014 was \$9.2 million, as compared to \$16.1 million at December 31, 2013.

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

## Investment Securities as Collateral

At June 30, 2014 and December 31, 2013, respectively, \$392.9 million and \$402.5 million of investment securities available-for-sale were pledged as collateral for repurchase agreements; municipal deposits; treasury, tax and loan deposits; swap agreements; and Federal Home Loan Bank of Boston ("FHLBB") borrowings.

## Other-Than-Temporary Impairment ("OTTI")

Investment securities at June 30, 2014 and December 31, 2013 that have been in a continuous unrealized loss position for less than twelve months or twelve months or longer are as follows:

|                                                     | At June 30, 2014        |                      |                         |                      |                         |                      |
|-----------------------------------------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|
|                                                     | Less than Twelve Months |                      | Twelve Months or Longer |                      | Total                   |                      |
|                                                     | Estimated<br>Fair Value | Unrealized<br>Losses | Estimated<br>Fair Value | Unrealized<br>Losses | Estimated<br>Fair Value | Unrealized<br>Losses |
|                                                     | (In Thousands)          |                      |                         |                      |                         |                      |
| Debt securities:                                    |                         |                      |                         |                      |                         |                      |
| GSEs                                                | \$1,963                 | \$11                 | \$—                     | \$—                  | \$1,963                 | \$11                 |
| GSE CMOs                                            | 38,406                  | 839                  | 196,095                 | 6,623                | 234,501                 | 7,462                |
| GSE MBSs                                            | 12,323                  | 51                   | 89,592                  | 1,509                | 101,915                 | 1,560                |
| SBA commercial loan<br>asset-backed securities      | 31                      | —                    | 176                     | 1                    | 207                     | 1                    |
| Corporate debt obligations                          | 4,067                   | 11                   | —                       | —                    | 4,067                   | 11                   |
| Trust preferred securities                          | —                       | —                    | 1,299                   | 163                  | 1,299                   | 163                  |
| Temporarily impaired debt<br>securities             | 56,790                  | 912                  | 287,162                 | 8,296                | 343,952                 | 9,208                |
| Marketable equity securities                        | 511                     | 1                    | —                       | —                    | 511                     | 1                    |
| Total temporarily impaired<br>investment securities | \$57,301                | \$913                | \$287,162               | \$8,296              | \$344,463               | \$9,209              |

|                                                | At December 31, 2013    |                      |                         |                      |                         |                      |
|------------------------------------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|
|                                                | Less than Twelve Months |                      | Twelve Months or Longer |                      | Total                   |                      |
|                                                | Estimated<br>Fair Value | Unrealized<br>Losses | Estimated<br>Fair Value | Unrealized<br>Losses | Estimated<br>Fair Value | Unrealized<br>Losses |
|                                                | (In Thousands)          |                      |                         |                      |                         |                      |
| Debt securities:                               |                         |                      |                         |                      |                         |                      |
| GSE CMOs                                       | \$221,317               | \$9,861              | \$16,257                | \$912                | \$237,574               | \$10,773             |
| GSE MBSs                                       | 121,836                 | 3,746                | 13,516                  | 1,183                | 135,352                 | 4,929                |
| Private-label CMOs                             | 639                     | 18                   | —                       | —                    | 639                     | 18                   |
| SBA commercial loan<br>asset-backed securities | 32                      | —                    | 192                     | 2                    | 224                     | 2                    |
| Auction-rate municipal<br>obligations          | —                       | —                    | 1,775                   | 125                  | 1,775                   | 125                  |
| Corporate debt obligations                     | 5,988                   | 33                   | —                       | —                    | 5,988                   | 33                   |
| Trust preferred securities                     | —                       | —                    | 1,210                   | 251                  | 1,210                   | 251                  |

|                                                  |            |           |           |          |            |           |
|--------------------------------------------------|------------|-----------|-----------|----------|------------|-----------|
| Temporarily impaired debt securities             | 349,812    | 13,658    | 32,950    | 2,473    | 382,762    | 16,131    |
| Marketable equity securities                     | 501        | 10        | —         | —        | 501        | 10        |
| Total temporarily impaired investment securities | \$ 350,313 | \$ 13,668 | \$ 32,950 | \$ 2,473 | \$ 383,263 | \$ 16,141 |

Table Of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

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

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

At June 30, 2014, it is more likely than not that the Company will not sell or be required to sell the securities before recovery of its amortized cost. The Company's ability and intent to hold these securities until recovery is supported by the Company's strong capital and liquidity positions as well as its historically low portfolio turnover. As such, management has determined that the securities are not OTTI at June 30, 2014. If market conditions for securities worsen or the creditworthiness of the underlying issuers deteriorates, it is possible that the Company may recognize additional OTTI in future periods.

Debt Securities

U.S. Government-Sponsored Enterprises

The Company invests in securities issued by U.S. Government-sponsored enterprises ("GSEs"), including GSE debt securities, mortgage-backed securities ("MBSs"), and collateralized mortgage obligations ("CMOs"). GSE securities include obligations issued by the Federal National Mortgage Association ("FNMA"), the Federal Home Loan Mortgage Corporation ("FHLMC"), the Government National Mortgage Association ("GNMA"), the Federal Home Loan Banks ("FHLB") and the Federal Farm Credit Bank. At June 30, 2014, only GNMA MBSs and CMOs, and Small Business Administration ("SBA") commercial loan asset-backed securities with an estimated fair value of \$25.4 million were backed explicitly by the full faith and credit of the U.S. Government, compared to \$18.9 million at December 31, 2013.

At June 30, 2014, the Company held GSE debentures with a total fair value of \$16.0 million and a net unrealized gain of \$10.0 thousand. At December 31, 2013, the Company held GSE debentures with a total fair value of \$12.2 million and a net unrealized gain of \$42.0 thousand. At June 30, 2014, one of the six securities in this portfolio were in unrealized loss positions. At December 31, 2013, none of the five securities in this portfolio was in unrealized loss positions. All securities are performing and backed by the implicit (FHLB / FNMA / FHLMC) or explicit (GNMA / SBA) guarantee of the U.S. Government. During the six months ended June 30, 2014, the Company purchased \$2.0 million in GSE debentures. The Company did not purchase any GSE debentures in the same period in 2013.

At June 30, 2014, the Company held GSE mortgage-related securities with a total fair value of \$469.4 million and a net unrealized loss of \$6.3 million. This compares to a total fair value of \$443.0 million and a net unrealized loss of

\$13.8 million at December 31, 2013. At June 30, 2014, 96 of the 241 securities in this portfolio were in unrealized loss positions, compared to 86 of the 232 securities at December 31, 2013. All securities are performing and backed by the implicit (FHLB / FNMA / FHLMC) or explicit (GNMA) guarantee of the U.S. Government. During the six months ended June 30, 2014, the Company purchased \$55.1 million in GSE CMOs and GSE MBSs to reinvest cash from matured securities. This compares to a total of \$82.3 million during the same period in 2013.

#### SBA Commercial Loan Asset-Backed

At both June 30, 2014 and December 31, 2013, the Company held nine SBA securities with a total fair value of \$0.2 million which approximated amortized cost. At both June 30, 2014 and December 31, 2013, seven of the nine securities in this portfolio were in unrealized loss positions. All securities are performing and backed by the explicit (SBA) guarantee of the U.S. Government.

Table Of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

Private-Label CMOs

At June 30, 2014, the Company held no private-issuer CMO-related securities. All private-label CMOs were sold during the second quarter of 2014. At December 31, 2013, the Company held private-issuer CMO-related securities with a total fair value of \$3.4 million and a net unrealized gain of \$0.1 million. At December 31, 2013, two of the eleven securities in this portfolio were in unrealized loss positions.

Auction-Rate Municipal Obligations and Municipal Obligations

The auction-rate obligations owned by the Company were rated “AAA” at the time of acquisition due, in part, to the guarantee of third-party insurers who would have to pay the obligations if the issuers failed to pay the obligations when they become due. During the financial crisis, certain third-party insurers experienced financial difficulties and were not able to meet their contractual obligations. As a result, auctions failed to attract a sufficient number of investors and created a liquidity problem for those investors who were relying on the obligations to be redeemed at auction. Since then, there has not been an active market for auction-rate municipal obligations.

At June 30, 2014, the Company held no auction-rate municipal obligations. All auction-rate municipal obligations were sold during the second quarter of 2014. This compares to an estimated fair value of \$1.8 million, with a corresponding net unrealized loss of \$0.1 million at December 31, 2013. At December 31, 2013, all of the securities in this portfolio were in unrealized loss positions.

The Company owns no municipal obligations at June 30, 2014. All municipal obligations were sold during the second quarter of 2014. This compares to a total fair value of \$1.1 million which also approximated amortized cost at December 31, 2013. At December 31, 2013, none of the securities in this portfolio was in unrealized loss position.

Corporate Obligations

From time to time, the Company will invest in high-quality corporate obligations to provide portfolio diversification and improve the overall yield on the portfolio. The Company owned thirteen corporate obligation securities with a total fair value of \$40.3 million and total net unrealized gains of \$0.6 million at June 30, 2014. This compares to eleven corporate obligation securities with a total fair value of \$28.2 million and total net unrealized gains of \$0.5 million at December 31, 2013. At June 30, 2014, one of the thirteen securities in this portfolio were in unrealized loss positions. At December 31, 2013, two of the eleven securities in this portfolio are in unrealized loss positions. Full collection of the obligations is expected because the financial condition of the issuers is sound, none of the issuers has defaulted on scheduled payments, the obligations are rated investment grade and the Company has the ability and intent to hold the obligations for a period of time to recover the amortized cost. During the six months ended June 30, 2014, the Company purchased \$12.0 million in corporate obligations. The Company did not purchase any corporate obligations in the same period in 2013.

Trust Preferred Securities

Trust preferred securities represent subordinated debt issued by financial institutions. At June 30, 2014, the Company owned two trust preferred securities with a total fair value of \$1.3 million and total net unrealized loss of \$0.2 million. This compares to two trust preferred securities with a total fair value of \$1.2 million and a total net unrealized loss of \$0.3 million at December 31, 2013. At June 30, 2014 and December 31, 2013, both of the securities in this portfolio

were in unrealized loss positions. Full collection of the obligations is expected because the financial condition of the issuers is sound, none of the issuers has defaulted on scheduled payments, the obligations are rated investment grade and the Company has the ability and intent to hold the obligations for a period of time to recover the amortized cost.

#### Marketable Equity Securities

At June 30, 2014, the Company owned marketable equity securities with a fair value of \$1.4 million, including net unrealized gains of \$0.1 million. This compares to a fair value of \$1.3 million and net unrealized gains of \$0.1 million at December 31, 2013. At both June 30, 2014 and December 31, 2013, one out of the four securities in this portfolio was in an unrealized loss position.

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

## Investment Securities Held-to-Maturity

At June 30, 2014, the Company owned a held-to-maturity investment security with a carrying value of \$0.5 million and a fair value of \$0.5 million. This security matures in March 2016 and carries an interest rate payable of 1.3%.

## Portfolio Maturities

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

|                                              | At June 30, 2014       |                         |                             |   | At December 31, 2013 |                         |                             |   |
|----------------------------------------------|------------------------|-------------------------|-----------------------------|---|----------------------|-------------------------|-----------------------------|---|
|                                              | Amortized<br>Cost      | Estimated<br>Fair Value | Weighted<br>Average<br>Rate |   | Amortized<br>Cost    | Estimated<br>Fair Value | Weighted<br>Average<br>Rate |   |
|                                              | (Dollars in Thousands) |                         |                             |   |                      |                         |                             |   |
| Investment securities<br>available-for-sale: |                        |                         |                             |   |                      |                         |                             |   |
| Within 1 year                                | \$12,343               | \$12,370                | 0.67                        | % | \$13,012             | \$13,062                | 0.82                        | % |
| After 1 year through 5 years                 | 52,908                 | 54,177                  | 2.64                        | % | 40,204               | 41,187                  | 2.90                        | % |
| After 5 years through 10 years               | 85,907                 | 87,009                  | 1.97                        | % | 66,447               | 67,075                  | 2.23                        | % |
| Over 10 years                                | 381,969                | 373,671                 | 1.91                        | % | 384,967              | 369,794                 | 1.90                        | % |
|                                              | \$533,127              | \$527,227               | 1.96                        | % | \$504,630            | \$491,118               | 2.00                        | % |
| Investment securities<br>held-to-maturity:   |                        |                         |                             |   |                      |                         |                             |   |
| Within 1 year                                | \$—                    | \$—                     | —                           | % | \$500                | \$500                   | 1.99                        | % |
| After 1 year through 5 years                 | 500                    | 500                     | 1.30                        | % | —                    | —                       | —                           | % |
| After 5 years through 10 years               | —                      | —                       | —                           | % | —                    | —                       | —                           | % |
| Over 10 years                                | —                      | —                       | —                           | % | —                    | —                       | —                           | % |
|                                              | \$500                  | \$500                   | 1.30                        | % | \$500                | \$500                   | 1.99                        | % |

Actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty. At June 30, 2014, issuers of debt securities with an estimated fair value of \$5.2 million had the right to call or prepay the obligations. Of the \$5.2 million, \$2.0 million matures in 1 - 5 years, \$1.9 million matures in 6 - 10 years and \$1.3 million matures after ten years. At December 31, 2013, issuers of debt securities with an estimated fair value of \$3.7 million had the right to call or prepay the obligations. Of the \$3.7 million \$0.7 million matures in less than one year and \$3.0 million matures after ten years. MBSs and CMOs are included above based on their contractual maturities; the remaining lives, however, are expected to be shorter due to anticipated prepayments.

## Security Sales

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on the sale. The following table shows the gross realized gains and losses on available for sale securities for the periods indicated:

|                                     |                                   |
|-------------------------------------|-----------------------------------|
| Three Months Ended<br>June 30, 2014 | Six Months Ended<br>June 30, 2014 |
|-------------------------------------|-----------------------------------|

|                                  | (In Thousands) |          |
|----------------------------------|----------------|----------|
| Sales of debt securities         | \$5,083        | \$5,083  |
| Gross gains from sales           | 302            | 302      |
| Gross losses from sales          | 315            | 315      |
| Loss on sales of securities, net | \$(13)         | ) \$(13) |

14

---

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

There were no security sales during the three and six-month periods ended June 30, 2013.

## (4) Loans and Leases

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

|                                    | At June 30, 2014       |                               |   |           |                               |               |                               |   |
|------------------------------------|------------------------|-------------------------------|---|-----------|-------------------------------|---------------|-------------------------------|---|
|                                    | Originated             |                               |   | Acquired  |                               | Total         |                               |   |
|                                    | Balance                | Weighted<br>Average<br>Coupon |   | Balance   | Weighted<br>Average<br>Coupon | Balance       | Weighted<br>Average<br>Coupon |   |
|                                    | (Dollars in Thousands) |                               |   |           |                               |               |                               |   |
| Commercial real estate loans:      |                        |                               |   |           |                               |               |                               |   |
| Commercial real estate mortgage    | \$1,229,783            | 4.29                          | % | \$315,700 | 4.38                          | % \$1,545,483 | 4.31                          | % |
| Multi-family mortgage              | 562,072                | 4.12                          | % | 69,299    | 4.54                          | % 631,371     | 4.17                          | % |
| Construction                       | 125,940                | 3.87                          | % | 11,791    | 4.43                          | % 137,731     | 3.92                          | % |
| Total commercial real estate loans | 1,917,795              | 4.21                          | % | 396,790   | 4.41                          | % 2,314,585   | 4.25                          | % |
| Commercial loans and leases:       |                        |                               |   |           |                               |               |                               |   |
| Commercial                         | 370,813                | 3.70                          | % | 108,043   | 4.39                          | % 478,856     | 3.86                          | % |
| Equipment financing                | 534,261                | 6.97                          | % | 18,228    | 6.35                          | % 552,489     | 6.95                          | % |
| Condominium association            | 45,608                 | 4.68                          | % | —         | —                             | % 45,608      | 4.68                          | % |
| Total commercial loans and leases  | 950,682                | 5.58                          | % | 126,271   | 4.67                          | % 1,076,953   | 5.48                          | % |
| Indirect automobile loans          | 376,314                | 4.62                          | % | —         | —                             | % 376,314     | 4.62                          | % |
| Consumer loans:                    |                        |                               |   |           |                               |               |                               |   |
| Residential mortgage               | 442,551                | 3.62                          | % | 108,263   | 3.86                          | % 550,814     | 3.67                          | % |
| Home equity                        | 155,122                | 3.39                          | % | 115,081   | 3.86                          | % 270,203     | 3.59                          | % |
| Other consumer                     | 14,343                 | 4.51                          | % | 701       | 14.87                         | % 15,044      | 5.00                          | % |
| Total consumer loans               | 612,016                | 3.58                          | % | 224,045   | 3.90                          | % 836,061     | 3.67                          | % |
| Total loans and leases             | \$3,856,807            | 4.49                          | % | \$747,106 | 4.29                          | % \$4,603,913 | 4.45                          | % |

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

|                                    | At December 31, 2013   |          |             |          |               |          |   |  |
|------------------------------------|------------------------|----------|-------------|----------|---------------|----------|---|--|
|                                    | Originated             | Weighted | Acquired    | Weighted | Total         | Weighted |   |  |
|                                    | Balance                | Average  | Balance     | Average  | Balance       | Average  |   |  |
|                                    | Coupon                 |          | Coupon      |          | Coupon        |          |   |  |
|                                    | (Dollars in Thousands) |          |             |          |               |          |   |  |
| Commercial real estate loans:      |                        |          |             |          |               |          |   |  |
| Commercial real estate mortgage    | \$1,111,750            | 4.34     | % \$350,235 | 4.42     | % \$1,461,985 | 4.36     | % |  |
| Multi-family mortgage              | 554,555                | 4.19     | % 73,378    | 4.63     | % 627,933     | 4.24     | % |  |
| Construction                       | 102,927                | 3.81     | % 10,778    | 4.37     | % 113,705     | 3.87     | % |  |
| Total commercial real estate loans | 1,769,232              | 4.26     | % 434,391   | 4.46     | % 2,203,623   | 4.30     | % |  |
| Commercial loans and leases:       |                        |          |             |          |               |          |   |  |
| Commercial                         | 297,684                | 3.68     | % 110,108   | 4.54     | % 407,792     | 3.91     | % |  |
| Equipment financing                | 485,330                | 7.14     | % 27,694    | 6.60     | % 513,024     | 7.11     | % |  |
| Condominium association            | 44,794                 | 4.74     | % —         | —        | % 44,794      | 4.74     | % |  |
| Total commercial loans and leases  | 827,808                | 5.77     | % 137,802   | 4.95     | % 965,610     | 5.65     | % |  |
| Indirect automobile loans          | 400,531                | 4.98     | % —         | —        | % 400,531     | 4.98     | % |  |
| Consumer loans:                    |                        |          |             |          |               |          |   |  |
| Residential mortgage               | 411,554                | 3.65     | % 116,631   | 3.93     | % 528,185     | 3.71     | % |  |
| Home equity                        | 132,396                | 3.39     | % 125,065   | 3.88     | % 257,461     | 3.63     | % |  |
| Other consumer                     | 5,532                  | 5.98     | % 1,523     | 14.89    | % 7,055       | 7.90     | % |  |
| Total consumer loans               | 549,482                | 3.61     | % 243,219   | 3.98     | % 792,701     | 3.72     | % |  |
| Total loans and leases             | \$3,547,053            | 4.59     | % \$815,412 | 4.38     | % \$4,362,465 | 4.55     | % |  |

The Company lends primarily in the eastern half of Massachusetts, southern New Hampshire and Rhode Island, with the exception of equipment financing, 36.9% of which is in the greater New York/New Jersey metropolitan area and 63.1% of which is in other areas in the United States of America.

## Accretable Yield for the Acquired Loan Portfolio

The following table summarizes activity in the accretable yield for the acquired loan portfolio for the periods indicated:

|                                                                                   | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|-----------------------------------------------------------------------------------|-----------------------------|----------|---------------------------|----------|
|                                                                                   | 2014                        | 2013     | 2014                      | 2013     |
|                                                                                   | (In Thousands)              |          |                           |          |
| Balance at beginning of period                                                    | \$42,501                    | \$53,815 | \$45,789                  | \$57,812 |
| Reclassification from nonaccretable difference for loans with improved cash flows | 214                         | 3,180    | 1,654                     | 5,376    |
| Accretion                                                                         | (4,537)                     | (4,813)  | (9,265)                   | (11,006) |
| Balance at end of period                                                          | \$38,178                    | \$52,182 | \$38,178                  | \$52,182 |

On a quarterly basis, subsequent to acquisition, management reforecasts the expected cash flows for acquired ASC 310-30 loans, taking into account prepayment speeds, probability of default and loss given defaults. Management compares cash flow projections per the reforecast to the original cash flow projections and determines whether any reduction in cash flow expectations are due to credit deterioration, or if the change in cash flow is related to noncredit events. This cash flow analysis is used to evaluate the need for a loan loss provision and/or prospective yield adjustments. During the six months ended June 30, 2014 and 2013, accretable yield adjustments totaling \$1.7 million and \$5.4 million, respectively, were made for certain

Table Of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

loan pools. These prospective accretable yield adjustments, which are subject to continued re-assessment, will be recognized over the remaining lives of those pools.

The aggregate remaining nonaccretable difference (representing both principal and interest) applicable to acquired loans and leases totaled \$4.6 million and \$6.1 million at June 30, 2014 and December 31, 2013, respectively.

Related Party Loans

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

The following table summarizes the change in the total amounts of loans and advances, to directors, executive officers and their affiliates for the periods indicated. All loans were performing at June 30, 2014 and December 31, 2013.

|                                                   | Six Months Ended June 30, |         |
|---------------------------------------------------|---------------------------|---------|
|                                                   | 2014                      | 2013    |
|                                                   | (In Thousands)            |         |
| Balance at beginning of period                    | \$16,110                  | \$4,083 |
| New loans granted during the period               | 1,740                     | 100     |
| Advances on lines of credit                       | 1,451                     | 91      |
| Repayments                                        | (522)                     | (349)   |
| Loans no longer classified as related party loans | (978)                     | 545     |
| Balance at end of period                          | \$17,801                  | \$4,470 |

Unfunded commitments on extensions of credit to insiders totaled \$10.4 million and \$11.7 million at June 30, 2014 and December 31, 2013, respectively.

Loans and Leases Pledged as Collateral

At June 30, 2014 and December 31, 2013, respectively, \$1.5 billion and \$1.2 billion of loans and leases were pledged as collateral for wholesale borrowing.

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

## At and for the Six Months Ended June 30, 2014 and 2013

## (5) Allowance for Loan and Lease Losses

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

|                                              | Three Months Ended June 30, 2014 |            |                        |          |             |          |
|----------------------------------------------|----------------------------------|------------|------------------------|----------|-------------|----------|
|                                              | Commercial<br>Real Estate        | Commercial | Indirect<br>Automobile | Consumer | Unallocated | Total    |
|                                              | (In Thousands)                   |            |                        |          |             |          |
| Balance at March 31, 2014                    | \$24,858                         | \$15,544   | \$3,664                | \$3,110  | \$3,048     | \$50,224 |
| Charge-offs                                  | —                                | (796)      | (228)                  | (172)    | —           | (1,196)  |
| Recoveries                                   | —                                | 218        | 173                    | 85       | —           | 476      |
| Provision (credit) for loan and lease losses | 1,857                            | 900        | 77                     | (6)      | (646)       | 2,182    |
| Balance at June 30, 2014                     | \$26,715                         | \$15,866   | \$3,686                | \$3,017  | \$2,402     | \$51,686 |
|                                              | Three Months Ended June 30, 2013 |            |                        |          |             |          |
|                                              | Commercial<br>Real Estate        | Commercial | Indirect<br>Automobile | Consumer | Unallocated | Total    |
|                                              | (In Thousands)                   |            |                        |          |             |          |
| Balance at March 31, 2013                    | \$20,588                         | \$11,652   | \$5,000                | \$2,596  | \$2,696     | \$42,532 |
| Charge-offs                                  | (81)                             | (477)      | (318)                  | (154)    | —           | (1,030)  |
| Recoveries                                   | —                                | 182        | 149                    | 60       | —           | 391      |
| Provision (credit) for loan and lease losses | 1,512                            | 434        | (136)                  | 497      | 81          | 2,388    |
| Balance at June 30, 2013                     | \$22,019                         | \$11,791   | \$4,695                | \$2,999  | \$2,777     | \$44,281 |
|                                              | Six Months Ended June 30, 2014   |            |                        |          |             |          |
|                                              | Commercial<br>Real Estate        | Commercial | Indirect<br>Automobile | Consumer | Unallocated | Total    |
|                                              | (In Thousands)                   |            |                        |          |             |          |
| Balance at December 31, 2013                 | \$23,022                         | \$15,220   | \$3,924                | \$3,375  | \$2,932     | \$48,473 |
| Charge-offs                                  | —                                | (1,347)    | (517)                  | (382)    | —           | (2,246)  |
| Recoveries                                   | —                                | 469        | 277                    | 114      | —           | 860      |
| Provision (credit) for loan and lease losses | 3,693                            | 1,524      | 2                      | (90)     | (530)       | 4,599    |
| Balance at June 30, 2014                     | \$26,715                         | \$15,866   | \$3,686                | \$3,017  | \$2,402     | \$51,686 |
|                                              | Six Months Ended June 30, 2013   |            |                        |          |             |          |
|                                              | Commercial<br>Real Estate        | Commercial | Indirect<br>Automobile | Consumer | Unallocated | Total    |
|                                              | (In Thousands)                   |            |                        |          |             |          |
| Balance at December 31, 2012                 | \$20,018                         | \$10,655   | \$5,304                | \$2,545  | \$2,630     | \$41,152 |
| Charge-offs                                  | (81)                             | (724)      | (680)                  | (206)    | —           | (1,691)  |
| Recoveries                                   | 4                                | 264        | 279                    | 86       | —           | 633      |
| Provision (credit) for loan and lease losses | 2,078                            | 1,596      | (208)                  | 574      | 147         | 4,187    |
| Balance at June 30, 2013                     | \$22,019                         | \$11,791   | \$4,695                | \$2,999  | \$2,777     | \$44,281 |

The liability for unfunded credit commitments, which is included in other liabilities, was \$1.2 million, \$1.0 million and \$0.9 million at June 30, 2014, December 31, 2013 and June 30, 2013, respectively. During the six-month periods ended June 30, 2014 and 2013, the liability for unfunded credit commitments increased by \$0.2 million and \$0.2 million, respectively, to reflect changes in the estimate of loss exposure associated with credit commitments. No credit commitments were charged off against the liability account in the six-month periods ended June 30, 2014 and 2013.

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

## Provision for Credit Losses

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

|                                               | Three Months Ended June 30, |         | Six Months Ended June 30, |         |
|-----------------------------------------------|-----------------------------|---------|---------------------------|---------|
|                                               | 2014                        | 2013    | 2014                      | 2013    |
|                                               | (In Thousands)              |         |                           |         |
| Provision (credit) for loan and lease losses: |                             |         |                           |         |
| Commercial real estate                        | \$1,857                     | \$1,512 | \$3,693                   | \$2,078 |
| Commercial                                    | 900                         | 434     | 1,524                     | 1,596   |
| Indirect automobile                           | 77                          | (136)   | 2                         | (208)   |
| Consumer                                      | (6)                         | ) 497   | (90)                      | ) 574   |
| Unallocated                                   | (646)                       | ) 81    | (530)                     | ) 147   |
| Total provision for loan and lease losses     | 2,182                       | 2,388   | 4,599                     | 4,187   |
| Unfunded credit commitments                   | 94                          | 51      | 120                       | 107     |
| Total provision for credit losses             | \$2,276                     | \$2,439 | \$4,719                   | \$4,294 |

## Procedure for Placing Loans and Leases on Nonaccrual

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

## Allowance for Loan and Lease Losses Methodology

Management has established a methodology to determine the adequacy of the allowance for loan and lease losses that assesses the risks and losses inherent in the loan and lease portfolio. For purposes of determining the allowance for loan and lease losses, the Company has segmented certain loans and leases in the portfolio by product type into the following pools: (1) commercial real estate loans, (2) commercial loans and leases, (3) indirect automobile loans and (4) consumer loans. Portfolio segments are further disaggregated into classes based on the associated risks within the segments. Commercial real estate loans are divided into three classes: commercial real estate mortgage loans, multi-family mortgage loans and construction loans. Commercial loans and leases are divided into three classes: commercial loans, equipment financing, and loans to condominium associations. The indirect automobile loan segment is not divided into classes. Consumer loans are divided into three classes: residential mortgage loans, home equity loans and other consumer loans. For each class of loan, management makes significant judgments in selecting the estimation method that fits the credit characteristics of its class and portfolio segment as set forth below.

## General Allowance

The general allowance for loan and lease losses was \$48.2 million at June 30, 2014, compared to \$44.1 million at December 31, 2013. The general portion of the allowance for loan and lease losses increased by \$4.1 million during

the six months ended June 30, 2014, in part as a result of growth in the commercial real estate and equipment financing portfolios partially offset by the decrease in the indirect auto portfolio.

#### Specific Allowance

The specific allowance for loan and lease losses was \$1.1 million at June 30, 2014, compared to \$1.5 million at December 31, 2013. The specific allowance decreased by \$0.4 million during the six months ended June 30, 2014, largely as a result of improved credit quality and higher collateral value underlying those impaired loans and leases.

Table Of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

Unallocated Allowance

The unallocated allowance for loan and lease losses was \$2.4 million at June 30, 2014, compared to \$2.9 million at December 31, 2013. The unallocated portion of the allowance for loan and lease losses decreased by \$0.5 million during the six months ended June 30, 2014, largely as the result of improved credit quality and loss history.

Credit Quality Assessment

At the time of loan origination, a rating is assigned based on the financial strength of the borrower and the value of assets pledged as collateral. The Company continually monitors the asset quality of the loan portfolio using all available information. The officer responsible for handling each loan is required to initiate changes to risk ratings when changes in facts and circumstances occur that warrant an upgrade or downgrade in a loan rating. Based on this information, loans demonstrating certain payment issues or other weaknesses may be categorized as delinquent, impaired, nonperforming and/or put on nonaccrual status. Additionally, in the course of resolving such loans, the Company may choose to restructure the contractual terms of certain loans to match the borrower's ability to repay the loan based on their current financial condition. If a restructured loan meets certain criteria, it may be categorized as a troubled debt restructuring.

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

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

1-4 Rating — Pass

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

5 Rating — Other Asset Especially Mentioned ("OAEM")

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

6 Rating — Substandard

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

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

## 7 Rating — Doubtful

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

## 8 Rating — Definite Loss

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

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

## Credit Quality Information

The following tables present the recorded investment in loans in each class at June 30, 2014 by credit quality indicator.

|                  | At June 30, 2014                                        |                              |              |            |                        |                            |                   |
|------------------|---------------------------------------------------------|------------------------------|--------------|------------|------------------------|----------------------------|-------------------|
|                  | Commercial<br>Real Estate<br>Mortgage<br>(In Thousands) | Multi-<br>Family<br>Mortgage | Construction | Commercial | Equipment<br>Financing | Condominium<br>Association | Other<br>Consumer |
| Originated:      |                                                         |                              |              |            |                        |                            |                   |
| Loan rating:     |                                                         |                              |              |            |                        |                            |                   |
| Pass             | \$1,220,046                                             | \$561,705                    | \$125,940    | \$359,654  | \$529,588              | \$45,608                   | \$14,332          |
| OAEM             | 8,685                                                   | 367                          | —            | 8,853      | 1,082                  | —                          | —                 |
| Substandard      | 1,052                                                   | —                            | —            | 1,011      | 3,002                  | —                          | 11                |
| Doubtful         | —                                                       | —                            | —            | 1,295      | 589                    | —                          | —                 |
| Total originated | 1,229,783                                               | 562,072                      | 125,940      | 370,813    | 534,261                | 45,608                     | 14,343            |
| Acquired:        |                                                         |                              |              |            |                        |                            |                   |
| Loan rating:     |                                                         |                              |              |            |                        |                            |                   |
| Pass             | 301,358                                                 | 63,085                       | 11,523       | 96,171     | 18,123                 | —                          | 689               |
| OAEM             | 4,569                                                   | 2,553                        | 268          | 2,468      | 33                     | —                          | —                 |
| Substandard      | 9,727                                                   | 3,661                        | —            | 9,256      | 72                     | —                          | 12                |
| Doubtful         | 46                                                      | —                            | —            | 148        | —                      | —                          | —                 |
| Total acquired   | 315,700                                                 | 69,299                       | 11,791       | 108,043    | 18,228                 | —                          | 701               |
| Total loans      | \$1,545,483                                             | \$631,371                    | \$137,731    | \$478,856  | \$552,489              | \$45,608                   | \$15,044          |

At June 30, 2014, there were no loans categorized as definite loss.

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

|                      | At June 30, 2014    |       |                          |           |                          |   |
|----------------------|---------------------|-------|--------------------------|-----------|--------------------------|---|
|                      | Indirect Automobile |       |                          |           |                          |   |
|                      | (In Thousands)      |       |                          | (Percent) |                          |   |
| Originated:          |                     |       |                          |           |                          |   |
| Credit score:        |                     |       |                          |           |                          |   |
| Over 700             |                     |       | \$312,755                |           | 83.1                     | % |
| 661-700              |                     |       | 50,960                   |           | 13.6                     | % |
| 660 and below        |                     |       | 11,083                   |           | 2.9                      | % |
| Data not available   |                     |       | 1,516                    |           | 0.4                      | % |
| Total loans          |                     |       | \$376,314                |           | 100.0                    | % |
|                      |                     |       |                          |           |                          |   |
|                      |                     |       | At June 30, 2014         |           |                          |   |
|                      |                     |       | Residential Mortgage     |           | Home Equity              |   |
|                      |                     |       | (In Thousands) (Percent) |           | (In Thousands) (Percent) |   |
| Originated:          |                     |       |                          |           |                          |   |
| Loan-to-value ratio: |                     |       |                          |           |                          |   |
| Less than 50%        | \$104,052           | 18.9  | %                        | \$92,667  | 34.3                     | % |
| 50% - 69%            | 155,284             | 28.2  | %                        | 33,727    | 12.5                     | % |
| 70% - 79%            | 150,649             | 27.3  | %                        | 23,972    | 8.9                      | % |
| 80% and over         | 29,114              | 5.3   | %                        | 3,823     | 1.4                      | % |
| Data not available   | 3,452               | 0.6   | %                        | 933       | 0.3                      | % |
| Total originated     | 442,551             | 80.3  | %                        | 155,122   | 57.4                     | % |
|                      |                     |       |                          |           |                          |   |
| Acquired:            |                     |       |                          |           |                          |   |
| Loan-to-value ratio: |                     |       |                          |           |                          |   |
| Less than 50%        | 20,075              | 3.7   | %                        | 76,631    | 28.4                     | % |
| 50% - 69%            | 37,392              | 6.8   | %                        | 24,276    | 9.0                      | % |
| 70% - 79%            | 27,166              | 4.9   | %                        | 11,973    | 4.4                      | % |
| 80% and over         | 19,167              | 3.5   | %                        | 1,483     | 0.5                      | % |
| Data not available   | 4,463               | 0.8   | %                        | 718       | 0.3                      | % |
| Total acquired       | 108,263             | 19.7  | %                        | 115,081   | 42.6                     | % |
|                      |                     |       |                          |           |                          |   |
| Total loans          | \$550,814           | 100.0 | %                        | \$270,203 | 100.0                    | % |

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

The following tables present the recorded investment in loans in each class at December 31, 2013 by credit quality indicator.

|                  | At December 31, 2013                                    |                              |              |            |                        |                            |                   |
|------------------|---------------------------------------------------------|------------------------------|--------------|------------|------------------------|----------------------------|-------------------|
|                  | Commercial<br>Real Estate<br>Mortgage<br>(In Thousands) | Multi-<br>Family<br>Mortgage | Construction | Commercial | Equipment<br>Financing | Condominium<br>Association | Other<br>Consumer |
| Originated:      |                                                         |                              |              |            |                        |                            |                   |
| Loan rating:     |                                                         |                              |              |            |                        |                            |                   |
| Pass             | \$ 1,099,108                                            | \$ 554,183                   | \$ 102,927   | \$ 295,057 | \$ 479,811             | \$ 44,793                  | \$ 5,528          |
| OAEM             | 11,555                                                  | 372                          | —            | 49         | 625                    | —                          | —                 |
| Substandard      | 1,087                                                   | —                            | —            | 1,078      | 4,817                  | 1                          | 4                 |
| Doubtful         | —                                                       | —                            | —            | 1,500      | 77                     | —                          | —                 |
| Total originated | 1,111,750                                               | 554,555                      | 102,927      | 297,684    | 485,330                | 44,794                     | 5,532             |
| Acquired:        |                                                         |                              |              |            |                        |                            |                   |
| Loan rating:     |                                                         |                              |              |            |                        |                            |                   |
| Pass             | 332,145                                                 | 69,310                       | 10,090       | 96,779     | 27,535                 | —                          | 1,509             |
| OAEM             | 7,556                                                   | 463                          | 688          | 4,617      | 61                     | —                          | —                 |
| Substandard      | 8,645                                                   | 3,605                        | —            | 8,518      | 98                     | —                          | 14                |
| Doubtful         | 1,889                                                   | —                            | —            | 194        | —                      | —                          | —                 |
| Total acquired   | 350,235                                                 | 73,378                       | 10,778       | 110,108    | 27,694                 | —                          | 1,523             |
| Total loans      | \$ 1,461,985                                            | \$ 627,933                   | \$ 113,705   | \$ 407,792 | \$ 513,024             | \$ 44,794                  | \$ 7,055          |

At December 31, 2013, there were no loans categorized as definite loss.

|                    | At December 31, 2013                  |           |   |
|--------------------|---------------------------------------|-----------|---|
|                    | Indirect Automobile<br>(In Thousands) | (Percent) |   |
| Originated:        |                                       |           |   |
| Credit score:      |                                       |           |   |
| Over 700           | \$ 332,140                            | 82.9      | % |
| 661-700            | 54,038                                | 13.5      | % |
| 660 and below      | 12,793                                | 3.2       | % |
| Data not available | 1,560                                 | 0.4       | % |
| Total loans        | \$ 400,531                            | 100.0     | % |

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

|                      | At December 31, 2013     |       |   | Home Equity              |       |   |
|----------------------|--------------------------|-------|---|--------------------------|-------|---|
|                      | Residential Mortgage     |       |   | (In Thousands) (Percent) |       |   |
|                      | (In Thousands) (Percent) |       |   |                          |       |   |
| Originated:          |                          |       |   |                          |       |   |
| Loan-to-value ratio: |                          |       |   |                          |       |   |
| Less than 50%        | \$94,500                 | 17.9  | % | \$75,372                 | 29.3  | % |
| 50% - 69%            | 149,969                  | 28.4  | % | 31,504                   | 12.2  | % |
| 70% - 79%            | 139,960                  | 26.5  | % | 21,161                   | 8.2   | % |
| 80% and over         | 22,772                   | 4.3   | % | 3,240                    | 1.3   | % |
| Data not available   | 4,353                    | 0.8   | % | 1,119                    | 0.4   | % |
| Total originated     | 411,554                  | 77.9  | % | 132,396                  | 51.4  | % |
| Acquired:            |                          |       |   |                          |       |   |
| Loan-to-value ratio: |                          |       |   |                          |       |   |
| Less than 50%        | 23,101                   | 4.4   | % | 84,272                   | 32.7  | % |
| 50% - 69%            | 39,298                   | 7.4   | % | 25,964                   | 10.1  | % |
| 70% - 79%            | 31,932                   | 6.0   | % | 13,390                   | 5.2   | % |
| 80% and over         | 19,870                   | 3.8   | % | 1,208                    | 0.5   | % |
| Data not available   | 2,430                    | 0.5   | % | 231                      | 0.1   | % |
| Total acquired       | 116,631                  | 22.1  | % | 125,065                  | 48.6  | % |
| Total loans          | \$528,185                | 100.0 | % | \$257,461                | 100.0 | % |

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

## Age Analysis of Past Due Loans and Leases

The following tables present an age analysis of the recorded investment in total loans and leases at June 30, 2014 and December 31, 2013.

|                                    | At June 30, 2014 |            |                      |          |             |                        | Loans and Leases Past Due Greater Than 90 Days and Nonaccrual Loans and Leases |         |
|------------------------------------|------------------|------------|----------------------|----------|-------------|------------------------|--------------------------------------------------------------------------------|---------|
|                                    | Past Due         |            | Greater Than 90 Days | Total    | Current     | Total Loans and Leases | Due Greater Than 90 Days and Accruing Leases                                   |         |
|                                    | 31-60 Days       | 61-90 Days |                      |          |             |                        |                                                                                |         |
| (In Thousands)                     |                  |            |                      |          |             |                        |                                                                                |         |
| Originated:                        |                  |            |                      |          |             |                        |                                                                                |         |
| Commercial real estate loans:      |                  |            |                      |          |             |                        |                                                                                |         |
| Commercial real estate mortgage    | \$—              | \$888      | \$164                | \$1,052  | \$1,228,731 | \$1,229,783            | \$—                                                                            | \$1,052 |
| Multi-family mortgage              | —                | —          | 71                   | 71       | 562,001     | 562,072                | 71                                                                             | —       |
| Construction                       | —                | —          | —                    | —        | 125,940     | 125,940                | —                                                                              | —       |
| Total commercial real estate loans | —                | 888        | 235                  | 1,123    | 1,916,672   | 1,917,795              | 71                                                                             | 1,052   |
| Commercial loans and leases:       |                  |            |                      |          |             |                        |                                                                                |         |
| Commercial                         | 1,657            | 355        | 1,296                | 3,308    | 367,505     | 370,813                | —                                                                              | 1,339   |
| Equipment financing                | 1,199            | 526        | 2,098                | 3,823    | 530,438     | 534,261                | 122                                                                            | 3,251   |
| Condominium association            | 139              | —          | —                    | 139      | 45,469      | 45,608                 | —                                                                              | —       |
| Total commercial loans and leases  | 2,995            | 881        | 3,394                | 7,270    | 943,412     | 950,682                | 122                                                                            | 4,590   |
| Indirect automobile                | 4,754            | 579        | 19                   | 5,352    | 370,962     | 376,314                | 2                                                                              | 325     |
| Consumer loans:                    |                  |            |                      |          |             |                        |                                                                                |         |
| Residential mortgage               | 493              | —          | 29                   | 522      | 442,029     | 442,551                | —                                                                              | 1,393   |
| Home equity                        | 100              | 21         | —                    | 121      | 155,001     | 155,122                | —                                                                              | 404     |
| Other consumer                     | 13               | 4          | 15                   | 32       | 14,311      | 14,343                 | —                                                                              | 15      |
| Total consumer loans               | 606              | 25         | 44                   | 675      | 611,341     | 612,016                | —                                                                              | 1,812   |
| Total originated loans and leases  | \$8,355          | \$2,373    | \$3,692              | \$14,420 | \$3,842,387 | \$3,856,807            | \$ 195                                                                         | \$7,779 |

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

|                                    | At June 30, 2014 |            |                      |          |             |                        |                                                             |                             |
|------------------------------------|------------------|------------|----------------------|----------|-------------|------------------------|-------------------------------------------------------------|-----------------------------|
|                                    | Past Due         |            |                      |          |             |                        | Loans and Leases Past Due Greater Than 90 Days and Accruing | Nonaccrual Loans and Leases |
|                                    | 31-60 Days       | 61-90 Days | Greater Than 90 Days | Total    | Current     | Total Loans and Leases |                                                             |                             |
|                                    | (In Thousands)   |            |                      |          |             |                        |                                                             |                             |
| Acquired:                          |                  |            |                      |          |             |                        |                                                             |                             |
| Commercial real estate loans:      |                  |            |                      |          |             |                        |                                                             |                             |
| Commercial real estate mortgage    | \$3,754          | \$362      | \$2,122              | \$6,238  | \$309,462   | \$315,700              | \$1,627                                                     | \$1,959                     |
| Multi-family mortgage              | 1,012            | —          | 1,296                | 2,308    | 66,991      | 69,299                 | 1,296                                                       | —                           |
| Construction                       | 268              | —          | —                    | 268      | 11,523      | 11,791                 | —                                                           | —                           |
| Total commercial real estate loans | 5,034            | 362        | 3,418                | 8,814    | 387,976     | 396,790                | 2,923                                                       | 1,959                       |
| Commercial loans and leases:       |                  |            |                      |          |             |                        |                                                             |                             |
| Commercial                         | 383              | 300        | 3,315                | 3,998    | 104,045     | 108,043                | 864                                                         | 5,044                       |
| Equipment financing                | —                | 35         | 72                   | 107      | 18,121      | 18,228                 | 73                                                          | —                           |
| Total commercial loans and leases  | 383              | 335        | 3,387                | 4,105    | 122,166     | 126,271                | 937                                                         | 5,044                       |
| Consumer loans:                    |                  |            |                      |          |             |                        |                                                             |                             |
| Residential mortgage               | 456              | 53         | 3,090                | 3,599    | 104,664     | 108,263                | 2,428                                                       | 991                         |
| Home equity                        | 764              | 1,049      | 783                  | 2,596    | 112,485     | 115,081                | 170                                                         | 1,367                       |
| Other consumer                     | 1                | 10         | 16                   | 27       | 674         | 701                    | —                                                           | 21                          |
| Total consumer loans               | 1,221            | 1,112      | 3,889                | 6,222    | 217,823     | 224,045                | 2,598                                                       | 2,379                       |
| Total acquired loans and leases    | \$6,638          | \$1,809    | \$10,694             | \$19,141 | \$727,965   | \$747,106              | \$6,458                                                     | \$9,382                     |
| Total loans and leases             | \$14,993         | \$4,182    | \$14,386             | \$33,561 | \$4,570,352 | \$4,603,913            | \$6,653                                                     | \$17,161                    |

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

|                                    | At December 31, 2013 |            |                      |          |             |                        |                                                             |                             |
|------------------------------------|----------------------|------------|----------------------|----------|-------------|------------------------|-------------------------------------------------------------|-----------------------------|
|                                    | Past Due             |            |                      |          |             |                        | Loans and Leases Past Due Greater Than 90 Days and Accruing | Nonaccrual Loans and Leases |
|                                    | 31-60 Days           | 61-90 Days | Greater Than 90 Days | Total    | Current     | Total Loans and Leases |                                                             |                             |
|                                    | (In Thousands)       |            |                      |          |             |                        |                                                             |                             |
| Originated:                        |                      |            |                      |          |             |                        |                                                             |                             |
| Commercial real estate loans:      |                      |            |                      |          |             |                        |                                                             |                             |
| Commercial real estate mortgage    | \$4,896              | \$1,393    | \$169                | \$6,458  | \$1,105,292 | \$1,111,750            | \$—                                                         | \$169                       |
| Multi-family mortgage              | 14,400               | —          | —                    | 14,400   | 540,155     | 554,555                | —                                                           | —                           |
| Construction                       | —                    | —          | —                    | —        | 102,927     | 102,927                | —                                                           | —                           |
| Total commercial real estate loans | 19,296               | 1,393      | 169                  | 20,858   | 1,748,374   | 1,769,232              | —                                                           | 169                         |
| Commercial loans and leases:       |                      |            |                      |          |             |                        |                                                             |                             |
| Commercial                         | 2,288                | 75         | 842                  | 3,205    | 294,479     | 297,684                | —                                                           | 1,551                       |
| Equipment financing                | 867                  | 1,558      | 2,031                | 4,456    | 480,874     | 485,330                | —                                                           | 4,086                       |
| Condominium association            | —                    | —          | —                    | —        | 44,794      | 44,794                 | —                                                           | 1                           |
| Total commercial loans and leases  | 3,155                | 1,633      | 2,873                | 7,661    | 820,147     | 827,808                | —                                                           | 5,638                       |
| Indirect automobile                | 5,407                | 857        | 229                  | 6,493    | 394,038     | 400,531                | 10                                                          | 259                         |
| Consumer loans:                    |                      |            |                      |          |             |                        |                                                             |                             |
| Residential mortgage               | 201                  | —          | 415                  | 616      | 410,938     | 411,554                | —                                                           | 1,713                       |
| Home equity                        | 218                  | —          | —                    | 218      | 132,178     | 132,396                | —                                                           | 462                         |
| Other consumer                     | 11                   | 1          | 4                    | 16       | 5,516       | 5,532                  | —                                                           | 4                           |
| Total consumer loans               | 430                  | 1          | 419                  | 850      | 548,632     | 549,482                | —                                                           | 2,179                       |
| Total originated loans and leases  | \$28,288             | \$3,884    | \$3,690              | \$35,862 | \$3,511,191 | \$3,547,053            | \$10                                                        | \$8,245                     |

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

| At December 31, 2013               |                |            |                      |          |             |                        |                                                             |          |
|------------------------------------|----------------|------------|----------------------|----------|-------------|------------------------|-------------------------------------------------------------|----------|
|                                    | Past Due       |            |                      | Total    | Current     | Total Loans and Leases | Loans and Leases Past Due Greater Than 90 Days and Accruing |          |
|                                    | 31-60 Days     | 61-90 Days | Greater Than 90 Days |          |             |                        | Nonaccrual Loans and Leases                                 |          |
|                                    | (In Thousands) |            |                      |          |             |                        |                                                             |          |
| Acquired:                          |                |            |                      |          |             |                        |                                                             |          |
| Commercial real estate loans:      |                |            |                      |          |             |                        |                                                             |          |
| Commercial real estate mortgage    | \$1,221        | \$87       | \$4,887              | \$6,195  | \$344,040   | \$350,235              | \$3,958                                                     | \$929    |
| Multi-family mortgage              | 327            | —          | 1,052                | 1,379    | 71,999      | 73,378                 | 1,052                                                       | —        |
| Construction                       | —              | 409        | —                    | 409      | 10,369      | 10,778                 | —                                                           | —        |
| Total commercial real estate loans | 1,548          | 496        | 5,939                | 7,983    | 426,408     | 434,391                | 5,010                                                       | 929      |
| Commercial loans and leases:       |                |            |                      |          |             |                        |                                                             |          |
| Commercial                         | 2,707          | 121        | 1,931                | 4,759    | 105,349     | 110,108                | 1,235                                                       | 4,597    |
| Equipment financing                | 46             | 41         | 73                   | 160      | 27,534      | 27,694                 | 73                                                          | 29       |
| Total commercial loans and leases  | 2,753          | 162        | 2,004                | 4,919    | 132,883     | 137,802                | 1,308                                                       | 4,626    |
| Consumer loans:                    |                |            |                      |          |             |                        |                                                             |          |
| Residential mortgage               | 271            | 777        | 5,329                | 6,377    | 110,254     | 116,631                | 4,468                                                       | 1,162    |
| Home equity                        | 1,259          | 552        | 895                  | 2,706    | 122,359     | 125,065                | 117                                                         | 1,525    |
| Other consumer                     | 6              | 11         | 4                    | 21       | 1,502       | 1,523                  | —                                                           | 14       |
| Total consumer loans               | 1,536          | 1,340      | 6,228                | 9,104    | 234,115     | 243,219                | 4,585                                                       | 2,701    |
| Total acquired loans and leases    | \$5,837        | \$1,998    | \$14,171             | \$22,006 | \$793,406   | \$815,412              | \$10,903                                                    | \$8,256  |
| Total loan and leases              | \$34,125       | \$5,882    | \$17,861             | \$57,868 | \$4,304,597 | \$4,362,465            | \$10,913                                                    | \$16,501 |

Commercial Real Estate Loans — At June 30, 2014, loans outstanding in the three classes within this segment expressed as a percentage of total loans and leases outstanding were as follows: commercial real estate mortgage loans — 33.6%; multi-family mortgage loans — 13.7%; and construction loans — 3.0%.

Loans in this portfolio that are on nonaccrual status and/or risk-rated “substandard” or worse are evaluated on an individual loan basis for impairment. For non-impaired commercial real estate loans, loss factors are applied to outstanding loans by risk rating for each of the three classes in the portfolio. The factors applied are based primarily on historic loan loss experience and an assessment of internal and external factors and other relevant information.

Commercial Loans and Leases — At June 30, 2014, loans and leases outstanding in the three classes within this segment expressed as a percent of total loans and leases outstanding were as follows: commercial loans and leases — 10.4%; equipment financing loans — 12.0%; and loans to condominium associations — 1.0%.

Loans and leases in this portfolio that are on nonaccrual status and/or risk-rated “substandard” or worse are evaluated on an individual basis for impairment. For non-impaired commercial loans and leases, loss factors are applied to outstanding loans by risk rating for each of the three classes in the portfolio.

Indirect Automobile Loans — At June 30, 2014, indirect automobile loans represented 8.2% of the Company’s total loan and lease portfolio. Determination of the allowance for loan and lease losses for this portfolio is based primarily on payment status and historical loss rates.

Table Of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

Consumer Loans — At June 30, 2014, loans outstanding within the three classes within this segment expressed as a percent of total loans and leases outstanding were as follows: residential mortgage loans — 11.9%; home equity loans — 5.9%; and other consumer loans — 0.3%.

Significant risk characteristics related to the residential mortgage and home equity loan portfolios are the geographic concentration of the properties financed within selected communities in the greater Boston and Providence metropolitan areas and the economic conditions in those areas as previously commented upon in the “Commercial Real Estate Loans” subsection above. The payment status and loan-to-value ratio are the primary credit quality indicators 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. Consumer loans that become 90 days or more past due, or are placed on nonaccrual regardless of past due status, are reviewed on an individual basis for impairment by assessing the net realizable value of underlying collateral and the economic condition of the borrower.

Impaired Loans and Leases

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

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

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

|                                                     | At June 30, 2014    |                          |                   | At December 31, 2013 |                          |                   |
|-----------------------------------------------------|---------------------|--------------------------|-------------------|----------------------|--------------------------|-------------------|
|                                                     | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment  | Unpaid Principal Balance | Related Allowance |
|                                                     | (1)                 |                          |                   | (2)                  |                          |                   |
|                                                     | (In Thousands)      |                          |                   |                      |                          |                   |
| Originated:                                         |                     |                          |                   |                      |                          |                   |
| With no related allowance recorded:                 |                     |                          |                   |                      |                          |                   |
| Commercial real estate                              | \$944               | \$944                    | \$—               | \$2,009              | \$2,009                  | \$—               |
| Commercial                                          | 5,487               | 5,507                    | —                 | 4,410                | 4,399                    | —                 |
| Consumer                                            | 78                  | 78                       | —                 | 989                  | 987                      | —                 |
| Total originated with no related allowance recorded | 6,509               | 6,529                    | —                 | 7,408                | 7,395                    | —                 |
| With an allowance recorded:                         |                     |                          |                   |                      |                          |                   |
| Commercial real estate                              | 2,808               | 2,808                    | 47                | 1,466                | 1,466                    | 184               |
| Commercial                                          | 3,486               | 3,457                    | 820               | 2,393                | 2,383                    | 675               |
| Consumer                                            | 3,571               | 3,561                    | —                 | 2,448                | 2,440                    | 323               |
| Total originated with an allowance recorded         | 9,865               | 9,826                    | 867               | 6,307                | 6,289                    | 1,182             |
| Total originated impaired loans and leases          | 16,374              | 16,355                   | 867               | 13,715               | 13,684                   | 1,182             |
| Acquired:                                           |                     |                          |                   |                      |                          |                   |
| With no related allowance recorded:                 |                     |                          |                   |                      |                          |                   |
| Commercial real estate                              | 19,870              | 20,375                   | —                 | 9,176                | 10,082                   | —                 |
| Commercial                                          | 6,685               | 6,786                    | —                 | 6,988                | 7,248                    | —                 |
| Consumer                                            | 4,817               | 4,817                    | —                 | 1,033                | 1,037                    | —                 |
| Total acquired with no related allowance recorded   | 31,372              | 31,978                   | —                 | 17,197               | 18,367                   | —                 |
| With an allowance recorded:                         |                     |                          |                   |                      |                          |                   |
| Commercial real estate                              | 1,521               | 1,548                    | 50                | 1,274                | 1,291                    | 122               |
| Commercial                                          | 1,982               | 2,143                    | 149               | 1,020                | 1,067                    | 169               |
| Consumer                                            | 707                 | 707                      | 34                | —                    | —                        | —                 |
| Total acquired with an allowance recorded           | 4,210               | 4,398                    | 233               | 2,294                | 2,358                    | 291               |
| Total acquired impaired loans and leases            | 35,582              | 36,376                   | 233               | 19,491               | 20,725                   | 291               |
| Total impaired loans and leases                     | \$51,956            | \$52,731                 | \$1,100           | \$33,206             | \$34,409                 | \$1,473           |

(1)Includes originated and acquired nonaccrual loans of \$6.1 million and \$8.9 million at June 30, 2014, respectively.

(2)Includes originated and acquired nonaccrual loans of \$5.8 million and \$5.7 million at December 31, 2013, respectively.

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

|                                                     | Three Months Ended<br>June 30, 2014                 |                                  | June 30, 2013                     |                                  |
|-----------------------------------------------------|-----------------------------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|                                                     | Average<br>Recorded<br>Investment<br>(In Thousands) | Interest<br>Income<br>Recognized | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| Originated:                                         |                                                     |                                  |                                   |                                  |
| With no related allowance recorded:                 |                                                     |                                  |                                   |                                  |
| Commercial real estate                              | \$947                                               | \$12                             | \$1,939                           | \$30                             |
| Commercial                                          | 5,711                                               | 62                               | 3,139                             | 29                               |
| Consumer                                            | 128                                                 | —                                | 1,323                             | 18                               |
| Total originated with no related allowance recorded | 6,786                                               | 74                               | 6,401                             | 77                               |
| With an allowance recorded:                         |                                                     |                                  |                                   |                                  |
| Commercial real estate                              | 3,010                                               | 22                               | 1,256                             | 10                               |
| Commercial                                          | 3,800                                               | 24                               | 1,682                             | 6                                |
| Consumer                                            | 3,582                                               | 15                               | 2,681                             | 35                               |
| Total originated with an allowance recorded         | 10,392                                              | 61                               | 5,619                             | 51                               |
| Total originated impaired loans and leases          | 17,178                                              | 135                              | 12,020                            | 128                              |
| Acquired:                                           |                                                     |                                  |                                   |                                  |
| With no related allowance recorded:                 |                                                     |                                  |                                   |                                  |
| Commercial real estate                              | 20,402                                              | 182                              | 3,217                             | 88                               |
| Commercial                                          | 6,775                                               | 23                               | 1,548                             | 26                               |
| Consumer                                            | 4,807                                               | 5                                | 317                               | 8                                |
| Total acquired with no related allowance recorded   | 31,984                                              | 210                              | 5,082                             | 122                              |
| With an allowance recorded:                         |                                                     |                                  |                                   |                                  |
| Commercial real estate                              | 1,522                                               | 3                                | 3,679                             | —                                |
| Commercial                                          | 1,948                                               | 14                               | —                                 | —                                |
| Consumer                                            | 770                                                 | 1                                | —                                 | —                                |
| Total acquired with an allowance recorded           | 4,240                                               | 18                               | 3,679                             | —                                |
| Total acquired impaired loans and leases            | 36,224                                              | 228                              | 8,761                             | 122                              |
| Total impaired loans and leases                     | \$53,402                                            | \$363                            | \$20,781                          | \$250                            |

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

|                                                     | Six Months Ended<br>June 30, 2014                   |                                  | June 30, 2013                     |                                  |
|-----------------------------------------------------|-----------------------------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|                                                     | Average<br>Recorded<br>Investment<br>(In Thousands) | Interest<br>Income<br>Recognized | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| Originated:                                         |                                                     |                                  |                                   |                                  |
| With no related allowance recorded:                 |                                                     |                                  |                                   |                                  |
| Commercial real estate                              | \$2,422                                             | \$48                             | \$2,695                           | \$30                             |
| Commercial                                          | 4,796                                               | 70                               | 4,030                             | 60                               |
| Consumer                                            | 1,980                                               | 13                               | 1,328                             | 18                               |
| Total originated with no related allowance recorded | 9,198                                               | 131                              | 8,053                             | 108                              |
| With an allowance recorded:                         |                                                     |                                  |                                   |                                  |
| Commercial real estate                              | 1,587                                               | 22                               | 1,469                             | 17                               |
| Commercial                                          | 3,728                                               | 48                               | 1,686                             | 7                                |
| Consumer                                            | 1,940                                               | 15                               | 3,475                             | 39                               |
| Total originated with an allowance recorded         | 7,255                                               | 85                               | 6,630                             | 63                               |
| Total originated impaired loans and leases          | 16,453                                              | 216                              | 14,683                            | 171                              |
| Acquired:                                           |                                                     |                                  |                                   |                                  |
| With no related allowance recorded:                 |                                                     |                                  |                                   |                                  |
| Commercial real estate                              | 13,990                                              | 228                              | 11,291                            | 99                               |
| Commercial                                          | 7,498                                               | 59                               | 4,369                             | 66                               |
| Consumer                                            | 6,539                                               | 10                               | 1,489                             | 8                                |
| Total acquired with no related allowance recorded   | 28,027                                              | 297                              | 17,149                            | 173                              |
| With an allowance recorded:                         |                                                     |                                  |                                   |                                  |
| Commercial real estate                              | 2,971                                               | 40                               | 3,700                             | —                                |
| Commercial                                          | 1,247                                               | 15                               | 631                               | —                                |
| Consumer                                            | 385                                                 | 1                                | —                                 | —                                |
| Total acquired with an allowance recorded           | 4,603                                               | 56                               | 4,331                             | —                                |
| Total acquired impaired loans and leases            | 32,630                                              | 353                              | 21,480                            | 173                              |
| Total impaired loans and leases                     | \$49,083                                            | \$569                            | \$36,163                          | \$344                            |

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

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

|                                           | At June 30, 2014                            |             |                        |           |             |             |
|-------------------------------------------|---------------------------------------------|-------------|------------------------|-----------|-------------|-------------|
|                                           | Commercial<br>Real Estate<br>(In Thousands) | Commercial  | Indirect<br>Automobile | Consumer  | Unallocated | Total       |
| Allowance for Loan and Lease Losses:      |                                             |             |                        |           |             |             |
| Originated:                               |                                             |             |                        |           |             |             |
| Individually evaluated for impairment     | \$47                                        | \$820       | \$—                    | \$—       | \$—         | \$867       |
| Collectively evaluated for impairment     | 26,152                                      | 14,564      | 3,686                  | 2,768     | 2,402       | 49,572      |
| Total originated loans and leases         | 26,199                                      | 15,384      | 3,686                  | 2,768     | 2,402       | 50,439      |
| Acquired:                                 |                                             |             |                        |           |             |             |
| Individually evaluated for impairment     | —                                           | 59          | —                      | 34        | —           | 93          |
| Collectively evaluated for impairment     | (53                                         | ) 217       | —                      | 2         | —           | 166         |
| Acquired with deteriorated credit quality | 569                                         | 206         | —                      | 213       | —           | 988         |
| Total acquired loans and leases           | 516                                         | 482         | —                      | 249       | —           | 1,247       |
| Total allowance for loan and lease losses | \$26,715                                    | \$15,866    | \$3,686                | \$3,017   | \$2,402     | \$51,686    |
| Loans and Leases:                         |                                             |             |                        |           |             |             |
| Originated:                               |                                             |             |                        |           |             |             |
| Individually evaluated for impairment     | \$3,753                                     | \$8,974     | \$—                    | \$3,648   | \$—         | \$16,375    |
| Collectively evaluated for impairment     | 1,914,042                                   | 941,708     | 376,314                | 608,368   | —           | 3,840,432   |
| Total originated loans and leases         | 1,917,795                                   | 950,682     | 376,314                | 612,016   | —           | 3,856,807   |
| Acquired:                                 |                                             |             |                        |           |             |             |
| Individually evaluated for impairment     | 1,355                                       | 4,707       | —                      | 2,327     | —           | 8,389       |
| Collectively evaluated for impairment     | 127,603                                     | 90,418      | —                      | 147,840   | —           | 365,861     |
| Acquired with deteriorated credit quality | 267,832                                     | 31,146      | —                      | 73,878    | —           | 372,856     |
| Total acquired loans and leases           | 396,790                                     | 126,271     | —                      | 224,045   | —           | 747,106     |
| Total loans and leases                    | \$2,314,585                                 | \$1,076,953 | \$376,314              | \$836,061 | \$—         | \$4,603,913 |



Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

|                                           | At December 31, 2013                        |            |                        |           |             |             |
|-------------------------------------------|---------------------------------------------|------------|------------------------|-----------|-------------|-------------|
|                                           | Commercial<br>Real Estate<br>(In Thousands) | Commercial | Indirect<br>Automobile | Consumer  | Unallocated | Total       |
| Allowance for Loan and Lease Losses:      |                                             |            |                        |           |             |             |
| Originated:                               |                                             |            |                        |           |             |             |
| Individually evaluated for impairment     | \$184                                       | \$675      | \$—                    | \$323     | \$—         | \$1,182     |
| Collectively evaluated for impairment     | 22,336                                      | 14,056     | 3,924                  | 2,414     | 2,932       | 45,662      |
| Total originated loans and leases         | 22,520                                      | 14,731     | 3,924                  | 2,737     | 2,932       | 46,844      |
| Acquired:                                 |                                             |            |                        |           |             |             |
| Individually evaluated for impairment     | —                                           | 3          | —                      | —         | —           | 3           |
| Collectively evaluated for impairment     | (54                                         | ) 234      | —                      | 204       | —           | 384         |
| Acquired with deteriorated credit quality | 556                                         | 252        | —                      | 434       | —           | 1,242       |
| Total acquired loans and leases           | 502                                         | 489        | —                      | 638       | —           | 1,629       |
| Total allowance for loan and lease losses | \$23,022                                    | \$15,220   | \$3,924                | \$3,375   | \$2,932     | \$48,473    |
| Loans and Leases:                         |                                             |            |                        |           |             |             |
| Originated:                               |                                             |            |                        |           |             |             |
| Individually evaluated for impairment     | \$3,643                                     | \$6,634    | \$—                    | \$3,438   | \$—         | \$13,715    |
| Collectively evaluated for impairment     | 1,765,589                                   | 821,174    | 400,531                | 546,044   | —           | 3,533,338   |
| Total originated loans and leases         | 1,769,232                                   | 827,808    | 400,531                | 549,482   | —           | 3,547,053   |
| Acquired:                                 |                                             |            |                        |           |             |             |
| Individually evaluated for impairment     | 2,625                                       | 4,878      | —                      | 872       | —           | 8,375       |
| Collectively evaluated for impairment     | 145,057                                     | 93,565     | —                      | 162,595   | —           | 401,217     |
| Acquired with deteriorated credit quality | 286,709                                     | 39,359     | —                      | 79,752    | —           | 405,820     |
| Total acquired loans and leases           | 434,391                                     | 137,802    | —                      | 243,219   | —           | 815,412     |
| Total loans and leases                    | \$2,203,623                                 | \$965,610  | \$400,531              | \$792,701 | \$—         | \$4,362,465 |



Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

## Troubled Debt Restructured Loans and Leases

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

| At and for the Three Months Ended June 30, 2014 |                            |                    |                     |                                           |                     |                          |                  |            |
|-------------------------------------------------|----------------------------|--------------------|---------------------|-------------------------------------------|---------------------|--------------------------|------------------|------------|
|                                                 | Recorded Investment        |                    |                     | Specific                                  | Nonaccrual          | Defaulted                | Number of        | Recorded   |
|                                                 | Number of Loans/<br>Leases | At<br>Modification | At End of<br>Period | Allowance for<br>Loan and<br>Lease Losses | Loans and<br>Leases | Additional<br>Commitment | Loans/<br>Leases | Investment |
| (Dollars in Thousands)                          |                            |                    |                     |                                           |                     |                          |                  |            |
| Originated:                                     |                            |                    |                     |                                           |                     |                          |                  |            |
| Commercial                                      | 2                          | \$ 390             | \$ 365              | \$ 17                                     | \$ 17               | \$—                      | —                | —          |
| Equipment financing                             | 1                          | 289                | 289                 | —                                         | —                   | —                        | 1                | 259        |
| Residential mortgage                            | 1                          | 291                | 291                 | —                                         | —                   | —                        | —                | —          |
| Total Originated                                | 4                          | 970                | 945                 | 17                                        | 17                  | —                        | 1                | 259        |
| Acquired:                                       |                            |                    |                     |                                           |                     |                          |                  |            |
| Commercial                                      | 2                          | 253                | 261                 | 9                                         | 261                 | —                        | —                | —          |
| Total Acquired                                  | 2                          | 253                | 261                 | 9                                         | 261                 | —                        | —                | —          |
| Total                                           | 6                          | \$ 1,223           | \$ 1,206            | \$ 26                                     | \$ 278              | \$—                      | 1                | \$ 259     |

|                         | At and for the Three Months Ended June 30, 2013 |                    |                     |                                           |                                   |                          |                               |                        |
|-------------------------|-------------------------------------------------|--------------------|---------------------|-------------------------------------------|-----------------------------------|--------------------------|-------------------------------|------------------------|
|                         | Recorded Investment                             |                    |                     | Specific                                  |                                   | Defaulted                |                               |                        |
|                         | Number of Loans/<br>Leases                      | At<br>Modification | At End of<br>Period | Allowance for<br>Loan and<br>Lease Losses | Nonaccrual<br>Loans and<br>Leases | Additional<br>Commitment | Number of<br>Loans/<br>Leases | Recorded<br>Investment |
|                         | (Dollars in Thousands)                          |                    |                     |                                           |                                   |                          |                               |                        |
| Originated:             |                                                 |                    |                     |                                           |                                   |                          |                               |                        |
| Commercial              | —                                               | \$ —               | \$—                 | \$ —                                      | \$—                               | \$—                      | 2                             | \$ 1,714               |
| Equipment<br>financing  | 2                                               | 488                | 498                 | 12                                        | 372                               | —                        | 1                             | 303                    |
| Residential<br>mortgage | —                                               | —                  | —                   | —                                         | —                                 | —                        | 1                             | 373                    |
| Total Originated        | 2                                               | 488                | 498                 | 12                                        | 372                               | —                        | 4                             | 2,390                  |
| Acquired:               |                                                 |                    |                     |                                           |                                   |                          |                               |                        |
| Commercial              | 1                                               | 424                | 421                 | —                                         | 421                               | —                        | —                             | —                      |
| Total Acquired          | 1                                               | 424                | 421                 | —                                         | 421                               | —                        | —                             | —                      |
| Total                   | 3                                               | \$ 912             | \$919               | \$ 12                                     | \$ 793                            | \$—                      | 4                             | \$ 2,390               |



Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

| At and for the Six Months Ended June 30, 2014 |                               |                    |                     |                                           |                                   |                          |                               |                        |
|-----------------------------------------------|-------------------------------|--------------------|---------------------|-------------------------------------------|-----------------------------------|--------------------------|-------------------------------|------------------------|
|                                               | Recorded Investment           |                    |                     | Specific                                  |                                   | Defaulted                |                               |                        |
|                                               | Number<br>of Loans/<br>Leases | At<br>Modification | At End of<br>Period | Allowance for<br>Loan and<br>Lease Losses | Nonaccrual<br>Loans and<br>Leases | Additional<br>Commitment | Number of<br>Loans/<br>Leases | Recorded<br>Investment |
| (Dollars in Thousands)                        |                               |                    |                     |                                           |                                   |                          |                               |                        |
| Originated:                                   |                               |                    |                     |                                           |                                   |                          |                               |                        |
| Commercial                                    |                               |                    |                     |                                           |                                   |                          |                               |                        |
| real estate mortgage                          | 1                             | \$953              | \$944               | \$ —                                      | \$—                               | \$—                      | —                             | \$—                    |
| Commercial Equipment financing                | 2                             | 390                | 365                 | 17                                        | 17                                | —                        | —                             | —                      |
| Residential mortgage                          | 2                             | 673                | 671                 | —                                         | —                                 | —                        | 3                             | 349                    |
| Total Originated                              | 7                             | 789                | 786                 | —                                         | 495                               | —                        | —                             | —                      |
|                                               |                               | 2,805              | 2,766               | 17                                        | 512                               | —                        | 3                             | 349                    |
| Acquired:                                     |                               |                    |                     |                                           |                                   |                          |                               |                        |
| Commercial                                    | 2                             | 253                | 261                 | 9                                         | 261                               | —                        | —                             | —                      |
| Total Acquired                                | 2                             | 253                | 261                 | 9                                         | 261                               | —                        | —                             | —                      |
| Total                                         | 9                             | \$3,058            | \$3,027             | \$ 26                                     | \$773                             | \$—                      | 3                             | \$349                  |

| At and for the Six Months Ended June 30, 2013 |                            |                    |                     |                                           |                                   |                          |                               |                        |
|-----------------------------------------------|----------------------------|--------------------|---------------------|-------------------------------------------|-----------------------------------|--------------------------|-------------------------------|------------------------|
|                                               | Recorded Investment        |                    |                     | Specific                                  |                                   | Defaulted                |                               |                        |
|                                               | Number of Loans/<br>Leases | At<br>Modification | At End of<br>Period | Allowance for<br>Loan and<br>Lease Losses | Nonaccrual<br>Loans and<br>Leases | Additional<br>Commitment | Number of<br>Loans/<br>Leases | Recorded<br>Investment |
| (Dollars in Thousands)                        |                            |                    |                     |                                           |                                   |                          |                               |                        |
| Originated:                                   |                            |                    |                     |                                           |                                   |                          |                               |                        |
| Commercial                                    |                            |                    |                     |                                           |                                   |                          |                               |                        |
| real estate mortgage                          | 1                          | \$1,039            | \$—                 | \$ —                                      | \$—                               | \$—                      | —                             | \$—                    |
| Equipment financing                           | 8                          | 1,125              | 1,129               | 42                                        | 372                               | —                        | —                             | —                      |
| Residential mortgage                          | 1                          | 415                | 372                 | —                                         | —                                 | —                        | —                             | —                      |
| Total Originated                              | 10                         | 2,579              | 1,501               | 42                                        | 372                               | —                        | —                             | —                      |
| Acquired:                                     |                            |                    |                     |                                           |                                   |                          |                               |                        |
| Commercial                                    | 1                          | 424                | 421                 | —                                         | 421                               | —                        | —                             | —                      |
|                                               | 1                          | 424                | 421                 | —                                         | 421                               | —                        | —                             | —                      |

Total  
Acquired

|       |    |         |         |       |       |     |   |     |
|-------|----|---------|---------|-------|-------|-----|---|-----|
| Total | 11 | \$3,003 | \$1,922 | \$ 42 | \$793 | \$— | — | \$— |
|-------|----|---------|---------|-------|-------|-----|---|-----|

36

---

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

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

|                                                | Three Months Ended June 30, |        | Six Months Ended June 30, |          |
|------------------------------------------------|-----------------------------|--------|---------------------------|----------|
|                                                | 2014                        | 2013   | 2014                      | 2013     |
|                                                | (In Thousands)              |        |                           |          |
| Loans with one modification:                   |                             |        |                           |          |
| Extended maturity                              | \$ 609                      | \$—    | \$ 609                    | \$—      |
| Adjusted principal                             | —                           | —      | —                         | 372      |
| Adjusted interest rate                         | —                           | 793    | 878                       | 793      |
| Interest only                                  | 17                          | —      | 17                        | —        |
| Combination maturity, principal, interest rate | —                           | 126    | —                         | 757      |
| Total loans with one modification              | \$ 626                      | \$ 919 | \$ 1,504                  | \$ 1,922 |
| Loans with more than one modification:         |                             |        |                           |          |
| Extended maturity                              | \$ 289                      | \$—    | \$ 1,233                  | \$—      |
| Interest only                                  | 291                         | —      | 291                       | —        |
| Total loans with more than one modification    | \$ 580                      | \$—    | \$ 1,524                  | \$—      |

The financial impact of the modification of performing and nonperforming loans and leases for the three months ended June 30, 2014 and 2013 was \$0.1 million and \$0.3 million, respectively. The financial impact of the modification of performing or nonperforming loans and leases for the six months ended June 30, 2014 and 2013 was also \$0.1 million and \$0.3 million, respectively.

As of June 30, 2014 and 2013, there were no commitments to lend funds to debtors owing receivables whose terms had been modified in troubled debt restructurings.

## (6) Premises and Equipment

In January 2014, the Company completed a transaction to sell a facility located in Brookline, MA, for \$2.2 million. The carrying value of the property, including land, building, and furniture, fixtures, and equipment, was \$0.4 million. After costs to sell of \$0.2 million, the Company recorded a gain on sale in the amount of \$1.6 million during the six months ended June 30, 2014, which is included in gain on sale/disposals of premises and equipment, net in the Company's unaudited consolidated statements of income.

## (7) Goodwill and Other Intangible Assets

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

|                               | At June 30, 2014 | At December 31, 2013 |
|-------------------------------|------------------|----------------------|
|                               | (In Thousands)   |                      |
| Goodwill                      | \$ 137,890       | \$ 137,890           |
| Other intangible assets:      |                  |                      |
| Core deposits                 | 14,110           | 15,777               |
| Trade name                    | 1,089            | 1,089                |
| Trust relationship            | —                | 21                   |
| Total other intangible assets | 15,199           | 16,887               |

|                                            |            |            |
|--------------------------------------------|------------|------------|
| Total goodwill and other intangible assets | \$ 153,089 | \$ 154,777 |
|--------------------------------------------|------------|------------|

As of December 31, 2013, the Company has concluded that the BankRI name will continue to be utilized in its marketing strategies; therefore, the trade name with a carrying value of \$1.1 million has an indefinite life and ceased to amortize.

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

## At and for the Six Months Ended June 30, 2014 and 2013

The estimated aggregate future amortization expense (in thousands) for intangible assets with a finite life remaining at June 30, 2014 is as follows:

|                   |          |
|-------------------|----------|
| Remainder of 2014 | \$1,436  |
| Year ending:      |          |
| 2015              | 2,868    |
| 2016              | 2,457    |
| 2017              | 1,858    |
| 2018              | 1,836    |
| Thereafter        | 3,655    |
| Total             | \$14,110 |

## (8) Comprehensive Income/(Loss)

Comprehensive income (loss) represents the sum of net income (loss) and other comprehensive income (loss). For the three months and six months ended June 30, 2014 and June 30, 2013, the Company's other comprehensive income (loss) include the following two components: (i) unrealized holding gains (losses) on investment securities available-for-sale; and (ii) adjustment of accumulated obligation for postretirement benefits.

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

|                                   | Three Months Ended June 30, 2014                           |                         |                                        |
|-----------------------------------|------------------------------------------------------------|-------------------------|----------------------------------------|
|                                   | Investment Securities Available-for-Sale<br>(In Thousands) | Postretirement Benefits | Accumulated Other Comprehensive Income |
| Balance at March 31, 2014         | \$(6,301)                                                  | ) \$365                 | \$ (5,936 )                            |
| Other comprehensive income        | 2,727                                                      | —                       | 2,727                                  |
| Balance at June 30, 2014          | \$(3,574)                                                  | ) \$365                 | \$ (3,209 )                            |
|                                   | Three Months Ended June 30, 2013                           |                         |                                        |
|                                   | Investment Securities Available-for-Sale<br>(In Thousands) | Postretirement Benefits | Accumulated Other Comprehensive Income |
| Balance at March 31, 2013         | \$2,108                                                    | \$125                   | \$ 2,233                               |
| Other comprehensive (loss) income | (6,680)                                                    | ) 6                     | (6,674 )                               |
| Balance at June 30, 2013          | \$(4,572)                                                  | ) \$131                 | \$ (4,441 )                            |
|                                   | Six Months Ended June 30, 2014                             |                         |                                        |
|                                   | Investment Securities Available-for-Sale<br>(In Thousands) | Postretirement Benefits | Accumulated Other Comprehensive Income |
| Balance at December 31, 2013      | \$(8,332)                                                  | ) \$417                 | \$ (7,915 )                            |
| Other comprehensive income (loss) | 4,758                                                      | (52)                    | ) 4,706                                |
| Balance at June 30, 2014          | \$(3,574)                                                  | ) \$365                 | \$ (3,209 )                            |



Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

|                                   | Six Months Ended June 30, 2013           |                         | Accumulated Other    |
|-----------------------------------|------------------------------------------|-------------------------|----------------------|
|                                   | Investment Securities Available-for-Sale | Postretirement Benefits | Comprehensive Income |
|                                   | (In Thousands)                           |                         |                      |
| Balance at December 31, 2012      | \$3,358                                  | \$125                   | \$3,483              |
| Other comprehensive (loss) income | (7,930                                   | ) 6                     | (7,924 )             |
| Balance at June 30, 2013          | \$(4,572                                 | ) \$131                 | \$(4,441 )           |

The following is a summary of the amounts reclassified from accumulated other comprehensive income (loss) for the three months or six months ended June 30, 2014.

|                                                                       | Three Months Ended<br>June 30, 2014<br>(In Thousands) | Six Months Ended<br>June 30, 2014 | Income Statement Line<br>Affected by Reclassification |
|-----------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------|-------------------------------------------------------|
| Other comprehensive income (loss) component                           |                                                       |                                   |                                                       |
| Unrealized gains (losses) on investment securities available-for-sale | \$(13                                                 | ) \$(13                           | ) Loss on sales of securities, net                    |
|                                                                       | 5                                                     | 5                                 | Provision for income taxes                            |
| Total reclassifications for the period                                | \$(8                                                  | ) \$(8                            | ) Net income                                          |

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

## (9) Derivatives and Hedging Activities

The Company may use interest-rate contracts (swaps, caps and floors) as part of interest-rate risk management strategy. Interest-rate swap, cap and floor agreements are entered into as hedges against future interest-rate fluctuations on specifically identified assets or liabilities. The Company did not have derivative fair value hedges or derivative cash flow hedges at June 30, 2014 or December 31, 2013.

Derivatives not designated as hedges are not speculative but rather, result from a service the Company provides to certain customers for a fee. The Company executes interest-rate swaps with commercial banking customers to aid them in managing their interest-rate risk. The interest-rate swap contracts allow the commercial banking customers to convert floating-rate loan payments to fixed-rate loan payments. The Company concurrently enters into offsetting swaps with a third-party financial institution, effectively minimizing its net risk exposure resulting from such transactions. The third-party financial institution exchanges the customer's fixed-rate loan payments for floating-rate loan payments. As the interest-rate swaps associated with this program do not meet hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. The Company had 10 interest-rate swaps related to this program with an aggregate notional amount of \$28.0 million at June 30, 2014, compared with 8 interest-rate swaps with an aggregate notional amount of \$22.4 million at December 31, 2013.



Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

## At and for the Six Months Ended June 30, 2014 and 2013

The table below presents the fair value and classification of the Company's derivative financial instruments on the consolidated balance sheets at June 30, 2014 and December 31, 2013, and the effect of the Company's derivative financial instruments on the consolidated statements of income for the three months and six months ended June 30, 2014 and June 30, 2013. Asset derivatives and liability derivatives are included in other assets and accrued expenses and other liabilities on the consolidated balance sheets, respectively. Changes in the fair value are recognized directly in earnings and are included in other non-interest income in the consolidated statements of income.

|                                                                                  | At June 30, 2014                       |                          | At December 31, 2013                 |                          |
|----------------------------------------------------------------------------------|----------------------------------------|--------------------------|--------------------------------------|--------------------------|
|                                                                                  | Asset<br>Derivatives                   | Liability<br>Derivatives | Asset<br>Derivatives                 | Liability<br>Derivatives |
|                                                                                  | (In Thousands)                         |                          |                                      |                          |
| Total derivatives (interest-rate products) not designated as hedging instruments | \$887                                  | \$ 912                   | \$825                                | \$ 856                   |
|                                                                                  | Three Months Ended<br>June 30,<br>2014 |                          | Six Months Ended June<br>30,<br>2014 |                          |
|                                                                                  | 2013                                   |                          | 2013                                 |                          |
|                                                                                  | (In Thousands)                         |                          |                                      |                          |
| Gain (loss) recognized in income on derivatives (1)                              | \$4                                    | \$(22 )                  | 6                                    | \$(25 )                  |

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

By using derivative financial instruments, the Company exposes itself to credit risk which is the risk of failure by the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. When the fair value of a derivative is negative, the Company owes the counterparty and, therefore, it does not possess credit risk. The credit risk in derivative instruments is mitigated by entering into transactions with highly-rated counterparties that management believes to be creditworthy and by limiting the amount of exposure to each counterparty. The Company had limited exposure relating to interest rate swaps with institutional counterparties at June 30, 2014 and December 31, 2013, as all such swaps were in a net liability position and subject to master netting agreements.

The estimated net credit risk exposure for derivative financial instruments was \$25.3 thousand and \$31.2 thousand at June 30, 2014 and December 31, 2013, respectively.

Certain of the derivative agreements contain provisions that require the Company to post collateral if the derivative exposure exceeds a threshold amount. The Company has posted collateral of \$2.8 million in the normal course of business at both June 30, 2014 and December 31, 2013.

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

| At June 30, 2014                                         |                                                                      |                                                                                 |                                                                       |                                       |            |
|----------------------------------------------------------|----------------------------------------------------------------------|---------------------------------------------------------------------------------|-----------------------------------------------------------------------|---------------------------------------|------------|
| Gross<br>Amounts of<br>Recognized<br>Assets /Liabilities | Gross Amounts<br>Offset in the<br>Statement of<br>Financial Position | Net Amounts of<br>Assets Presented in<br>the Statement of<br>Financial Position | Gross Amounts Not Offset in the<br>Statement of Financial<br>Position | Cash Collateral<br>(Received)/ Posted | Net Amount |

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

|                       | (In Thousands) |      |        |      |          |         |
|-----------------------|----------------|------|--------|------|----------|---------|
| Asset Derivatives     | \$887          | \$ — | \$ 887 | \$ — | \$ —     | \$887   |
| Liability Derivatives | \$912          | \$ — | \$ 912 | \$ — | \$ 2,770 | \$3,682 |

40

---

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

|                       | At December 31, 2013                                                       |                                                                      |                                                                                 |                                                                                                                 |            |
|-----------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------|---------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|------------|
|                       | Gross<br>Amounts of<br>Recognized<br>Assets /Liabilities<br>(In Thousands) | Gross Amounts<br>Offset in the<br>Statement of<br>Financial Position | Net Amounts of<br>Assets Presented in<br>the Statement of<br>Financial Position | Gross Amounts Not Offset in the<br>Statement of Financial<br>Position<br>Cash Collateral<br>(Received) / Posted | Net Amount |
| Asset Derivatives     | \$825                                                                      | \$ —                                                                 | \$ 825                                                                          | \$ —                                                                                                            | \$ 825     |
| Liability Derivatives | \$856                                                                      | \$ —                                                                 | \$ 856                                                                          | \$ —                                                                                                            | \$ 2,811   |

The Company has agreements with certain of its derivative counterparties that contain credit-risk-related contingent provisions. These provisions provide the counterparty with the right to terminate its derivative positions and require the

Company to settle its obligations under the agreements if the Company defaults on certain of its indebtedness or if the Company fails to maintain its status as a well-capitalized institution.

## (10) Stock Based Compensation

As of June 30, 2014, the Company had two active recognition and retention plans: the 2003 Recognition and Retention Plan (the "2003 RRP") with 1,250,000 authorized shares and the 2011 Restricted Stock Award Plan ("2011 RSA") with 500,000 authorized shares. On July 9, 2014, the Company registered the 2014 Equity Incentive Plan ("2014 Plan" and with the 2003 RRP and the 2011 RSA, collectively referred to as the "Plans") with 1,750,000 authorized shares. The purpose of the Plans 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.

Of the awarded shares, 50% vest ratably over three years with one-third of such shares vesting at each of the first, second and third anniversary dates of the awards. These are referred to as "time-based shares". The remaining 50% of each award has a cliff vesting schedule and 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. These are referred to as "performance-based shares". 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.

Under all the Plans, 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. Shares issued upon vesting may be either authorized but unissued shares or reacquired shares held by the Company as treasury shares. Any shares not issued because vesting requirements are not met will again be available for issuance under the Plans.

Total expense for the Plans was \$0.6 million and \$0.5 million for the six months ended June 30, 2014 and 2013, respectively.



Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

## (11) Earnings per Share

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

|                                              | Three Months Ended<br>June 30, 2014 |                  | June 30, 2013 |                  |
|----------------------------------------------|-------------------------------------|------------------|---------------|------------------|
|                                              | Basic                               | Fully<br>Diluted | Basic         | Fully<br>Diluted |
| (In Thousands Except Share Data)             |                                     |                  |               |                  |
| Numerator:                                   |                                     |                  |               |                  |
| Net income                                   | \$9,976                             | \$9,976          | \$9,490       | \$9,490          |
| Denominator:                                 |                                     |                  |               |                  |
| Weighted average shares outstanding          | 69,886,576                          | 69,886,576       | 69,774,703    | 69,774,703       |
| Effect of dilutive securities                | —                                   | 125,801          | —             | 58,838           |
| Adjusted weighted average shares outstanding | 69,886,576                          | 70,012,377       | 69,774,703    | 69,833,541       |
| EPS                                          | \$0.14                              | \$0.14           | \$0.14        | \$0.14           |
|                                              | Six Months Ended<br>June 30, 2014   |                  | June 30, 2013 |                  |
|                                              | Basic                               | Fully<br>Diluted | Basic         | Fully<br>Diluted |
| (In Thousands Except Share Data)             |                                     |                  |               |                  |
| Numerator:                                   |                                     |                  |               |                  |
| Net income                                   | \$20,398                            | \$20,398         | \$18,304      | \$18,304         |
| Denominator:                                 |                                     |                  |               |                  |
| Weighted average shares outstanding          | 69,881,055                          | 69,881,055       | 69,768,777    | 69,768,777       |
| Effect of dilutive securities                | —                                   | 117,164          | —             | 54,838           |
| Adjusted weighted average shares outstanding | 69,881,055                          | 69,998,219       | 69,768,777    | 69,823,615       |
| EPS                                          | \$0.29                              | \$0.29           | \$0.26        | \$0.26           |

## (12) Fair Value of Financial Instruments

A description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring and non-recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. There were no changes in the valuation techniques used during the three months and six months ended June 30, 2014 and June 30, 2013.

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

## Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

|                                                | Carrying Value at June 30, 2014     |           |         |           |
|------------------------------------------------|-------------------------------------|-----------|---------|-----------|
|                                                | Level 1                             | Level 2   | Level 3 | Total     |
|                                                | (In Thousands)                      |           |         |           |
| Assets:                                        |                                     |           |         |           |
| Investment securities available-for-sale:      |                                     |           |         |           |
| GSEs                                           | \$—                                 | \$15,978  | \$—     | \$15,978  |
| GSE CMOs                                       | —                                   | 247,547   | —       | 247,547   |
| GSE MBSs                                       | —                                   | 221,847   | —       | 221,847   |
| SBA commercial loan asset-backed securities    | —                                   | 226       | —       | 226       |
| Corporate debt obligations                     | —                                   | 40,330    | —       | 40,330    |
| Trust preferred securities                     | —                                   | 1,299     | —       | 1,299     |
| Marketable equity securities                   | 1,359                               | —         | —       | 1,359     |
| Total investment securities available-for-sale | \$1,359                             | \$527,227 | \$—     | \$528,586 |
| Interest-rate swaps                            | \$—                                 | \$887     | \$—     | \$887     |
| Liabilities:                                   |                                     |           |         |           |
| Interest-rate swaps                            | \$—                                 | \$912     | \$—     | \$912     |
|                                                |                                     |           |         |           |
|                                                | Carrying Value at December 31, 2013 |           |         |           |
|                                                | Level 1                             | Level 2   | Level 3 | Total     |
|                                                | (In Thousands)                      |           |         |           |
| Assets:                                        |                                     |           |         |           |
| Investment securities available-for-sale:      |                                     |           |         |           |
| GSEs                                           | \$—                                 | \$12,180  | \$—     | \$12,180  |
| GSE CMOs                                       | —                                   | 243,644   | —       | 243,644   |
| GSE MBSs                                       | —                                   | 199,401   | —       | 199,401   |
| Private-label CMOs                             | —                                   | 3,355     | —       | 3,355     |
| SBA commercial loan asset-backed securities    | —                                   | 243       | —       | 243       |
| Auction-rate municipal obligations             | —                                   | —         | 1,775   | 1,775     |
| Municipal obligations                          | —                                   | 1,086     | —       | 1,086     |
| Corporate debt obligations                     | —                                   | 28,224    | —       | 28,224    |
| Trust preferred securities                     | —                                   | 1,210     | —       | 1,210     |
| Marketable equity securities                   | 1,310                               | —         | —       | 1,310     |
| Total investment securities available-for-sale | \$1,310                             | \$489,343 | \$1,775 | \$492,428 |
| Interest-rate swaps                            | \$—                                 | \$825     | \$—     | \$825     |
| Liabilities:                                   |                                     |           |         |           |
| Interest-rate swaps                            | \$—                                 | \$856     | \$—     | \$856     |



Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

## Investment Securities Available-for-Sale

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

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

## Interest-Rate Swaps

The fair values for the interest-rate swap assets and liabilities represent a Level 2 valuation and are based on settlement values adjusted for credit risks associated with the counterparties and the Company and observable market interest rate curves. Credit risk adjustments consider factors such as the likelihood of default by the Company and its counterparties, its net exposures and remaining contractual life. To date, the Company has not realized any losses due to a counterparty's inability to pay any net uncollateralized position. The change in value of interest-rate swap assets and liabilities attributable to credit risk was not significant during the reported periods. See also Note 9, "Derivatives and Hedging Activities."

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

|                                                                | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|----------------------------------------------------------------|-----------------------------|----------|---------------------------|----------|
|                                                                | 2014                        | 2013     | 2014                      | 2013     |
|                                                                | (In Thousands)              |          |                           |          |
| Investment securities available-for-sale, beginning of period  | \$ 1,690                    | \$ 2,852 | \$ 1,775                  | \$ 2,917 |
| Investment security sales                                      | (1,658)                     | ) —      | (1,658)                   | ) —      |
| Principal paydowns and other                                   | —                           | (207)    | ) —                       | (330)    |
| Total realized losses included in other income                 | (242)                       | ) —      | (242)                     | ) —      |
| Total unrealized losses included in other comprehensive income | 210                         | 190      | 125                       | 248      |

|                                                         |     |         |     |         |
|---------------------------------------------------------|-----|---------|-----|---------|
| Investment securities available-for-sale, end of period | \$— | \$2,835 | \$— | \$2,835 |
|---------------------------------------------------------|-----|---------|-----|---------|

There were no transfers between levels for assets and liabilities recorded at fair value on a recurring basis during the three months and six months ended June 30, 2014 and 2013.

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

## Assets and Liabilities Recorded at Fair Value on a Non-Recurring Basis

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

|                                                              | Carrying Value at June 30, 2014 |         |         | Total   |
|--------------------------------------------------------------|---------------------------------|---------|---------|---------|
|                                                              | Level 1<br>(In Thousands)       | Level 2 | Level 3 |         |
| Assets measured at fair value on a non-recurring basis:      |                                 |         |         |         |
| Collateral-dependent impaired loans and leases               | \$—                             | \$—     | \$4,927 | \$4,927 |
| Other real estate owned                                      | —                               | —       | 675     | 675     |
| Reposessed vehicles and equipment                            | —                               | 571     | —       | 571     |
| Total assets measured at fair value on a non-recurring basis | \$—                             | \$571   | \$5,602 | \$6,173 |

|                                                              | Carrying Value at December 31, 2013 |         |          | Total    |
|--------------------------------------------------------------|-------------------------------------|---------|----------|----------|
|                                                              | Level 1<br>(In Thousands)           | Level 2 | Level 3  |          |
| Assets measured at fair value on a non-recurring basis:      |                                     |         |          |          |
| Collateral-dependent impaired loans and leases               | \$—                                 | \$—     | \$12,099 | \$12,099 |
| Other real estate owned                                      | —                                   | —       | 577      | 577      |
| Reposessed vehicles and equipment                            | —                                   | 1,001   | —        | 1,001    |
| Total assets measured at fair value on a non-recurring basis | \$—                                 | \$1,001 | \$12,676 | \$13,677 |

## Collateral-Dependent Impaired Loans and Leases

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

## Other Real Estate Owned

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

## Reposessed Vehicles and Equipment

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

The table below presents quantitative information about significant unobservable inputs (Level 3) for assets measured at fair value on a recurring and non-recurring basis at June 30, 2014.

Fair Value Valuation Technique

|                                                |                        |                                |
|------------------------------------------------|------------------------|--------------------------------|
|                                                | (Dollars in Thousands) |                                |
| Collateral-dependent impaired loans and leases | \$4,927                | Appraisal of collateral<br>(1) |
| Other real estate owned                        | \$675                  | Appraisal of collateral<br>(1) |

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

(1) Fair value is generally determined through independent appraisals of the underlying collateral. The Company may also use another available source of collateral assessment to determine a reasonable estimate of the fair value of the collateral. The valuation generally includes various Level 3 inputs which are not identifiable. Appraisals may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments may vary.

## Summary of Estimated Fair Values of Financial Instruments

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

|                                        | Carrying<br>Value<br>(In Thousands) | Estimated<br>Fair Value | Fair Value Measurements |                   |                   |
|----------------------------------------|-------------------------------------|-------------------------|-------------------------|-------------------|-------------------|
|                                        |                                     |                         | Level 1<br>Inputs       | Level 2<br>Inputs | Level 3<br>Inputs |
| At June 30, 2014                       |                                     |                         |                         |                   |                   |
| Financial assets:                      |                                     |                         |                         |                   |                   |
| Investment securities held-to-maturity | \$500                               | \$500                   | \$—                     | \$—               | \$500             |
| Loans held-for-sale                    | 13,890                              | 13,890                  | —                       | 13,890            | —                 |
| Loans and leases, net                  | 4,552,227                           | 4,522,877               | —                       | —                 | 4,522,877         |
| Financial liabilities:                 |                                     |                         |                         |                   |                   |
| Certificates of deposit                | 900,216                             | 903,673                 | —                       | 903,673           | —                 |
| Borrowed funds                         | 1,041,004                           | 1,045,320               | —                       | 1,045,320         | —                 |
| At December 31, 2013                   |                                     |                         |                         |                   |                   |
| Financial assets:                      |                                     |                         |                         |                   |                   |
| Investment securities held-to-maturity | \$500                               | \$500                   | \$—                     | \$—               | \$500             |
| Loans held-for-sale                    | 13,372                              | 13,372                  | —                       | 13,372            | —                 |
| Loans and leases, net                  | 4,313,992                           | 4,552,556               | —                       | —                 | 4,552,556         |
| Financial liabilities:                 |                                     |                         |                         |                   |                   |
| Certificates of deposit                | 934,668                             | 938,703                 | —                       | 938,703           | —                 |
| Borrowed funds                         | 812,555                             | 815,910                 | —                       | 815,910           | —                 |

## Investment Securities Held-to-Maturity

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

## Loans Held-for-Sale

Fair value is measured using quoted market prices when available. These assets are typically categorized as Level 1. If quoted market prices are not available, comparable market values may be utilized. These assets are typically

categorized as Level 2.

#### Loans and Leases

The fair values of performing loans and leases were estimated by segregating the portfolio into its primary loan and lease categories—commercial real estate mortgage, multi-family mortgage, construction, commercial, equipment financing, condominium association, indirect automobile, residential mortgage, home equity and other consumer. These categories were

Table Of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

further disaggregated based on significant financial characteristics such as type of interest rate (fixed / variable) and payment status (current / past-due). The Company discounts the contractual cash flows for each loan category using interest rates currently being offered for loans with similar terms to borrowers of similar quality and incorporates estimates of future loan prepayments. This method of estimating fair value does not incorporate the exit price concept of fair value.

Deposits

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

Borrowed Funds

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

(13) Commitments and Contingencies

Off-Balance-Sheet Financial Instruments

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

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

Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

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

|                                                                     | At June 30, 2014<br>(In Thousands) | At December 31, 2013 |
|---------------------------------------------------------------------|------------------------------------|----------------------|
| Financial instruments whose contract amounts represent credit risk: |                                    |                      |
| Commitments to originate loans and leases:                          |                                    |                      |
| Commercial real estate                                              | \$67,378                           | \$48,973             |
| Commercial                                                          | 146,347                            | 143,252              |
| Residential mortgage                                                | 10,524                             | 8,027                |
| Unadvanced portion of loans and leases                              | 549,473                            | 586,279              |
| Unused lines of credit:                                             |                                    |                      |
| Home equity                                                         | 212,857                            | 205,665              |
| Other consumer                                                      | 6,386                              | 6,503                |
| Other commercial                                                    | 1,138                              | 1,035                |
| Unused letters of credit:                                           |                                    |                      |
| Financial standby letters of credit                                 | 18,322                             | 20,410               |
| Performance standby letters of credit                               | 3,189                              | 2,989                |
| Commercial and similar letters of credit                            | 2,302                              | 440                  |
| Back-to-back interest-rate swaps                                    | 28,017                             | 22,418               |

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

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

The liability for unfunded credit commitments, which is included in other liabilities, was \$1.2 million at June 30, 2014 and \$1.0 million at December 31, 2013.

From time to time the Company enters into back-to-back interest rate swaps with commercial customers and third-party financial institutions. These swaps allow the Company to offer long-term fixed-rate commercial loans while mitigating the interest-rate risk of holding those loans. In a back-to-back interest rate swap transaction, the Company lends to a commercial customer on a floating-rate basis and then enters into an interest rate swap with that customer. Concurrently, the Company enters into offsetting swaps with a third-party financial institution, effectively minimizing its net interest-rate risk exposure resulting from such transactions.

The fair value of interest rate swap assets and liabilities is \$0.9 million and \$0.9 million, respectively, at June 30, 2014. The fair value of interest rate swap assets and liabilities is \$0.8 million and \$0.9 million, respectively, at December 31, 2013.

Table Of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

Lease Commitments

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

|                   | Minimum Rental Payments<br>(In Thousands) |
|-------------------|-------------------------------------------|
| Remainder of 2014 | 2,695                                     |
| Year ending:      |                                           |
| 2015              | 5,477                                     |
| 2016              | 5,333                                     |
| 2017              | 4,804                                     |
| 2018              | 4,229                                     |
| Thereafter        | 15,582                                    |
| Total             | \$ 38,120                                 |

The leases contain escalator clauses for real estate taxes and other expenditures. Total rental expense was \$3.6 million during the six months ended June 30, 2014, which included \$0.8 million in lease acceleration related to a relocation of an operations center and a closure of a branch property. This compared to \$2.5 million during the six months ended June 30, 2013.

Legal Proceedings

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

Table of Contents

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

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

Forward-looking statements are based on the current assumptions underlying the statements and other information with respect to the beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions of management and the financial condition, results of operations, future performance and business are only expectations of future results. Although the Company believes that the expectations reflected in the Company's forward-looking statements are reasonable, the Company's actual results could differ materially from those projected in the forward-looking statements as a result of, among other factors, adverse conditions in the capital and debt markets; changes in interest rates; competitive pressures from other financial institutions; the effects of continuing weakness in general economic conditions on a national basis or in the local markets in which the Company operates, including changes which adversely affect borrowers' ability to service and repay their loans and leases; changes in the value of securities and other assets in the Company's investment portfolio; changes in loan and lease default and charge-off rates; the adequacy of allowances for loan and lease losses; deposit levels necessitating increased borrowing to fund loans and investments; changes in government regulation; the risk that goodwill and intangibles recorded in the Company's financial statements will become impaired; and changes in assumptions used in making such forward-looking statements, as well as the other risks and uncertainties detailed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and other filings submitted to the Securities and Exchange Commission. Forward-looking statements speak only as of the date on which they are made. The Company does not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made.

Introduction

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

As a commercially-focused financial institution with 48 full-service banking offices throughout Greater Boston, the North Shore of Massachusetts and Rhode Island, the Company, through Brookline Bank, BankRI and First Ipswich (the "Banks"), offers a wide range of commercial, business and retail banking services, including a full complement of cash management products, on-line banking services, consumer and residential loans and investment services, designed to meet the financial needs of small- to mid-sized businesses and individuals throughout Central New England. Specialty lending activities include indirect automobile loans as well as equipment financing primarily in the New York/New Jersey metropolitan area.

The Company focuses its business efforts on profitably growing its commercial lending businesses, both organically and through acquisitions. The Company's customer focus, multi-bank structure, and risk management are integral to its

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

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

Table of Contents

("FDIC") continues to insure each of the Banks' deposits up to \$250,000 per depositor. Additionally, all Massachusetts-chartered savings banks are required to be members of the Depositors Insurance Fund ("DIF"), a corporation that insures savings bank deposits in excess of the FDIC insurance limits. As such, Brookline Bank offers 100% insurance on all deposits as a result of a combination of insurance from the FDIC and the DIF.

The Company's common stock is traded on the Nasdaq Global Select Market<sup>SM</sup> under the symbol "BRKL."

## Selected Financial Data

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

|                                                                                         | At and for the Three Months Ended             |   |                   |   |                      |   |                       |   |                  |
|-----------------------------------------------------------------------------------------|-----------------------------------------------|---|-------------------|---|----------------------|---|-----------------------|---|------------------|
|                                                                                         | June 30,<br>2014                              |   | March 31,<br>2014 |   | December 31,<br>2013 |   | September 30,<br>2013 |   | June 30,<br>2013 |
|                                                                                         | (Dollars in Thousands, Except Per Share Data) |   |                   |   |                      |   |                       |   |                  |
| PER COMMON SHARE DATA                                                                   |                                               |   |                   |   |                      |   |                       |   |                  |
| Earnings per share — Basic                                                              | \$0.14                                        |   | \$0.15            |   | \$0.11               |   | \$0.14                |   | \$0.14           |
| Book value per share (end of period)                                                    | 8.98                                          |   | 8.88              |   | 8.79                 |   | 8.80                  |   | 8.76             |
| Tangible book value per share (end of period) (1)                                       | 6.79                                          |   | 6.68              |   | 6.57                 |   | 6.57                  |   | 6.51             |
| Dividends paid per common share                                                         | 0.085                                         |   | 0.085             |   | 0.085                |   | 0.085                 |   | 0.085            |
| Stock price (end of period)                                                             | 9.37                                          |   | 9.42              |   | 9.55                 |   | 9.40                  |   | 8.68             |
| PERFORMANCE RATIOS (2)                                                                  |                                               |   |                   |   |                      |   |                       |   |                  |
| Net interest margin (taxable equivalent basis)                                          | 3.61                                          | % | 3.82              | % | 3.54                 | % | 3.56                  | % | 3.78             |
| Return on average assets                                                                | 0.73                                          | % | 0.78              | % | 0.58                 | % | 0.73                  | % | 0.74             |
| Return on average tangible assets (1)                                                   | 0.75                                          | % | 0.80              | % | 0.60                 | % | 0.75                  | % | 0.76             |
| Return on average stockholders' equity                                                  | 6.37                                          | % | 6.70              | % | 4.95                 | % | 6.15                  | % | 6.16             |
| Return on average tangible stockholders' equity (1)                                     | 8.44                                          | % | 8.92              | % | 6.61                 | % | 8.27                  | % | 8.28             |
| Dividend payout ratio (1)                                                               | 59.78                                         | % | 57.23             | % | 77.88                | % | 63.26                 | % | 62.75            |
| Efficiency ratio                                                                        | 62.79                                         | % | 63.52             | % | 65.69                | % | 63.06                 | % | 63.53            |
| ASSET QUALITY RATIOS                                                                    |                                               |   |                   |   |                      |   |                       |   |                  |
| Net loan and lease charge-offs as a percentage of average loans and leases (annualized) | 0.06                                          | % | 0.06              | % | 0.16                 | % | 0.06                  | % | 0.06             |
| Nonperforming loans and leases as a percentage of total loans and leases                | 0.37                                          | % | 0.41              | % | 0.38                 | % | 0.36                  | % | 0.42             |
| Nonperforming assets as a percentage of total assets                                    | 0.33                                          | % | 0.36              | % | 0.34                 | % | 0.32                  | % | 0.37             |
| Total allowance for loan and lease losses as a percentage of total loans and leases     | 1.12                                          | % | 1.13              | % | 1.11                 | % | 1.08                  | % | 1.05             |
| Allowance for loan and lease losses related to originated loans and leases              | 1.31                                          | % | 1.33              | % | 1.32                 | % | 1.31                  | % | 1.34             |

as a percentage of originated loans  
and leases (1)

#### CAPITAL RATIOS

|                                      |       |   |       |   |       |   |       |   |       |   |
|--------------------------------------|-------|---|-------|---|-------|---|-------|---|-------|---|
| Stockholders' equity to total assets | 11.23 | % | 11.46 | % | 11.53 | % | 11.74 | % | 11.87 | % |
| Tangible equity ratio (1)            | 8.73  | % | 8.87  | % | 8.88  | % | 9.03  | % | 9.10  | % |

#### FINANCIAL CONDITION DATA

|                                           |             |             |             |             |             |
|-------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Total assets                              | \$5,587,486 | \$5,418,785 | \$5,325,106 | \$5,236,229 | \$5,150,480 |
| Total loans and leases                    | 4,603,913   | 4,461,997   | 4,362,465   | 4,299,477   | 4,205,015   |
| Allowance for loan and lease losses       | 51,686      | 50,224      | 48,473      | 46,390      | 44,281      |
| Goodwill and identified intangible assets | 153,089     | 153,916     | 154,777     | 155,905     | 157,058     |
| Total deposits                            | 3,861,147   | 3,847,650   | 3,835,006   | 3,737,978   | 3,656,981   |
| Total borrowed funds                      | 1,041,004   | 892,016     | 812,555     | 828,802     | 830,066     |
| Stockholders' equity                      | 627,663     | 620,799     | 613,867     | 614,811     | 611,284     |

#### EARNINGS DATA

|                             |          |          |          |          |          |
|-----------------------------|----------|----------|----------|----------|----------|
| Net interest income         | \$46,434 | \$47,734 | \$43,774 | \$43,412 | \$45,363 |
| Provision for credit losses | 2,276    | 2,443    | 3,887    | 2,748    | 2,439    |
| Non-interest income         | 3,290    | 5,124    | 3,907    | 3,453    | 3,139    |
| Non-interest expense        | 31,222   | 33,576   | 31,320   | 29,553   | 30,816   |
| Net income                  | 9,976    | 10,422   | 7,654    | 9,429    | 9,490    |

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

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

## Table of Contents

### Executive Overview

#### Growth

Total assets of \$5.6 billion at June 30, 2014 increased \$262.4 million, or 9.9%, on an annualized basis from \$5.3 billion at December 31, 2013.

The loan and lease portfolio increased \$241.4 million, or 11.1%, on an annualized basis to \$4.6 billion at June 30, 2014 from \$4.4 billion at December 31, 2013. The Company's commercial loan portfolios, which are comprised of commercial real estate loans and commercial loans and leases, continued to exhibit growth. The Company's commercial loan portfolios, which total \$3.4 billion, or 73.7% of total loans and leases at June 30, 2014, increased \$222.3 million, or 14.0% on an annualized basis, from \$3.2 billion, or 72.6% of total loans and leases at December 31, 2013. Loan growth in the Company's commercial loan portfolios was offset by a \$24.2 million decrease in the indirect automobile portfolio during the same period.

Total deposits of \$3.9 billion at June 30, 2014 increased slightly from December 31, 2013. Core deposits, defined as the sum of demand checking, NOW, money market, and savings accounts, increased at a 4.2% annualized rate during the first six months of 2014. The Company's core deposits increased as a percentage of total deposits to 76.7% at June 30, 2014 from 75.6% at December 31, 2013.

#### Asset Quality

The ratio of the allowance for loan and lease losses to total loans and leases was 1.12% at June 30, 2014, compared to 1.11% at December 31, 2013. The allowance for loan and lease losses related to originated loans and leases as a percentage of total originated loans and leases was 1.31% at June 30, 2014 as compared with 1.32% at December 31, 2013. The Company continued to employ its historical underwriting methodology throughout the six-month period ended June 30, 2014 and continued to calculate its allowance for loan and lease losses on a historically consistent basis adjusting for any improvements in credit quality.

Nonperforming assets at June 30, 2014 totaled \$18.4 million or 0.33% of total assets, as compared with \$18.1 million, or 0.34% of total assets, at December 31, 2013. Net charge-offs for the three months ended June 30, 2014 were \$0.7 million, or 0.06% annualized of average loans and leases, compared to \$0.6 million, or 0.06% annualized for the three months ended June 30, 2013.

#### Capital Strength

The Company remains well-capitalized as defined by its regulatory requirements with capital ratios in excess of all minimum regulatory requirements. The Company's Tier 1 leverage ratio was 9.23% at June 30, 2014, compared to 9.36% at December 31, 2013. The ratio of stockholders' equity to total assets was 11.23% and 11.53% at June 30, 2014 and December 31, 2013, respectively. The Company's tangible equity ratio was 8.73% and 8.88% at June 30, 2014 and December 31, 2013, respectively.

#### Net Income

For the three months ended June 30, 2014, the Company reported net income of \$10.0 million, or \$0.14 per basic and diluted share, up \$0.5 million, or 5.1%, from \$9.5 million, or \$0.14 per basic and diluted share, for the three months ended June 30, 2013. This increase in net income is primarily the result of an increase in net interest income of \$1.1 million, a decrease in the provision for credit losses of \$0.2 million, an increase in non-interest income of \$0.2 million, offset by an increase in non-interest expense of \$0.4 million and an increase in provision for income taxes of

\$0.4 million. Refer to "Results of Operations" below for further discussion.

For the six months ended June 30, 2014, the Company reported net income of \$20.4 million, or \$0.29 per basic and diluted share, up \$2.1 million, or 11.4%, from \$18.3 million, or \$0.26 per basic and diluted share, for the six months ended June 30, 2013. This increase in net income is primarily the result of an increase in net interest income of \$5.1 million, an increase in non-interest income of \$1.9 million, offset by an increase in the provision for credit losses of \$0.4 million, an increase in non-interest expense of \$3.2 million, and an increase in provision for income taxes of \$1.3 million. Refer to "Results of Operations" below for further discussion.

The annualized return on average assets was 0.73% and 0.75% for the three months and six months ended June 30, 2014, respectively, compared to 0.74% and 0.72% for the three months and six months ended June 30, 2013, respectively. The

## Table of Contents

annualized return on average stockholders' equity was 6.37% and 6.54% for the three months and six months ended June 30, 2014, respectively, compared to 6.16% and 5.93% for the three months and six months ended June 30, 2013, respectively.

Net interest margin was 3.61% and 3.71% for the three months and six months ended June 30, 2014, respectively, compared to 3.78% and 3.74% for the three months and six months ended June 30, 2013, respectively. The yield on interest-earning assets was 4.15% for the quarter ended June 30, 2014 compared to 4.41% for the quarter ended June 30, 2013. The yield on interest-earning assets was 4.26% for the six months ended June 30, 2014 compared to 4.40% for the six months ended June 30, 2013. The Company's overall cost of funds (including non-interest-bearing demand checking accounts) decreased 10 basis points, to 0.58% for the three months ended June 30, 2014 from 0.68% for the three months ended June 30, 2013. The Company's overall cost of funds decreased 11 basis points, to 0.59% for the six months ended June 30, 2014 from 0.70% for the six months ended June 30, 2013. The Company's net interest margin will likely continue to be under pressure due to competitive pricing pressure in all loan categories and the continuation of a low interest-rate environment, along with the Company's diminishing ability to reduce its cost of funds.

## Critical Accounting Policies

The SEC defines "critical accounting policies" as those involving significant judgments and difficult or complex assumptions by management, often as a result of the need to make estimates about matters that are inherently uncertain or variable, which have, or could have, a material impact on the carrying value of certain assets or net income. The preparation of financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. As discussed in the Company's 2013 Annual Report on Form 10-K, management has identified the valuation of available-for-sale securities, accounting for assets and liabilities acquired, the determination of the allowance for loan and lease losses, the review of goodwill and intangibles for impairment, and income tax accounting as the Company's most critical accounting policies.

## Non-GAAP Financial Measures and Reconciliations to GAAP

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

Table of Contents

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

|                                                                         | Three Months Ended     |   |                   |   |                      |   |                       |   |                  |   |
|-------------------------------------------------------------------------|------------------------|---|-------------------|---|----------------------|---|-----------------------|---|------------------|---|
|                                                                         | June 30,<br>2014       |   | March 31,<br>2014 |   | December 31,<br>2013 |   | September 30,<br>2013 |   | June 30,<br>2013 |   |
|                                                                         | (Dollars in Thousands) |   |                   |   |                      |   |                       |   |                  |   |
| Net income, as reported                                                 | \$9,976                |   | \$10,422          |   | \$7,654              |   | \$9,429               |   | \$9,490          |   |
| Average total assets                                                    | \$5,473,450            |   | \$5,361,717       |   | \$5,287,482          |   | 5,199,583             |   | 5,138,144        |   |
| Less: Average goodwill and average<br>identified intangible assets, net | 153,577                |   | 154,447           |   | 155,439              |   | 156,607               |   | 157,799          |   |
| Average tangible assets                                                 | \$5,319,873            |   | \$5,207,270       |   | \$5,132,043          |   | \$5,042,976           |   | \$4,980,345      |   |
| Return on average tangible assets<br>(annualized)                       | 0.75                   | % | 0.80              | % | 0.60                 | % | 0.75                  | % | 0.76             | % |
| Average total stockholders' equity                                      | \$626,371              |   | \$621,764         |   | \$618,385            |   | 612,866               |   | 616,327          |   |
| Less: Average goodwill and average<br>identified intangible assets, net | 153,577                |   | 154,447           |   | 155,439              |   | 156,607               |   | 157,799          |   |
| Average tangible stockholders' equity                                   | \$472,794              |   | \$467,317         |   | \$462,946            |   | \$456,259             |   | \$458,528        |   |
| Return on average tangible<br>stockholders' equity (annualized)         | 8.44                   | % | 8.92              | % | 6.61                 | % | 8.27                  | % | 8.28             | % |

The following tables summarize the Company's tangible equity ratio and tangible book value per share at the dates indicated:

|                                                         | June 30,<br>2014       | March 31,<br>2014 | December 31,<br>2013 | September 30,<br>2013 | June 30,<br>2013 |
|---------------------------------------------------------|------------------------|-------------------|----------------------|-----------------------|------------------|
|                                                         | (Dollars in Thousands) |                   |                      |                       |                  |
| Total stockholders' equity                              | \$627,663              | \$620,799         | \$613,867            | \$614,811             | \$611,284        |
| Less: Goodwill and identified intangible<br>assets, net | 153,089                | 153,916           | 154,777              | 155,905               | 157,058          |
| Tangible stockholders' equity                           | \$474,574              | \$466,883         | \$459,090            | \$458,906             | \$454,226        |
| Total assets                                            | \$5,587,486            | \$5,418,785       | \$5,325,106          | \$5,236,229           | \$5,150,480      |
| Less: Goodwill and identified intangible<br>assets, net | 153,089                | 153,916           | 154,777              | 155,905               | 157,058          |
| Tangible assets                                         | \$5,434,397            | \$5,264,869       | \$5,170,329          | \$5,080,324           | \$4,993,422      |
| Tangible equity ratio                                   | 8.73                   | % 8.87            | % 8.88               | % 9.03                | % 9.10           |

Table of Contents

|                                                   | June 30,<br>2014                          | March 31,<br>2014 | December 31,<br>2013 | September 30,<br>2013 | June 30,<br>2013 |
|---------------------------------------------------|-------------------------------------------|-------------------|----------------------|-----------------------|------------------|
|                                                   | (Dollars In Thousands, Except Share Data) |                   |                      |                       |                  |
| Tangible stockholders' equity                     | \$474,574                                 | \$466,883         | \$459,090            | \$458,906             | \$454,226        |
| Common shares issued                              | 75,744,445                                | 75,744,445        | 75,744,445           | 75,744,445            | 75,744,445       |
| Less: Common shares classified as treasury shares | 5,144,807                                 | 5,171,985         | 5,171,985            | 5,154,327             | 5,373,733        |
| Less: Unallocated ESOP shares                     | 271,524                                   | 281,595           | 291,666              | 302,229               | 312,792          |
| Less: Unvested restricted shares                  | 434,459                                   | 408,651           | 409,068              | 429,818               | 276,011          |
| Common shares outstanding                         | 69,893,655                                | 69,882,214        | 69,871,726           | 69,858,071            | 69,781,909       |
| Tangible book value per share                     | \$6.79                                    | \$6.68            | \$6.57               | \$6.57                | \$6.51           |

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

|                         | Three Months Ended     |                   |                      |                       |                  |
|-------------------------|------------------------|-------------------|----------------------|-----------------------|------------------|
|                         | June 30,<br>2014       | March 31,<br>2014 | December 31,<br>2013 | September 30,<br>2013 | June 30,<br>2013 |
|                         | (Dollars in Thousands) |                   |                      |                       |                  |
| Dividends paid          | \$5,964                | \$5,964           | \$5,961              | \$5,965               | \$5,955          |
| Net income, as reported | \$9,976                | \$10,422          | \$7,654              | \$9,429               | \$9,490          |
| Dividend payout ratio   | 59.78                  | % 57.23           | % 77.88              | % 63.26               | % 62.75          |

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

|                                                    | June 30,<br>2014       | March 31,<br>2014 | December 31,<br>2013 | September 30,<br>2013 | June 30,<br>2013 |
|----------------------------------------------------|------------------------|-------------------|----------------------|-----------------------|------------------|
|                                                    | (Dollars in Thousands) |                   |                      |                       |                  |
| Allowance for loan and lease losses                | \$51,686               | \$50,224          | \$48,473             | \$46,390              | \$44,281         |
| Less: Allowance for acquired loan and lease losses | 1,247                  | 1,404             | 1,629                | 1,278                 | 620              |
| Allowance for originated loan and lease losses     | \$50,439               | \$48,820          | \$46,844             | \$45,112              | \$43,661         |
| Total loans and leases                             | \$4,603,913            | \$4,461,997       | \$4,362,465          | \$4,299,477           | \$4,205,015      |
| Less: Total acquired loans and leases              | 747,106                | 779,747           | 815,412              | 865,708               | 938,815          |
| Total originated loans and leases                  | \$3,856,807            | \$3,682,250       | \$3,547,053          | \$3,433,769           | \$3,266,200      |

|                                                                                                                           |      |        |        |        |        |   |
|---------------------------------------------------------------------------------------------------------------------------|------|--------|--------|--------|--------|---|
| Allowance for loan and lease losses related to originated loans and leases as a percentage of originated loans and leases | 1.31 | % 1.33 | % 1.32 | % 1.31 | % 1.34 | % |
|---------------------------------------------------------------------------------------------------------------------------|------|--------|--------|--------|--------|---|



Table Of Contents

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2014 and 2013

## Financial Condition

## Loans and Leases

The Company continues to focus strategically on growing its commercial loan portfolios. To this end, these portfolios increased from \$3.2 billion at December 31, 2013 to \$3.4 billion at June 30, 2014, and from 72.6% of total loans and leases to 73.7% of total loans and leases during the same period. Concomitantly, the Company has elected to allow the indirect automobile portfolio to decrease as a percentage of total loans and leases rather than to originate loans at unfavorable interest rates.

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

|                                     | At June 30, 2014       |                  | At December 31, 2013 |                  |   |
|-------------------------------------|------------------------|------------------|----------------------|------------------|---|
|                                     | Balance                | Percent of Total | Balance              | Percent of Total |   |
|                                     | (Dollars in Thousands) |                  |                      |                  |   |
| Commercial real estate loans:       |                        |                  |                      |                  |   |
| Commercial real estate mortgage     | \$1,545,483            | 33.6             | % \$1,461,985        | 33.5             | % |
| Multi-family mortgage               | 631,371                | 13.7             | % 627,933            | 14.4             | % |
| Construction                        | 137,731                | 3.0              | % 113,705            | 2.6              | % |
| Total commercial real estate loans  | 2,314,585              | 50.3             | % 2,203,623          | 50.5             | % |
| Commercial loans and leases:        |                        |                  |                      |                  |   |
| Commercial                          | 478,856                | 10.4             | % 407,792            | 9.3              | % |
| Equipment financing                 | 552,489                | 12.0             | % 513,024            | 11.8             | % |
| Condominium association             | 45,608                 | 1.0              | % 44,794             | 1.0              | % |
| Total commercial loans and leases   | 1,076,953              | 23.4             | % 965,610            | 22.1             | % |
| Indirect automobile                 | 376,314                | 8.2              | % 400,531            | 9.2              | % |
| Consumer loans:                     |                        |                  |                      |                  |   |
| Residential mortgage                | 550,814                | 11.9             | % 528,185            | 12.1             | % |
| Home equity                         | 270,203                | 5.9              | % 257,461            | 5.9              | % |
| Other consumer                      | 15,044                 | 0.3              | % 7,055              | 0.2              | % |
| Total consumer loans                | 836,061                | 18.1             | % 792,701            | 18.2             | % |
| Total loans and leases              | 4,603,913              | 100.0            | % 4,362,465          | 100.0            | % |
| Allowance for loan and lease losses | (51,686 )              |                  | (48,473 )            |                  |   |
| Net loans and leases                | \$4,552,227            |                  | \$4,313,992          |                  |   |

The following table sets forth the growth (decline) in the Company's loan and lease portfolios during the six months ended June 30, 2014:

|                        | At June 30, 2014       | At December 31, 2013 | Dollar Change | Percent Change (Annualized) |   |
|------------------------|------------------------|----------------------|---------------|-----------------------------|---|
|                        | (Dollars in Thousands) |                      |               |                             |   |
| Commercial real estate | \$2,314,585            | \$2,203,623          | \$110,962     | 10.1                        | % |
| Commercial             | 1,076,953              | 965,610              | 111,343       | 23.1                        | % |
| Indirect automobile    | 376,314                | 400,531              | (24,217 )     | -12.1                       | % |
| Consumer               | 836,061                | 792,701              | 43,360        | 10.9                        | % |

|                        |             |             |           |      |   |
|------------------------|-------------|-------------|-----------|------|---|
| Total loans and leases | \$4,603,913 | \$4,362,465 | \$241,448 | 11.1 | % |
|------------------------|-------------|-------------|-----------|------|---|

The Company's loan portfolio consists primarily of first mortgage loans secured by commercial, multi-family and residential real estate properties located in the Company's primary lending area, indirect automobile loans, loans to business entities, including commercial lines of credit, loans to condominium associations and loans and leases used to finance

56

---

## Table of Contents

equipment used by small businesses. The Company also provides financing for construction and development projects, home equity and other consumer loans.

The Company employs seasoned commercial lenders and retail bankers who rely on community and business contacts as well as referrals from customers, attorneys and other professionals to generate loans and deposits. Existing borrowers are also an important source of business since many of them have more than one loan outstanding with the Company. The Company's ability to originate loans depends on the strength of the economy, trends in interest rates, and levels of customer demand and market competition.

### Commercial Real Estate Loans

The commercial real estate portfolio of \$2.3 billion at June 30, 2014 is composed of commercial real estate mortgage loans, multi-family mortgage loans, and construction loans and is the largest component of the Company's overall loan portfolio, representing 50.3% of total loans and leases outstanding at June 30, 2014. For the commercial real estate portfolio, the Company focuses on making loans in the \$3 million to \$10 million range.

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

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

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

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

Over 98% of the commercial real estate loans outstanding at June 30, 2014 were secured by properties located in New England. The commercial real estate portfolio at that date was composed primarily of loans secured by apartment buildings (\$637.7 million), office buildings (\$524.1 million), retail stores (\$462.2 million), industrial properties (\$268.1 million) and mixed-use properties (\$174.6 million).

Construction and development financing is generally considered to involve a higher degree of risk than long-term financing on improved, occupied real estate and thus has higher concentration limits than do other commercial credit

classes. Risk of loss on a construction loan is largely dependent upon the accuracy of the initial estimate of construction costs, the estimated time to sell or rent the completed property at an adequate price or rate of occupancy, and market conditions. If the estimates and projections prove to be inaccurate, the Company may be confronted with a project which, upon completion, has a value that is insufficient to assure full loan repayment.

Criteria applied in underwriting construction loans for which the primary source of repayment is the sale of the property are different from the criteria applied in underwriting construction loans for which the primary source of repayment is the stabilized cash flow from the completed project. For those loans where the primary source of repayment is from resale of the property, in addition to the normal credit analysis performed for other loans, the Company also analyzes project costs, the attractiveness of the property in relation to the market in which it is located and demand within the market area. For those construction loans where the source of repayment is the stabilized cash flow from the completed project, the Company analyzes

## Table of Contents

not only project costs but also how long it might take to achieve satisfactory occupancy and the reasonableness of projected rental rates in relation to market rental rates.

### Commercial Loans and Leases

The commercial loan and lease portfolio of \$1.1 billion at June 30, 2014 is composed of commercial loans, equipment financing loans and leases and condominium association loans and represented 23.4% of total loans outstanding at June 30, 2014. The Company focuses on making commercial loans in the \$1 million to \$10 million range.

The Company provides commercial banking services to companies in its market area. Over 52% of the commercial loans outstanding at June 30, 2014 were made to borrowers located in New England. Product offerings include lines of credit, term loans, letters of credit, deposit services and cash management. These types of credit facilities have as their primary source of repayment cash flows from the operations of a business. Interest rates offered are available on a floating basis tied to the prime rate or a similar index or on a fixed-rate basis referenced on the Federal Home Loan Bank of Boston ("FHLBB") index.

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

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

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

### Indirect Automobile Loans

The indirect automobile loan portfolio of \$376.3 million at June 30, 2014 represented 8.2% of total loans outstanding at June 30, 2014. Indirect automobile loans are down from \$400.5 million at December 31, 2013. Although automobile sales continue to be robust through the first six months of 2014, competition for these loans increased significantly as credit unions and large national banks entered indirect automobile lending in a search for additional sources of income. That competition drove interest rates down and, in some cases, changed the manner in which interest rates are developed, from including a dealer-shared spread to imposing a dealer-based fee to originate the loan. Depending on the terms of the dealer's enrollment agreement with the Company, the dealer earns this fee 90 days after a loan is originated or once the borrower makes at least three payments on the loan.

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

## Table of Contents

Loan applications are generated by approved dealers and data are entered into an application processing system. A credit bureau scorecard model is used in the underwriting process. The model is based on data accumulated by nationally recognized credit bureaus and is a risk assessment tool that analyzes an individual's credit history and assigns a numeric credit score. The model meets the requirements of the Equal Credit Opportunity Act. The application processing system sorts each application according to score ranges. Loans must meet criteria established in the Company's loan policy. Credit profile measurements such as debt-to-income ratios, payment-to-income ratios and loan-to-value ratios are utilized in the underwriting process and to monitor the performance of loans falling within specified ratio ranges. Regarding loan-to-value ratios, the Company considers indirect automobile loans to be essentially credits that are less than fully collateralized. When borrowers cease to make required payments, repossession and sale of the vehicle financed usually results in insufficient funds to fully pay the remaining loan balance.

The Company's indirect automobile loan policy limits origination of loans with credit scores of 660 or below to 5% of monthly indirect loan originations. At June 30, 2014, loans with credit scores of 660 or below were 2.9% of loans outstanding. The average-dollar original weighted credit score of loans in the portfolio at that date was 749. All loans require the purchase of single interest insurance by the borrower. The insurance is designed to protect the Company from loss when a loan is in default and the collateral value is impaired due to vehicle damage or the Company is unable to take possession of the vehicle.

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

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

## Consumer Loans

The consumer loan portfolio of \$836.1 million at June 30, 2014 is composed of residential mortgage loans, home equity loans and lines of credit and other consumer loans and represented 18.1% of total loans outstanding at June 30, 2014. The Company focuses its mortgage loans on existing and new customers within its branch networks in its urban and suburban marketplaces in the greater Boston and Providence metropolitan areas.

The Company originates adjustable- and fixed-rate residential mortgage loans secured by one- to four-family residences. Each residential mortgage loan granted is subject to a satisfactorily completed application, employment verification, credit history and a demonstrated ability to repay the debt. Generally, loans are not made when the loan-to-value ratio exceeds 80% unless private mortgage insurance is obtained and/or there is a financially strong guarantor. Appraisals are performed by outside independent fee appraisers.

In general, the Company maintains three-, five- and seven-year adjustable-rate mortgage loans and ten-year fixed-rate fully amortizing mortgage loans in its portfolio. Fixed-rate mortgage loans with maturities beyond ten years, such as 15- and 30-year fixed-rate mortgages, are not generally maintained in the Company's portfolio but are, rather, sold into the secondary market on a servicing-released basis. At June 30, 2014, the Banks acted as correspondent banks in these secondary-market transactions. Loan sales in the secondary market provide funds for additional lending and other banking activities.

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

Other consumer loans have historically been a modest part of the Company's loan originations. At June 30, 2014, originated other consumer loans equaled \$14.3 million or 0.4% of total originated loans outstanding at that date. Equity and debt securities were pledged as collateral for a substantial part of the total of those loans.

## Table of Contents

### Asset Quality

#### Criticized and Classified Assets

The Company's management negatively rates certain loans and leases as "other asset especially mentioned ("OAEM"), "substandard" or "doubtful" based on criteria established under banking regulations. These loans and leases are collectively referred to as "criticized" assets. Loans and leases rated OAEM have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects of the loan or lease at some future date. Loans and leases rated as substandard are inadequately protected by the payment capacity of the obligor or of the collateral pledged, if any. Substandard loans and leases have a well-defined weakness or weaknesses that jeopardize the liquidation of debt and are characterized by the distinct possibility that the Company will sustain some loss if existing deficiencies are not corrected. At June 30, 2014, the Company had \$58.8 million of total assets, including acquired assets, that were designated as criticized. This compares to \$57.5 million of assets that were designated as criticized at December 31, 2013. See Note 5, "Allowance for Loan and Lease Losses," to the unaudited consolidated financial statements for more information on the Company's risk-rating system.

#### Nonperforming Assets

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

Table of Contents

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

|                                                                                                           | At June 30, 2014       | At December 31, 2013 |   |
|-----------------------------------------------------------------------------------------------------------|------------------------|----------------------|---|
|                                                                                                           | (Dollars in Thousands) |                      |   |
| Nonaccrual loans and leases:                                                                              |                        |                      |   |
| Commercial real estate mortgage                                                                           | \$3,011                | \$1,098              |   |
| Commercial                                                                                                | 6,383                  | 6,148                |   |
| Equipment financing                                                                                       | 3,251                  | 4,115                |   |
| Condominium association                                                                                   | —                      | 1                    |   |
| Indirect automobile                                                                                       | 325                    | 259                  |   |
| Residential mortgage                                                                                      | 2,384                  | 2,875                |   |
| Home equity                                                                                               | 1,771                  | 1,987                |   |
| Other consumer                                                                                            | 36                     | 18                   |   |
| Total nonaccrual loans and leases                                                                         | 17,161                 | 16,501               |   |
| Other real estate owned                                                                                   | 675                    | 577                  |   |
| Other repossessed assets                                                                                  | 571                    | 1,001                |   |
| Total nonperforming assets                                                                                | \$18,407               | \$18,079             |   |
| Loans and leases past due greater than 90 days and still accruing                                         | \$6,653                | \$10,913             |   |
| Total nonperforming loans and leases as a percentage of total loans and leases                            | 0.37                   | % 0.38               | % |
| Total nonperforming assets as a percentage of total assets                                                | 0.33                   | % 0.34               | % |
| Total delinquent loans and leases greater than 90 days past due as a percentage of total loans and leases | 0.31                   | % 0.41               | % |

Total nonperforming assets, which are composed of nonaccrual loans and leases, other real estate owned and other repossessed assets, increased from \$18.1 million at December 31, 2013 to \$18.4 million at June 30, 2014. From December 31, 2013 to June 30, 2014, nonaccrual loans and leases increased \$1.9 million (174.2%) in commercial real estate mortgage, \$0.2 million (3.8%) in commercial and \$0.1 million (25.5%) in indirect automobile. The increases in nonaccrual loans were offset by a decrease of \$0.9 million (21.0%) in equipment financing, \$0.5 million (17.1%) in residential mortgage and \$0.2 million (10.9%) in home equity nonaccrual loans.

#### Troubled Debt Restructured Loans and Leases

The following table sets forth information regarding troubled debt restructured loans and leases at the dates indicated:

|                                    | At June 30, 2014       | At December 31, 2013 |  |
|------------------------------------|------------------------|----------------------|--|
|                                    | (Dollars in Thousands) |                      |  |
| Troubled debt restructurings:      |                        |                      |  |
| On accrual                         | \$12,396               | \$12,759             |  |
| On nonaccrual                      | 5,992                  | 5,589                |  |
| Total troubled debt restructurings | \$18,388               | \$18,348             |  |

Table of Contents

Changes in troubled debt restructured loans and leases were as follows for the periods indicated:

|                                 | Three months ended June 30, |          | Six months ended June 30, |          |
|---------------------------------|-----------------------------|----------|---------------------------|----------|
|                                 | 2014                        | 2013     | 2014                      | 2013     |
|                                 | (Dollars in Thousands)      |          |                           |          |
| Balance at beginning of period  | \$18,296                    | \$17,330 | \$18,348                  | \$17,200 |
| Additions                       | 1,206                       | 919      | 2,086                     | 2,813    |
| Charge-offs                     | (50)                        | (245)    | (50)                      | (245)    |
| Repayments                      | (1,064)                     | (1,454)  | (1,801)                   | (1,469)  |
| Other reductions <sup>(1)</sup> | —                           | —        | (195)                     | (1,749)  |
| Balance at end of period        | \$18,388                    | \$16,550 | \$18,388                  | \$16,550 |

<sup>(1)</sup> Other reductions include transfers to OREO and change in TDR status.

#### Allowance for Loan and Lease Losses

The allowance for loan and lease losses consists of general, specific and unallocated allowances and reflects management's estimate of probable loan and lease losses inherent in the loan portfolio at the balance sheet date. Management uses a consistent and systematic process and methodology to evaluate the adequacy of the allowance for loan and lease losses on a quarterly basis. The allowance is calculated by loan type: commercial real estate loans, commercial loans and leases, indirect automobile loans and consumer loans, each category of which is further segregated. A formula-based credit evaluation approach is applied to each group that is evaluated collectively, primarily by loss factors assigned to each risk rating by type coupled with an analysis of certain loans individually evaluated for impairment. Management continuously evaluates and challenges inputs and assumptions in the allowance for loan and lease loss. During the three and six months ended June 30, 2014, management reviewed these conditions and adjusted the factors due to the absence of losses outside the normal course of business and improved credit quality.

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

The following tables present the changes in the allowance for loan and lease losses by portfolio segment for the three months and six months ended June 30, 2014 and 2013.

Table of Contents

|                                                                               | At and for the Three Months Ended June 30, 2014 |             |                        |           |                   |             |   |  |  |
|-------------------------------------------------------------------------------|-------------------------------------------------|-------------|------------------------|-----------|-------------------|-------------|---|--|--|
|                                                                               | Commercial<br>Real Estate                       | Commercial  | Indirect<br>Automobile | Consumer  | Unallocated Total |             |   |  |  |
|                                                                               | (Dollars in Thousands)                          |             |                        |           |                   |             |   |  |  |
| Balance at March 31, 2014                                                     | \$24,858                                        | \$15,544    | \$3,664                | \$3,110   | \$ 3,048          | \$50,224    |   |  |  |
| Charge-offs                                                                   | —                                               | (796 )      | (228 )                 | (172 )    | —                 | (1,196 )    |   |  |  |
| Recoveries                                                                    | —                                               | 218         | 173                    | 85        | —                 | 476         |   |  |  |
| Provision (credit) for loan and lease losses                                  | 1,857                                           | 900         | 77                     | (6 )      | (646 )            | 2,182       |   |  |  |
| Balance at June 30, 2014                                                      | \$26,715                                        | \$15,866    | \$3,686                | \$3,017   | \$ 2,402          | \$51,686    |   |  |  |
| Total loans and leases                                                        | \$2,314,585                                     | \$1,076,953 | \$376,314              | \$836,061 | N/A               | \$4,603,913 |   |  |  |
| Allowance for loan and lease losses as a percentage of total loans and leases | 1.15                                            | % 1.47      | % 0.98                 | % 0.36    | % N/A             | 1.12        | % |  |  |
|                                                                               | At and for the Three Months Ended June 30, 2013 |             |                        |           |                   |             |   |  |  |
|                                                                               | Commercial<br>Real Estate                       | Commercial  | Indirect<br>Automobile | Consumer  | Unallocated Total |             |   |  |  |
|                                                                               | (Dollars in Thousands)                          |             |                        |           |                   |             |   |  |  |
| Balance at March 31, 2013                                                     | \$20,588                                        | \$11,652    | \$5,000                | \$2,596   | \$ 2,696          | \$42,532    |   |  |  |
| Charge-offs                                                                   | (81 )                                           | (477 )      | (318 )                 | (154 )    | —                 | (1,030 )    |   |  |  |
| Recoveries                                                                    | —                                               | 182         | 149                    | 60        | —                 | 391         |   |  |  |
| Provision (credit) for loan and lease losses                                  | 1,512                                           | 434         | (136 )                 | 497       | 81                | 2,388       |   |  |  |
| Balance at June 30, 2013                                                      | \$22,019                                        | \$11,791    | \$4,695                | \$2,999   | \$ 2,777          | \$44,281    |   |  |  |
| Total loans and leases                                                        | \$2,056,674                                     | \$895,090   | \$479,782              | \$773,469 | N/A               | \$4,205,015 |   |  |  |
| Allowance for loan and lease losses as a percentage of total loans and leases | 1.07                                            | % 1.32      | % 0.98                 | % 0.39    | % N/A             | 1.05        | % |  |  |
|                                                                               | At and for the Six Months Ended June 30, 2014   |             |                        |           |                   |             |   |  |  |
|                                                                               | Commercial<br>Real Estate                       | Commercial  | Indirect<br>Automobile | Consumer  | Unallocated Total |             |   |  |  |
|                                                                               | (Dollars in Thousands)                          |             |                        |           |                   |             |   |  |  |
| Balance at December 31, 2013                                                  | \$23,022                                        | \$15,220    | \$3,924                | \$3,375   | \$ 2,932          | \$48,473    |   |  |  |
| Charge-offs                                                                   | —                                               | (1,347 )    | (517 )                 | (382 )    | —                 | (2,246 )    |   |  |  |
| Recoveries                                                                    | —                                               | 469         | 277                    | 114       | —                 | 860         |   |  |  |
| Provision (credit) for loan and lease losses                                  | 3,693                                           | 1,524       | 2                      | (90 )     | (530 )            | 4,599       |   |  |  |
| Balance at June 30, 2014                                                      | \$26,715                                        | \$15,866    | \$3,686                | \$3,017   | \$ 2,402          | \$51,686    |   |  |  |
| Total loans and leases                                                        | \$2,314,585                                     | \$1,076,953 | \$376,314              | \$836,061 | N/A               | \$4,603,913 |   |  |  |
| Allowance for loan and lease losses as a percentage of total loans and leases | 1.15                                            | % 1.47      | % 0.98                 | % 0.36    | % N/A             | 1.12        | % |  |  |



Table of Contents

|                                                                               | At and for the Six Months Ended June 30, 2013 |            |                        |           |             |             |   |
|-------------------------------------------------------------------------------|-----------------------------------------------|------------|------------------------|-----------|-------------|-------------|---|
|                                                                               | Commercial<br>Real Estate                     | Commercial | Indirect<br>Automobile | Consumer  | Unallocated | Total       |   |
|                                                                               | (Dollars in Thousands)                        |            |                        |           |             |             |   |
| Balance at December 31, 2012                                                  | \$20,018                                      | \$10,655   | \$5,304                | \$2,545   | \$2,630     | \$41,152    |   |
| Charge-offs                                                                   | (81)                                          | (724)      | (680)                  | (206)     | —           | (1,691)     | ) |
| Recoveries                                                                    | 4                                             | 264        | 279                    | 86        | —           | 633         |   |
| Provision (credit) for loan and lease losses                                  | 2,078                                         | 1,596      | (208)                  | 574       | 147         | 4,187       |   |
| Balance at June 30, 2013                                                      | \$22,019                                      | \$11,791   | \$4,695                | \$2,999   | \$2,777     | \$44,281    |   |
| Total loans and leases                                                        | \$2,056,674                                   | \$895,090  | \$479,782              | \$773,469 | N/A         | \$4,205,015 |   |
| Allowance for loan and lease losses as a percentage of total loans and leases | 1.07                                          | % 1.32     | % 0.98                 | % 0.39    | % N/A       | 1.05        | % |

The allowance for loan and lease losses was \$51.7 million at June 30, 2014 or 1.12% of total loans and leases outstanding. This compared to an allowance for loan and lease losses of \$48.5 million or 1.11% of total loans and leases outstanding at December 31, 2013. The increase in the allowance for loan and lease losses and in the allowance for loan and lease losses as a percentage of total loans and leases from December 31, 2013 to June 30, 2014 is due to loan growth of \$241.4 million during the first six months of 2014. The allowance for loan and lease losses related to originated loans and leases represents 1.31% and 1.32% of originated loans and leases at June 30, 2014 and December 31, 2013, respectively.

## Table of Contents

### Commercial Real Estate Loans

The allowance for commercial real estate loan losses was \$26.7 million at June 30, 2014 or 1.15% of total commercial real estate loans outstanding. This compared to an allowance for commercial real estate loan losses of \$23.0 million or 1.04% of total commercial real estate loans outstanding at December 31, 2013. Specific reserves on commercial real estate loans decreased from \$0.3 million to \$0.1 million from December 31, 2013 to June 30, 2014. Excluding balances in acquired loan portfolios, the allowance for commercial real estate loan losses as a percentage of total commercial real estate loans outstanding increased to 1.13% at June 30, 2014 from 1.02% at December 31, 2013.

The \$3.7 million increase in the allowance for commercial real estate loan losses during the first six months of 2014 was primarily driven by originated loan growth of \$148.6 million, or 16.8% on an annualized basis, from December 31, 2013. The ratio of total criticized and classified commercial real estate loans to total commercial real estate loans decreased to 1.34% at June 30, 2014 from 1.63% at December 31, 2013. The ratio of originated commercial real estate loans on nonaccrual to total originated commercial real estate loans increased to 0.05% at June 30, 2014 from 0.01% at December 31, 2013.

As a percentage of average commercial real estate loans, annualized net charge-offs for the three-month and six-month periods ended June 30, 2014 and June 30, 2013 were negligible.

### Commercial Loans and Leases

The allowance for commercial loan and lease losses was \$15.9 million or 1.47% of total commercial loans and leases outstanding at June 30, 2014, as compared to \$15.2 million or 1.58% at December 31, 2013. Specific reserves on commercial loans and leases increased from \$0.8 million at December 31, 2013 to \$1.0 million at June 30, 2014. Excluding balances in acquired loan portfolios, the allowance for commercial loan and lease losses as a percentage of total commercial loans and leases outstanding decreased to 1.43% at June 30, 2014 from 1.53% at December 31, 2013.

The \$0.7 million increase in the allowance for commercial loan and lease losses during the first six months of 2014 was primarily driven by originated loan growth of \$122.9 million, or 29.7% on an annualized basis, from December 31, 2013 and the addition of \$0.1 million in allowances for post-acquisition deterioration in certain commercial loan and lease portfolios. The ratio of total criticized and classified commercial loans and leases to total commercial loans and leases was 2.58% at June 30, 2014 as compared to 2.24% at December 31, 2013. The ratio of originated commercial loans and leases on nonaccrual to total originated commercial loans and leases decreased to 0.48% at June 30, 2014 from 0.68% at December 31, 2013.

Net charge-offs in the commercial loan and lease portfolio for the three-month periods ended June 30, 2014 and June 30, 2013 were \$0.6 million and \$0.3 million, respectively. As a percentage of average commercial loans and leases, annualized net charge-offs for the three-month periods ended June 30, 2014 and June 30, 2013 were 0.22% and 0.13%, respectively.

Net charge-offs in the commercial loan and lease portfolio for the six months ended June 30, 2014 and June 30, 2013 were \$0.9 million and \$0.5 million, respectively. As a percentage of average commercial loans and leases, annualized net charge-offs for the three-month periods ended June 30, 2014 and June 30, 2013 were 0.17% and 0.11%, respectively.

### Indirect Automobile Loans

The allowance for indirect automobile loan losses was \$3.7 million or 0.98% of total indirect automobile loans outstanding at June 30, 2014, compared to \$3.9 million or 0.98% of the indirect automobile portfolio outstanding at December 31, 2013. There were no loans individually evaluated for impairment in the indirect automobile portfolio at June 30, 2014. The \$0.2 million decrease in the allowance for indirect automobile loan losses was primarily a result of declines in loans outstanding, which decreased \$24.2 million from \$400.5 million at December 31, 2013 to \$376.3 million at June 30, 2014.

The ratio of indirect automobile loans with borrower credit scores below 660 to the total indirect automobile portfolio decreased slightly to 2.9% at June 30, 2014 from 3.2% at December 31, 2013. The ratio of indirect automobile loans on nonaccrual to total indirect automobile loans increased slightly to 0.09% at June 30, 2014 compared to 0.06% at December 31, 2013.

Net charge-offs in the indirect automobile portfolio for the three-month periods ended June 30, 2014 and 2013 was \$0.1 million and \$0.2 million, respectively. As a percentage of average loans and leases, annualized net charge-offs for the three-month periods ended June 30, 2014 and June 30, 2013 were 0.06% and 0.14% respectively, reflecting the favorable trend in credit quality as the portfolio has been allowed to run down.

## Table of Contents

Net charge-offs in the indirect automobile portfolio for the six months ended June 30, 2014 and 2013 was \$0.2 million and \$0.4 million, respectively. As a percentage of average loans and leases, annualized net charge-offs for the six-month periods ended June 30, 2014 and June 30, 2013 were 0.13% and 0.16% respectively, reflecting the favorable trend in credit quality as the portfolio has been allowed to run down.

### Consumer Loans

The allowance for consumer loan losses, including residential loans and home equity loans and lines of credit, was \$3.0 million or 0.36% of total consumer loans and leases outstanding at June 30, 2014 as compared to \$3.4 million or 0.43% at December 31, 2013. There was zero reserve for loans individually evaluated for impairment at June 30, 2014 on loan balances of \$6.0 million, compared to \$0.3 million on loan balances of \$4.3 million at December 31, 2013. Excluding balances in acquired loan portfolios, the allowance for consumer losses as a percentage of total consumer loans outstanding was 0.33% at June 30, 2014, compared to 0.35% at December 31, 2013.

The \$0.4 million decrease in the allowance for consumer loans during the first six months of 2014 was primarily driven by the decrease in allowance on loans individually evaluated for impairment due to better than expected performance and cash flows. The ratio of residential and home equity loans with loan-to-value ratios greater than 80% increased to 6.53% of total residential and home equity loans at June 30, 2014 from 4.78% at December 31, 2013. The ratio of originated consumer loans on nonaccrual to total originated consumer loans decreased to 0.30% at June 30, 2014 from 0.40% at December 31, 2013. The risk of loss on a home equity loan is higher since the property securing the loan has often been previously pledged as collateral for a first mortgage loan. The Company gathers and analyzes delinquency data, to the extent that data are available on these first liens, for purposes of assessing the collectability of the second liens held for the Company even if these home equity loans are not delinquent. This data are further analyzed for performance differences between amortizing and non-amortizing home equity loans, the percentage borrowed to total loan commitment and by the amount of payments made by the borrowers. The exposure to loss is not considered to be high due to the combination of current property values, the low level of losses experienced in the past few years and the low level of loan delinquencies at June 30, 2014. If the local economy weakens, however, a rise in losses in those loan classes could occur. Historically, losses in these classes have been low.

Net charge-offs in the consumer portfolio for the three-month periods ended June 30, 2014 and June 30, 2013 were less than \$0.1 million in both periods. As a percentage of average consumer loans and leases, annualized net charge-offs for the three-month periods ended June 30, 2014 and June 30, 2013 were 0.04% and 0.05%, respectively.

Net charge-offs in the consumer portfolio for the three-month periods ended June 30, 2014 and June 30, 2013 was \$0.3 million and \$0.1 million, respectively. As a percentage of average consumer loans and leases, annualized net charge-offs for the three-month periods ended June 30, 2014 and June 30, 2013 were 0.07% and 0.03%, respectively.

### Unallocated Allowance

The unallocated allowance recognizes the estimation risk associated with the allocated general and specific allowances, incorporates management's evaluation of existing conditions that are not included in the allocated allowance determinations and protects against potential losses outside of the ordinary course of business. These conditions are reviewed quarterly by management. Causes of losses outside the normal course of business include, but are not limited to, fraudulently obtained loans where there is no primary or secondary source of repayment; catastrophic and uninsured property loss where collateral is destroyed with no compensation; and legal documentation flaws that compromise security interests in collateral assets or the availability of guarantors. Management reviewed these conditions and adjusted the factors due to the absence of losses outside the normal course of business and improved credit quality. The unallocated allowance for loan and lease losses was \$2.4 million at June 30, 2014, compared to \$2.9 million at December 31, 2013.



Table of Contents

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

|                                    | At June 30, 2014 |                                                  |                                       | At December 31, 2013 |                                                  |                                       |   |  |
|------------------------------------|------------------|--------------------------------------------------|---------------------------------------|----------------------|--------------------------------------------------|---------------------------------------|---|--|
|                                    | Amount           | Percent of<br>Allowance to<br>Total<br>Allowance | Percent of<br>Loans to<br>Total Loans | Amount               | Percent of<br>Allowance to<br>Total<br>Allowance | Percent of<br>Loans to<br>Total Loans |   |  |
| (Dollars in Thousands)             |                  |                                                  |                                       |                      |                                                  |                                       |   |  |
| Commercial real estate loans:      |                  |                                                  |                                       |                      |                                                  |                                       |   |  |
| Commercial real estate mortgage    | \$ 17,976        | 34.8                                             | % 33.6                                | % \$ 14,883          | 30.7                                             | % 33.5                                | % |  |
| Multi-family                       | 4,826            | 9.3                                              | % 13.7                                | % 4,890              | 10.1                                             | % 14.4                                | % |  |
| Construction                       | 3,913            | 7.6                                              | % 3.0                                 | % 3,249              | 6.7                                              | % 2.6                                 | % |  |
| Total commercial real estate loans | 26,715           | 51.7                                             | % 50.3                                | % 23,022             | 47.5                                             | % 50.5                                | % |  |
| Commercial loans and leases:       |                  |                                                  |                                       |                      |                                                  |                                       |   |  |
| Commercial                         | 7,335            | 14.2                                             | % 10.4                                | % 6,724              | 13.9                                             | % 9.3                                 | % |  |
| Equipment financing                | 8,200            | 15.9                                             | % 12.0                                | % 8,161              | 16.8                                             | % 11.8                                | % |  |
| Condominium association            | 331              | 0.6                                              | % 1.0                                 | % 335                | 0.7                                              | % 1.0                                 | % |  |
| Total commercial loans and leases  | 15,866           | 30.7                                             | % 23.4                                | % 15,220             | 31.4                                             | % 22.1                                | % |  |
| Indirect automobile                | 3,686            | 7.1                                              | % 8.2                                 | % 3,924              | 8.1                                              | % 9.2                                 | % |  |
| Consumer loans:                    |                  |                                                  |                                       |                      |                                                  |                                       |   |  |
| Residential mortgage               | 1,330            | 2.6                                              | % 11.9                                | % 1,431              | 3.0                                              | % 12.1                                | % |  |
| Home equity                        | 1,541            | 3.0                                              | % 5.9                                 | % 1,324              | 2.7                                              | % 5.9                                 | % |  |
| Other consumer                     | 146              | 0.3                                              | % 0.3                                 | % 620                | 1.3                                              | % 0.2                                 | % |  |
| Total consumer loans               | 3,017            | 5.9                                              | % 18.1                                | % 3,375              | 7.0                                              | % 18.2                                | % |  |
| Unallocated                        | 2,402            | 4.6                                              | % 0.0                                 | % 2,932              | 6.0                                              | % 0.0                                 | % |  |
| Total                              | \$51,686         | 100.0                                            | % 100.0                               | % \$48,473           | 100.0                                            | % 100.0                               | % |  |

**Investments**

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

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

Cash, cash equivalents, and investment securities increased \$23.4 million, or 8.0% on an annualized basis, to \$608.8 million at June 30, 2014 from \$585.4 million at December 31, 2013. Cash, cash equivalents, and investment securities were 10.9% of total assets at June 30, 2014, compared to 11.0% of total assets at December 31, 2013.

The following table sets forth certain information regarding the amortized cost and market value of the Company's investment securities at the dates indicated:

67

---

Table of Contents

|                                                | At June 30, 2014                    |            | At December 31, 2013 |            |
|------------------------------------------------|-------------------------------------|------------|----------------------|------------|
|                                                | Amortized<br>Cost<br>(In Thousands) | Fair Value | Amortized<br>Cost    | Fair Value |
| Investment securities available-for-sale:      |                                     |            |                      |            |
| Debt securities:                               |                                     |            |                      |            |
| GSEs                                           | \$15,968                            | \$15,978   | \$12,138             | \$12,180   |
| GSE CMOs                                       | 254,863                             | 247,547    | 254,331              | 243,644    |
| GSE MBSs                                       | 220,848                             | 221,847    | 202,478              | 199,401    |
| Private-label CMOs                             | —                                   | —          | 3,258                | 3,355      |
| SBA commercial loan asset-backed securities    | 227                                 | 226        | 245                  | 243        |
| Auction-rate municipal obligations             | —                                   | —          | 1,900                | 1,775      |
| Municipal obligations                          | —                                   | —          | 1,068                | 1,086      |
| Corporate debt obligations                     | 39,759                              | 40,330     | 27,751               | 28,224     |
| Trust preferred securities                     | 1,462                               | 1,299      | 1,461                | 1,210      |
| Total debt securities                          | 533,127                             | 527,227    | 504,630              | 491,118    |
| Marketable equity securities                   | 1,264                               | 1,359      | 1,259                | 1,310      |
| Total investment securities available-for-sale | \$534,391                           | \$528,586  | \$505,889            | \$492,428  |
| Investment securities held-to-maturity         | \$500                               | \$500      | \$500                | \$500      |

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

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

During the second quarter of 2014, in an effort to achieve better capital allocation, the Company liquidated all private-label CMOs, auction-rate municipal obligations and municipal obligations, all of which are 100% risk weighted. Proceeds from the investment securities sales were used to reinvest in GSE securities, which are risk weighted at 20%.

Maturities, calls and principal repayments totaled \$34.6 million for the six months ended June 30, 2014 compared to \$69.8 million for the same period in 2013. During the six months ended June 30, 2014, the Company purchased \$69.1 million of available-for-sale securities and \$0.5 million of held-to-maturity securities compared to \$82.3 million of

available-for-sale securities and no held-to-maturity securities for the same period in 2013. During the six months ended June 30, 2014, the Company sold \$5.1 million of available-for-sale securities. During the six months ended June 30, 2013, the Company did not sell any available-for-sale or held-to-maturity securities.

At June 30, 2014, the fair value of all investment securities available-for-sale was \$528.6 million, with net unrealized losses of \$5.8 million, compared to a fair value of \$492.4 million and net unrealized losses of \$13.5 million at December 31, 2013. At June 30, 2014, \$344.5 million, or 65.2%, of the portfolio, had gross unrealized losses of \$9.2 million. This compares to \$383.3 million, or 77.8% of the portfolio with gross unrealized losses of \$16.1 million at December 31, 2013. The decrease

Table of Contents

in unrealized losses over the first six months of 2014 was driven by decreases in interest rates. Management believes that these negative differences between amortized cost and fair value do not include credit losses, but rather differences in interest rates between the time of purchase and the time of measurement. It is more likely than not that the Company will not sell the securities before recovery, and, as a result, it will recover the amortized cost basis of the securities. As such, management has determined that the securities are not other-than-temporarily impaired at June 30, 2014. If market conditions for securities worsen or the creditworthiness of the underlying issuers deteriorates, it is possible that the Company may recognize additional other-than-temporary impairments in future periods. For additional discussion on how the Company validates fair values provided by the third-party pricing service, see Note 12, "Fair Value of Financial Instruments."

## Restricted Equity Securities

## Federal Reserve Bank Stock

The Company invests in the stock of the Federal Reserve Bank of Boston, as required by the Banks' membership in the FRB. At June 30, 2014 and December 31, 2013, the Company owned stock in the Federal Reserve Bank of Boston with a carrying value of \$16.0 million.

## FHLBB Stock

The Company invests in the stock of the FHLBB as one of the requirements to borrow. At June 30, 2014, the Company maintains an excess balance of capital stock of \$4.5 million compared to \$12.0 million at December 31, 2013, which allows for additional borrowing capacity at each Bank. At June 30, 2014, the Company owned stock in the FHLBB with a carrying value of \$55.0 million compared to \$50.1 million at December 31, 2013. The FHLBB stated that it remained in compliance with all regulatory capital ratios at June 30, 2014 and, based on the most recent information available, was classified as "adequately capitalized" by its regulator.

## Deposits

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

|                                 | At June 30, 2014       |                  |                       | At December 31, 2013 |                  |                       |   |  |
|---------------------------------|------------------------|------------------|-----------------------|----------------------|------------------|-----------------------|---|--|
|                                 | Amount                 | Percent of Total | Weighted Average Rate | Amount               | Percent of Total | Weighted Average Rate |   |  |
|                                 | (Dollars in Thousands) |                  |                       |                      |                  |                       |   |  |
| Non-interest-bearing accounts   | \$716,883              | 18.6             | % 0.00                | % \$707,023          | 18.4             | % 0.00                | % |  |
| NOW accounts                    | 209,682                | 5.4              | % 0.07                | % 210,602            | 5.5              | % 0.07                | % |  |
| Savings accounts                | 518,343                | 13.4             | % 0.23                | % 494,734            | 12.9             | % 0.25                | % |  |
| Money market accounts           | 1,516,023              | 39.3             | % 0.50                | % 1,487,979          | 38.8             | % 0.54                | % |  |
| Certificate of deposit accounts | 900,216                | 23.3             | % 0.88                | % 934,668            | 24.4             | % 0.91                | % |  |
| Total interest-bearing deposits | 3,144,264              | 81.4             | % 0.54                | % 3,127,983          | 81.6             | % 0.57                | % |  |
| Total deposits                  | \$3,861,147            | 100.0            | % 0.44                | % \$3,835,006        | 100.0            | % 0.47                | % |  |

Total deposits increased slightly to \$3.9 billion at June 30, 2014 as compared to \$3.8 billion at December 31, 2013. Deposits as percentage of total assets decreased from 72.0% at December 31, 2013 to 69.1% at June 30, 2014. During the first six months of 2014, core deposits increased \$60.6 million, or 4.2% on an annualized basis, rising from 75.6% of total deposits at December 31, 2013 to 76.7% of total deposits at June 30, 2014. Certificate of deposit accounts

decreased \$34.5 million, or 7.4% on an annualized basis, during the first six months of 2014. Certificates of deposit have also fallen as a percentage of total deposits to 23.3% at June 30, 2014 from 24.4% at December 31, 2013.

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

Table of Contents

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

|                                                  | Three Months Ended June 30,<br>2014 |                                            |                             | 2013               |                                            |                             |   |  |
|--------------------------------------------------|-------------------------------------|--------------------------------------------|-----------------------------|--------------------|--------------------------------------------|-----------------------------|---|--|
|                                                  | Average<br>Balance                  | Percent of<br>Total<br>Average<br>Deposits | Weighted<br>Average<br>Rate | Average<br>Balance | Percent of<br>Total<br>Average<br>Deposits | Weighted<br>Average<br>Rate |   |  |
|                                                  | (Dollars in Thousands)              |                                            |                             |                    |                                            |                             |   |  |
| Core deposits:                                   |                                     |                                            |                             |                    |                                            |                             |   |  |
| Non-interest-bearing demand<br>checking accounts | \$712,961                           | 18.4                                       | % 0.00                      | % \$640,725        | 17.5                                       | % 0.00                      | % |  |
| NOW accounts                                     | 208,859                             | 5.4                                        | % 0.08                      | % 195,269          | 5.3                                        | % 0.09                      | % |  |
| Savings accounts                                 | 523,773                             | 13.5                                       | % 0.23                      | % 508,451          | 13.9                                       | % 0.25                      | % |  |
| Money market accounts                            | 1,528,959                           | 39.4                                       | % 0.51                      | % 1,335,300        | 36.5                                       | % 0.61                      | % |  |
| Total core deposits                              | 2,974,552                           | 76.7                                       | % 0.31                      | % 2,679,745        | 73.2                                       | % 0.36                      | % |  |
| Certificate of deposit accounts                  | 901,272                             | 23.3                                       | % 0.85                      | % 982,257          | 26.8                                       | % 0.96                      | % |  |
| Total deposits                                   | \$3,875,824                         | 100.0                                      | % 0.43                      | % \$3,662,002      | 100.0                                      | % 0.52                      | % |  |
|                                                  | Six Months Ended June 30,<br>2014   |                                            |                             | 2013               |                                            |                             |   |  |
|                                                  | Average<br>Balance                  | Percent of<br>Total<br>Average<br>Deposits | Weighted<br>Average<br>Rate | Average<br>Balance | Percent of<br>Total<br>Average<br>Deposits | Weighted<br>Average<br>Rate |   |  |
|                                                  | (Dollars in Thousands)              |                                            |                             |                    |                                            |                             |   |  |
| Core deposits:                                   |                                     |                                            |                             |                    |                                            |                             |   |  |
| Non-interest-bearing demand<br>checking accounts | \$705,752                           | 18.3                                       | % 0.00                      | % \$624,386        | 17.2                                       | % 0.00                      | % |  |
| NOW accounts                                     | 207,550                             | 5.4                                        | % 0.08                      | % 192,808          | 5.2                                        | % 0.09                      | % |  |
| Savings accounts                                 | 516,206                             | 13.3                                       | % 0.24                      | % 511,401          | 14.1                                       | % 0.26                      | % |  |
| Money market accounts                            | 1,517,537                           | 39.3                                       | % 0.52                      | % 1,315,056        | 36.2                                       | % 0.63                      | % |  |
| Total core deposits                              | 2,947,045                           | 76.3                                       | % 0.32                      | % 2,643,651        | 72.7                                       | % 0.37                      | % |  |
| Certificate of deposit accounts                  | 914,166                             | 23.7                                       | % 0.86                      | % 992,380          | 27.3                                       | % 0.96                      | % |  |
| Total deposits                                   | \$3,861,211                         | 100.0                                      | % 0.44                      | % \$3,636,031      | 100.0                                      | % 0.53                      | % |  |

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

|                                   | At June 30, 2014       |                          | At December 31, 2013 |                          |   |  |
|-----------------------------------|------------------------|--------------------------|----------------------|--------------------------|---|--|
|                                   | Amount                 | Weighted<br>Average Rate | Amount               | Weighted<br>Average Rate |   |  |
|                                   | (Dollars in Thousands) |                          |                      |                          |   |  |
| Maturity period:                  |                        |                          |                      |                          |   |  |
| Six months or less                | \$185,989              | 0.73                     | % \$181,598          | 0.70                     | % |  |
| Over six months through 12 months | 131,412                | 0.82                     | % 139,154            | 0.86                     | % |  |
| Over 12 months                    | 95,939                 | 1.32                     | % 103,937            | 1.32                     | % |  |
|                                   | \$413,340              | 0.90                     | % \$424,689          | 0.91                     | % |  |



Table of Contents

## Borrowed Funds

## Advances from the FHLBB

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

FHLBB borrowings increased \$0.2 billion to \$1.0 billion at June 30, 2014 from the December 31, 2013 balance of \$0.8 billion. The increase in FHLBB borrowings was primarily due to loan growth outpacing deposit growth during the first six months of 2014.

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

|                                                               | Three Months Ended June 30, |           | Six Months Ended June 30, |           |   |
|---------------------------------------------------------------|-----------------------------|-----------|---------------------------|-----------|---|
|                                                               | 2014                        | 2013      | 2014                      | 2013      |   |
|                                                               | (Dollars in Thousands)      |           |                           |           |   |
| Average balance outstanding                                   | \$892,770                   | \$760,237 | \$848,495                 | \$756,773 |   |
| Maximum amount outstanding at any month-end during the period | 1,005,644                   | 785,565   | 1,005,644                 | 785,565   |   |
| Balance outstanding at end of period                          | 1,005,644                   | 785,565   | 1,005,644                 | 785,565   |   |
| Weighted average interest rate for the period                 | 1.17                        | % 1.41    | % 1.22                    | % 1.50    | % |
| Weighted average interest rate at end of period               | 1.05                        | % 1.32    | % 1.05                    | % 1.32    | % |

## Repurchase Agreements

The Company periodically enters into repurchase agreements with its larger deposit and commercial customers as part of its cash management services which are typically overnight borrowings. Short-term borrowings and repurchase agreements with Company customers decreased \$8.4 million during the six months ended June 30, 2014, from \$34.6 million at December 31, 2013 to \$26.2 million at June 30, 2014, as customers shifted funds into other deposit products.

## Subordinated Debt

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

| Issue Date             | Rate | Maturity Date | Next Call Date    | Carrying Amount at June 30, 2014 | Carrying Amount at December 31, 2013 |
|------------------------|------|---------------|-------------------|----------------------------------|--------------------------------------|
| (Dollars in Thousands) |      |               |                   |                                  |                                      |
| June 26, 2003          |      | June 26, 2033 | December 26, 2014 | \$4,680                          | \$4,666                              |

|                   |                                    |                                  |                 |
|-------------------|------------------------------------|----------------------------------|-----------------|
|                   | Variable; 3-month LIBOR +<br>3.10% |                                  |                 |
| March 17,<br>2004 | Variable; 3-month LIBOR +<br>2.79% | March 17, 2034 December 17, 2014 | \$4,521 \$4,497 |

#### Derivative Financial Instruments

The Company has entered into interest-rate swaps with certain of its commercial customers and concurrently enters into offsetting swaps with third-party financial institutions. The Company did not have derivative fair value hedges or derivative cash flow hedges at June 30, 2014 or December 31, 2013. The following table summarizes certain information concerning the Company's interest-rate swaps at June 30, 2014 and at December 31, 2013:

Table of Contents

|                                                                          | Interest-Rate Swaps    |                      |   |
|--------------------------------------------------------------------------|------------------------|----------------------|---|
|                                                                          | At June 30, 2014       | At December 31, 2013 |   |
|                                                                          | (Dollars in Thousands) |                      |   |
| Notional principal amounts                                               | \$28,017               | \$22,418             |   |
| Fixed weighted average interest rate from the Company to counterparty    | 5.4                    | % 5.7                | % |
| Floating weighted average interest rate from counterparty to the Company | 3.5                    | % 3.5                | % |
| Weighted average remaining term to maturity (in months)                  | 58                     | 47                   |   |
| Fair value:                                                              |                        |                      |   |
| Recognized as an asset                                                   | \$887                  | \$825                |   |
| Recognized as a liability                                                | \$912                  | \$856                |   |

## Stockholders' Equity and Dividends

The Company's total stockholders' equity was \$627.7 million at June 30, 2014, a \$13.8 million increase compared to \$613.9 million at December 31, 2013. The increase primarily reflects net income attributable to the Company of \$20.4 million for the six months ended June 30, 2014, an unrealized gain on securities available-for-sale of \$4.8 million (after-tax), offset by dividends paid of \$11.9 million in that same period. The dividends approved in the second quarter of 2014 represented the Company's 61st consecutive quarter of dividend payments, and the 49th consecutive quarter in which the Company paid a regular dividend of \$0.085.

Stockholders' equity represented 11.23% of total assets at June 30, 2014, as compared to 11.53% at December 31, 2013. Tangible stockholders' equity (total stockholders' equity less goodwill and identified intangible assets, net) represented 8.73% of tangible assets (total assets less goodwill and identified intangible assets, net) at June 30, 2014, as compared to 8.88% at December 31, 2013.

## Results of Operations — Comparison of the Three-Month and Six-Month Periods Ended June 30, 2014 and June 30, 2013

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

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

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

and Qualitative Disclosures about Market Risk” below.

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

## Table of Contents

### Net Interest Income

Net interest income of \$46.4 million for the quarter ended June 30, 2014 increased \$1.1 million, or 2.4%, as compared to the second quarter of 2013. This overall increase on a quarter-over-quarter basis was a result of an increase in total interest income of \$0.4 million, or 0.8%, to \$53.3 million at June 30, 2014 from \$52.9 million at June 30, 2013, combined with a decrease in interest expense of \$0.6 million, or 8.3%, to \$6.9 million at June 30, 2014 from \$7.5 million at June 30, 2013. Refer to “Comparison of the Three-Month and Six-Month Periods Ended June 30, 2014 and June 30, 2013 — Interest Income” and “Comparison of the Three-Month and Six-Month Periods Ended June 30, 2014 and June 30, 2013 — Interest Expense” below for more details.

Net interest income of \$94.2 million for the six months ended June 30, 2014 increased \$5.1 million, or 5.8%, as compared to the six months ended June 30, 2013. This overall increase on a year-over-year basis was a result of an increase in total interest income of \$3.5 million, or 3.4%, to \$108.0 million at June 30, 2014 from \$104.5 million at June 30, 2013, combined with a decrease in interest expense of \$1.6 million, or 10.4%, to \$13.9 million at June 30, 2014 from \$15.5 million at June 30, 2013. Refer to “Comparison of the Three-Month and Six-Month Periods Ended June 30, 2014 and June 30, 2013 — Interest Income” and “Comparison of the Three-Month and Six-Month Periods Ended June 30, 2014 and June 30, 2013 — Interest Expense” below for more details.

Net interest margin decreased to 3.61% in the second quarter of 2014 from 3.78% in the second quarter of 2013. Net interest margin decreased to 3.71% for the six months ended June 30, 2014 from 3.74% for the six months ended June 30, 2013. The decrease in the net interest margin for both periods is the result of repricing interest-earning assets in a lower interest rate environment without a comparable offset in lower funding costs.

The yield on interest-earning assets decreased to 4.15% in the second quarter of 2014 from 4.41% during the second quarter of 2013. In addition to the intense pricing competition in all loan categories, the decrease is also due to a \$1.4 million prepayment, which contributed 11 basis points to yields on interest-earning assets, in the second quarter of 2013.

The yield on interest-earning assets decreased to 4.26% for the six months ended June 30, 2014 from 4.40% for the six months ended June 30, 2013. The Company benefited from a \$5.7 million accretion on acquired loans and leases during the six months ended June 30, 2014, as compared to \$2.5 million during the six months ended June 30, 2013. This benefit was offset by a decrease in income due to the low interest rate environment.

The overall cost of funds (including non-interest-bearing demand checking accounts) decreased 10 basis points to 0.58% for the three months ended June 30, 2014 from 0.68% for the three months ended June 30, 2013. On a year-to-date basis, the overall cost of funds decreased 11 basis points to 0.59% for the six months ended June 30, 2014 from 0.70% for the six months ended June 30, 2013. The decrease is driven by a reduction in interest rates offered on money market accounts and certificates of deposit, as well as an increase in FHLBB advances borrowed at lower interest rates.

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

### Average Balances, Net Interest Income, Interest-Rate Spread and Net Interest Margin

The following tables set forth information about the Company's average balances, interest income and interest rates earned on average interest-earning assets, interest expense and interest rates paid on average interest-bearing liabilities, interest-rate spread and net interest margin for the three months and six months ended June 30, 2014 and June 30, 2013. Average balances are derived from daily average balances and yields include fees, costs and purchase-accounting-related premiums and discounts which are considered adjustments to coupon yields in accordance with GAAP. Certain amounts previously reported have been reclassified to conform to the current period's presentation.

Table of Contents

|                                                                          | Three Months Ended<br>June 30, 2014 |                 |                           |   | June 30, 2013      |                 |                           |   |
|--------------------------------------------------------------------------|-------------------------------------|-----------------|---------------------------|---|--------------------|-----------------|---------------------------|---|
|                                                                          | Average<br>Balance                  | Interest<br>(1) | Average<br>Yield/<br>Cost |   | Average<br>Balance | Interest<br>(1) | Average<br>Yield/<br>Cost |   |
|                                                                          | (Dollars in Thousands)              |                 |                           |   |                    |                 |                           |   |
| Assets:                                                                  |                                     |                 |                           |   |                    |                 |                           |   |
| Interest-earning assets:                                                 |                                     |                 |                           |   |                    |                 |                           |   |
| Debt securities                                                          | \$527,411                           | \$2,360         | 1.79                      | % | \$487,271          | \$1,940         | 1.59                      | % |
| Marketable and restricted equity securities                              | 68,543                              | 602             | 3.52                      | % | 66,988             | 350             | 2.10                      | % |
| Short-term investments                                                   | 36,850                              | 14              | 0.16                      | % | 52,541             | 19              | 0.14                      | % |
| Total investments                                                        | 632,804                             | 2,976           | 1.88                      | % | 606,800            | 2,309           | 1.52                      | % |
| Commercial real estate loans (2)                                         | 2,288,018                           | 25,395          | 4.42                      | % | 2,034,920          | 23,863          | 4.67                      | % |
| Commercial loans and leases (2)                                          | 504,572                             | 5,246           | 4.12                      | % | 420,194            | 6,531           | 6.16                      | % |
| Equipment financing (2)                                                  | 541,029                             | 9,155           | 6.77                      | % | 467,156            | 8,279           | 7.10                      | % |
| Indirect automobile loans (2)                                            | 374,489                             | 3,032           | 3.25                      | % | 494,571            | 4,523           | 3.67                      | % |
| Residential mortgage loans (2)                                           | 532,310                             | 4,918           | 3.70                      | % | 512,975            | 5,101           | 3.98                      | % |
| Other consumer loans (2)                                                 | 277,802                             | 2,833           | 4.09                      | % | 264,183            | 2,508           | 3.81                      | % |
| Total loans and leases                                                   | 4,518,220                           | 50,579          | 4.46                      | % | 4,193,999          | 50,805          | 4.83                      | % |
| Total interest-earning assets                                            | 5,151,024                           | 53,555          | 4.15                      | % | 4,800,799          | 53,114          | 4.41                      | % |
| Allowance for loan and lease losses                                      | (50,809 )                           |                 |                           |   | (42,954 )          |                 |                           |   |
| Non-interest-earning assets                                              | 373,235                             |                 |                           |   | 380,299            |                 |                           |   |
| Total assets                                                             | \$5,473,450                         |                 |                           |   | \$5,138,144        |                 |                           |   |
| Liabilities and Stockholders' Equity:                                    |                                     |                 |                           |   |                    |                 |                           |   |
| Interest-bearing liabilities:                                            |                                     |                 |                           |   |                    |                 |                           |   |
| Interest-bearing deposits:                                               |                                     |                 |                           |   |                    |                 |                           |   |
| NOW accounts                                                             | \$208,859                           | 42              | 0.08                      | % | \$195,269          | 41              | 0.09                      | % |
| Savings accounts                                                         | 523,773                             | 303             | 0.23                      | % | 508,451            | 316             | 0.25                      | % |
| Money market accounts                                                    | 1,528,959                           | 1,936           | 0.51                      | % | 1,335,300          | 2,036           | 0.61                      | % |
| Certificates of deposit                                                  | 901,272                             | 1,920           | 0.85                      | % | 982,257            | 2,350           | 0.96                      | % |
| Total interest-bearing deposits (3)                                      | 3,162,863                           | 4,201           | 0.53                      | % | 3,021,277          | 4,743           | 0.63                      | % |
| Advances from the FHLBB                                                  | 892,770                             | 2,602           | 1.17                      | % | 760,237            | 2,682           | 1.41                      | % |
| Other borrowed funds                                                     | 35,127                              | 109             | 1.25                      | % | 48,655             | 112             | 0.93                      | % |
| Total borrowed funds                                                     | 927,897                             | 2,711           | 1.17                      | % | 808,892            | 2,794           | 1.39                      | % |
| Total interest-bearing liabilities                                       | 4,090,760                           | 6,912           | 0.68                      | % | 3,830,169          | 7,537           | 0.79                      | % |
| Non-interest-bearing liabilities:                                        |                                     |                 |                           |   |                    |                 |                           |   |
| Demand checking accounts (3)                                             | 712,961                             |                 |                           |   | 640,725            |                 |                           |   |
| Other non-interest-bearing liabilities                                   | 39,219                              |                 |                           |   | 47,589             |                 |                           |   |
| Total liabilities                                                        | 4,842,940                           |                 |                           |   | 4,518,483          |                 |                           |   |
| Brookline Bancorp, Inc. stockholders' equity                             | 626,371                             |                 |                           |   | 616,327            |                 |                           |   |
| Noncontrolling interest in subsidiary                                    | 4,139                               |                 |                           |   | 3,334              |                 |                           |   |
| Total liabilities and equity                                             | \$5,473,450                         |                 |                           |   | \$5,138,144        |                 |                           |   |
| Net interest income (tax-equivalent basis)<br>/ Interest-rate spread (4) |                                     | 46,643          | 3.47                      | % |                    | 45,577          | 3.62                      | % |
| Less adjustment of tax-exempt income                                     |                                     | 209             |                           |   |                    | 214             |                           |   |

|                         |          |   |          |   |
|-------------------------|----------|---|----------|---|
| Net interest income     | \$46,434 |   | \$45,363 |   |
| Net interest margin (5) | 3.61     | % | 3.78     | % |

- (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) Loans on nonaccrual status are included in the average balances.
- (3) Including non-interest-bearing checking accounts, the average interest rate on total deposits was 0.43% and 0.52% in the three months ended June 30, 2014 and June 30, 2013, respectively.
- (4) Interest-rate spread represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.
- (5) Net interest margin represents net interest income (tax equivalent basis) divided by average interest-earning assets.

Table of Contents

|                                                                          | Six Months Ended<br>June 30, 2014 |                 |                           |   | June 30, 2013      |                 |                           |   |
|--------------------------------------------------------------------------|-----------------------------------|-----------------|---------------------------|---|--------------------|-----------------|---------------------------|---|
|                                                                          | Average<br>Balance                | Interest<br>(1) | Average<br>Yield/<br>Cost |   | Average<br>Balance | Interest<br>(1) | Average<br>Yield/<br>Cost |   |
|                                                                          | (Dollars in Thousands)            |                 |                           |   |                    |                 |                           |   |
| Assets:                                                                  |                                   |                 |                           |   |                    |                 |                           |   |
| Interest-earning assets:                                                 |                                   |                 |                           |   |                    |                 |                           |   |
| Debt securities                                                          | 515,073                           | 4,623           | 1.80                      | % | \$479,433          | \$3,799         | 1.58                      | % |
| Marketable and restricted equity securities                              | 67,753                            | 1,099           | 3.26                      | % | 67,764             | 705             | 2.09                      | % |
| Short-term investments                                                   | 41,317                            | 58              | 0.28                      | % | 53,586             | 50              | 0.19                      | % |
| Total investments                                                        | 624,143                           | 5,780           | 1.85                      | % | 600,783            | 4,554           | 1.52                      | % |
| Commercial real estate loans (2)                                         | 2,258,422                         | 51,097          | 4.51                      | % | 2,018,117          | 48,159          | 4.76                      | % |
| Commercial loans (2)                                                     | 489,732                           | 9,939           | 4.04                      | % | 415,633            | 11,242          | 5.39                      | % |
| Equipment financing (2)                                                  | 532,570                           | 20,192          | 7.60                      | % | 453,642            | 16,138          | 7.15                      | % |
| Indirect automobile loans (2)                                            | 379,633                           | 6,296           | 3.34                      | % | 510,657            | 9,439           | 3.73                      | % |
| Residential mortgage loans (2)                                           | 532,451                           | 9,727           | 3.68                      | % | 510,801            | 10,266          | 4.04                      | % |
| Other consumer loans (2)                                                 | 272,532                           | 5,412           | 4.00                      | % | 264,433            | 5,124           | 3.91                      | % |
| Total loans and leases                                                   | 4,465,340                         | 102,663         | 4.60                      | % | 4,173,283          | 100,368         | 4.81                      | % |
| Total interest-earning assets                                            | 5,089,483                         | 108,443         | 4.26                      | % | 4,774,066          | 104,922         | 4.40                      | % |
| Allowance for loan and lease losses                                      | (49,953 )                         |                 |                           |   | (42,225 )          |                 |                           |   |
| Non-interest-earning assets                                              | 378,363                           |                 |                           |   | 371,475            |                 |                           |   |
| Total assets                                                             | \$5,417,893                       |                 |                           |   | \$5,103,316        |                 |                           |   |
| Liabilities and Stockholders' Equity:                                    |                                   |                 |                           |   |                    |                 |                           |   |
| Interest-bearing liabilities:                                            |                                   |                 |                           |   |                    |                 |                           |   |
| Interest-bearing deposits:                                               |                                   |                 |                           |   |                    |                 |                           |   |
| NOW accounts                                                             | \$207,550                         | \$83            | 0.08                      | % | \$192,808          | \$86            | 0.09                      | % |
| Savings accounts                                                         | 516,206                           | 606             | 0.24                      | % | 511,401            | 660             | 0.26                      | % |
| Money market accounts                                                    | 1,517,537                         | 3,895           | 0.52                      | % | 1,315,056          | 4,097           | 0.63                      | % |
| Certificates of deposit                                                  | 914,166                           | 3,908           | 0.86                      | % | 992,380            | 4,735           | 0.96                      | % |
| Total interest-bearing deposits (3)                                      | 3,155,459                         | 8,492           | 0.54                      | % | 3,011,645          | 9,578           | 0.64                      | % |
| Advances from the FHLBB                                                  | 848,495                           | 5,133           | 1.22                      | % | 756,773            | 5,637           | 1.50                      | % |
| Other borrowed funds                                                     | 36,773                            | 247             | 1.36                      | % | 54,303             | 266             | 0.99                      | % |
| Total borrowed funds                                                     | 885,268                           | 5,380           | 1.23                      | % | 811,076            | 5,903           | 1.47                      | % |
| Total interest-bearing liabilities                                       | 4,040,727                         | 13,872          | 0.69                      | % | 3,822,721          | 15,481          | 0.82                      | % |
| Non-interest-bearing liabilities:                                        |                                   |                 |                           |   |                    |                 |                           |   |
| Demand checking accounts (3)                                             | 705,752                           |                 |                           |   | 624,386            |                 |                           |   |
| Other non-interest-bearing liabilities                                   | 43,141                            |                 |                           |   | 35,750             |                 |                           |   |
| Total liabilities                                                        | 4,789,620                         |                 |                           |   | 4,482,857          |                 |                           |   |
| Brookline Bancorp, Inc. stockholders' equity                             | 624,080                           |                 |                           |   | 616,868            |                 |                           |   |
| Noncontrolling interest in subsidiary                                    | 4,193                             |                 |                           |   | 3,591              |                 |                           |   |
| Total liabilities and equity                                             | \$5,417,893                       |                 |                           |   | \$5,103,316        |                 |                           |   |
| Net interest income (tax-equivalent basis)<br>/ Interest-rate spread (4) |                                   | 94,571          | 3.57                      | % |                    | 89,441          | 3.58                      | % |
| Less adjustment of tax-exempt income                                     |                                   | 403             |                           |   |                    | 411             |                           |   |
| Net interest income                                                      |                                   | \$94,168        |                           |   |                    | \$89,030        |                           |   |

|                         |      |   |      |   |
|-------------------------|------|---|------|---|
| Net interest margin (5) | 3.71 | % | 3.74 | % |
|-------------------------|------|---|------|---|

- (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) Loans on nonaccrual status are included in the average balances.
- (3) Including non-interest-bearing checking accounts, the average interest rate on total deposits was 0.44% and 0.53% in the six months ended June 30, 2014 and June 30, 2013, respectively.
- (4) Interest-rate spread represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.
- (5) Net interest margin represents net interest income (tax equivalent basis) divided by average interest-earning assets.

#### Rate/Volume Analysis

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

Table of Contents

prior volume) and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

|                                              | Three Months Ended June 30,<br>2014 as Compared to the Three<br>Months Ended June 30, 2013 |          |           | Six Months Ended June 30, 2014<br>as Compared to the Six Months<br>Ended June 30, 2013 |          |           |   |
|----------------------------------------------|--------------------------------------------------------------------------------------------|----------|-----------|----------------------------------------------------------------------------------------|----------|-----------|---|
|                                              | Increase<br>(Decrease) Due To                                                              |          |           | Increase<br>(Decrease) Due To                                                          |          |           |   |
|                                              | Volume                                                                                     | Rate     | Net       | Volume                                                                                 | Rate     | Net       |   |
|                                              | (In Thousands)                                                                             |          |           |                                                                                        |          |           |   |
| Interest and dividend income                 |                                                                                            |          |           |                                                                                        |          |           |   |
| Debt securities                              | \$ 168                                                                                     | \$252    | \$420     | \$287                                                                                  | \$537    | \$824     |   |
| Marketable and restricted equity securities  | 8                                                                                          | 244      | 252       | —                                                                                      | 394      | 394       |   |
| Short-term investments                       | (7                                                                                         | ) 2      | (5        | ) (13                                                                                  | ) 21     | 8         |   |
| Total investments                            | 169                                                                                        | 498      | 667       | 274                                                                                    | 952      | 1,226     |   |
| Loans and leases:                            |                                                                                            |          |           |                                                                                        |          |           |   |
| Commercial real estate loans                 | 2,835                                                                                      | (1,303   | ) 1,532   | 5,511                                                                                  | (2,573   | ) 2,938   |   |
| Commercial loans and leases                  | 1,130                                                                                      | (2,415   | ) (1,285  | ) 1,772                                                                                | (3,075   | ) (1,303  | ) |
| Equipment financing                          | 1,270                                                                                      | (394     | ) 876     | 2,977                                                                                  | 1,077    | 4,054     |   |
| Indirect automobile loans                    | (1,015                                                                                     | ) (476   | ) (1,491  | ) (2,233                                                                               | ) (910   | ) (3,143  | ) |
| Residential mortgage loans                   | 188                                                                                        | (371     | ) (183    | ) 414                                                                                  | (953     | ) (539    | ) |
| Other consumer loans                         | 133                                                                                        | 192      | 325       | 164                                                                                    | 124      | 288       |   |
| Total loans and leases                       | 4,541                                                                                      | (4,767   | ) (226    | ) 8,605                                                                                | (6,310   | ) 2,295   |   |
| Total change in interest and dividend income | 4,710                                                                                      | (4,269   | ) 441     | 8,879                                                                                  | (5,358   | ) 3,521   |   |
| Interest expense                             |                                                                                            |          |           |                                                                                        |          |           |   |
| Deposits:                                    |                                                                                            |          |           |                                                                                        |          |           |   |
| NOW accounts                                 | 3                                                                                          | (2       | ) 1       | 7                                                                                      | (10      | ) (3      | ) |
| Savings accounts                             | 10                                                                                         | (23      | ) (13     | ) 5                                                                                    | (59      | ) (54     | ) |
| Money market accounts                        | 269                                                                                        | (369     | ) (100    | ) 578                                                                                  | (780     | ) (202    | ) |
| Certificates of deposit                      | (180                                                                                       | ) (250   | ) (430    | ) (356                                                                                 | ) (471   | ) (827    | ) |
| Total deposits                               | 102                                                                                        | (644     | ) (542    | ) 234                                                                                  | (1,320   | ) (1,086  | ) |
| Borrowed funds:                              |                                                                                            |          |           |                                                                                        |          |           |   |
| Advances from the FHLBB                      | 426                                                                                        | (506     | ) (80     | ) 629                                                                                  | (1,133   | ) (504    | ) |
| Other borrowed funds                         | (36                                                                                        | ) 33     | (3        | ) (101                                                                                 | ) 82     | (19       | ) |
| Total borrowed funds                         | 390                                                                                        | (473     | ) (83     | ) 528                                                                                  | (1,051   | ) (523    | ) |
| Total change in interest expense             | 492                                                                                        | (1,117   | ) (625    | ) 762                                                                                  | (2,371   | ) (1,609  | ) |
| Change in tax-exempt income                  | (5                                                                                         | ) —      | (5        | ) (8                                                                                   | ) —      | (8        | ) |
| Change in net interest income                | \$4,223                                                                                    | \$(3,152 | ) \$1,071 | \$8,125                                                                                | \$(2,987 | ) \$5,138 |   |

Table of Contents

## Interest Income

## Loans and Leases

|                                          | Three Months<br>Ended June 30, |          | Dollar   | Percent | Six Months Ended<br>June 30, |           | Dollar   | Percent |  |
|------------------------------------------|--------------------------------|----------|----------|---------|------------------------------|-----------|----------|---------|--|
|                                          | 2014                           | 2013     | Change   | Change  | 2014                         | 2013      | Change   | Change  |  |
| (Dollars in Thousands)                   |                                |          |          |         |                              |           |          |         |  |
| Interest income — loans and leases:      |                                |          |          |         |                              |           |          |         |  |
| Commercial real estate loans             | \$25,265                       | \$23,702 | \$1,563  | 6.6 %   | \$50,837                     | \$47,854  | \$2,983  | 6.2 %   |  |
| Commercial loans                         | 5,231                          | 6,531    | (1,300 ) | -19.9 % | 9,911                        | 11,242    | (1,331 ) | -11.8 % |  |
| Equipment financing                      | 9,155                          | 8,279    | 876      | 10.6 %  | 20,192                       | 16,138    | 4,054    | 25.1 %  |  |
| Indirect automobile loans                | 3,032                          | 4,523    | (1,491 ) | -33.0 % | 6,296                        | 9,439     | (3,143 ) | -33.3 % |  |
| Residential mortgage loans               | 4,917                          | 5,101    | (184 )   | -3.6 %  | 9,727                        | 10,266    | (539 )   | -5.3 %  |  |
| Other consumer loans                     | 2,833                          | 2,508    | 325      | 13.0 %  | 5,412                        | 5,124     | 288      | 5.6 %   |  |
| Total interest income — loans and leases | \$50,433                       | \$50,644 | \$(211 ) | -0.4 %  | \$102,375                    | \$100,063 | \$2,312  | 2.3 %   |  |

Except for equipment financing and other consumer loans, declines in the yields on all portfolios reflect the high rate of loan refinancings and the intense pricing competition which affected the Company's lending markets.

Interest income from loans and leases was \$50.4 million for the three months ended June 30, 2014, resulting in a yield on total loans and leases of 4.46%. This compares to \$50.6 million of interest on loans and leases and a yield of 4.83% for the three months ended June 30, 2013. The year-over-year \$0.2 million decrease in interest income from loans and leases was due to a decrease of \$4.8 million due to changes in rate, offset by an increase of \$4.5 million due to increased origination volume. Accretion on acquired loans and leases of \$1.5 million contributed 11 basis points to net interest margin during the second quarter of 2014, compared to \$1.4 million and 11 basis points in the second quarter of 2013.

Interest income from loans and leases was \$102.4 million for the six months ended June 30, 2014, resulting in a yield on total loans and leases of 4.60%. This compares to \$100.1 million of interest on loans and leases and a yield of 4.81% for the six months ended June 30, 2013. The year-over-year \$2.3 million increase in interest income from loans and leases was due to an increase of \$8.6 million due to origination volume, offset by a decrease of \$6.3 million due to changes in rate. Accretion on acquired loans and leases of \$5.7 million contributed 22 basis points to net interest margin for the six months ended June 30, 2014, compared to \$2.5 million and 10 basis points for the six months ended June 30, 2013. This increase was due to a reforecast of one acquired equipment financing pool and improved credit quality and expected cash flows on certain acquired commercial real estate loans and leases.

## Investments

|                                             | Three Months<br>Ended June 30, |         | Dollar | Percent | Six Months Ended<br>June 30, |         | Dollar | Percent |  |
|---------------------------------------------|--------------------------------|---------|--------|---------|------------------------------|---------|--------|---------|--|
|                                             | 2014                           | 2013    | Change | Change  | 2014                         | 2013    | Change | Change  |  |
| (Dollars in Thousands)                      |                                |         |        |         |                              |         |        |         |  |
| Interest income — investments:              |                                |         |        |         |                              |         |        |         |  |
| Debt securities                             | \$2,360                        | \$1,934 | \$426  | 22.0 %  | \$4,619                      | \$3,786 | \$833  | 22.0 %  |  |
| Marketable and restricted equity securities | 539                            | 303     | 236    | 77.9 %  | 988                          | 612     | 376    | 61.4 %  |  |

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

|                                        |         |         |       |   |       |   |         |         |         |      |   |
|----------------------------------------|---------|---------|-------|---|-------|---|---------|---------|---------|------|---|
| Short-term investments                 | 14      | 19      | (5    | ) | -26.3 | % | 58      | 50      | 8       | 16.0 | % |
| Total interest income —<br>investments | \$2,913 | \$2,256 | \$657 |   | 29.1  | % | \$5,665 | \$4,448 | \$1,217 | 27.4 | % |

Total investment income was \$2.9 million for the three months ended June 30, 2014, compared to \$2.3 million for the three months ended June 30, 2013. The yield on investments increased to 1.88% for the quarter ended June 30, 2014 from 1.52% for the quarter ended June 30, 2013. The \$0.7 million year-over-year increase in quarterly interest income on investments was largely driven by higher rates.

Table of Contents

Total investment income was \$5.7 million for the six months ended June 30, 2014, compared to \$4.4 million for the six months ended June 30, 2013. The yield on investments increased to 1.85% for the six months ended June 30, 2014 from 1.52% for the six months ended June 30, 2013. The \$1.2 million year-over-year increase in quarterly interest income on investments was largely driven by higher rates.

## Interest Expense - Deposits and Borrowed Funds

|                                         | Three Months<br>Ended June 30, |         | Dollar   | Percent | Six Months Ended<br>June 30, |          | Dollar     | Percent |
|-----------------------------------------|--------------------------------|---------|----------|---------|------------------------------|----------|------------|---------|
|                                         | 2014                           | 2013    | Change   | Change  | 2014                         | 2013     | Change     | Change  |
| (Dollars in Thousands)                  |                                |         |          |         |                              |          |            |         |
| Interest expense:                       |                                |         |          |         |                              |          |            |         |
| Deposits:                               |                                |         |          |         |                              |          |            |         |
| NOW accounts                            | \$42                           | \$41    | \$1      | 2.4     | % \$83                       | \$86     | \$(3 )     | -3.5 %  |
| Savings accounts                        | 303                            | 316     | (13 )    | -4.1    | % 606                        | 660      | (54 )      | -8.2 %  |
| Money market accounts                   | 1,936                          | 2,036   | (100 )   | -4.9    | % 3,895                      | 4,097    | (202 )     | -4.9 %  |
| Certificates of deposit                 | 1,920                          | 2,350   | (430 )   | -18.3   | % 3,908                      | 4,735    | (827 )     | -17.5 % |
| Total interest expense - deposits       | 4,201                          | 4,743   | (542 )   | -11.4   | % 8,492                      | 9,578    | (1,086 )   | -11.3 % |
| Borrowed funds:                         |                                |         |          |         |                              |          |            |         |
| Advances from the FHLBB                 | 2,602                          | 2,682   | (80 )    | -3.0    | % 5,133                      | 5,637    | (504 )     | -8.9 %  |
| Other borrowed funds                    | 109                            | 112     | (3 )     | -2.7    | % 247                        | 266      | (19 )      | -7.1 %  |
| Total interest expense - borrowed funds | 2,711                          | 2,794   | (83 )    | -3.0    | % 5,380                      | 5,903    | (523 )     | -8.9 %  |
| Total interest expense                  | \$6,912                        | \$7,537 | \$(625 ) | -8.3    | % \$13,872                   | \$15,481 | \$(1,609 ) | -10.4 % |

## Deposits

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

Interest expense on deposits decreased \$0.5 million, or 11.4%, from \$4.7 million for the quarter ended June 30, 2013 to \$4.2 million for the quarter ended June 30, 2014. Accretion on acquired deposits was \$0.1 million in both periods, which improved the Company's net interest margin by 1 basis point in both periods.

Interest expense on deposits decreased \$1.1 million, or 11.3%, from \$9.6 million for the six months ended June 30, 2013 to \$8.5 million for the six months ended June 30, 2014. Accretion on acquired deposits was \$0.1 million and \$0.3 million for the six months ended June 30, 2014 and 2013, respectively, which improved the Company's net interest margin by 1 basis point in both periods.

While interest-bearing deposit balances increased during these periods, the increases in interest expense on deposits due to volume were offset by decreases in interest expense due to deposit offering rates. The cost of total interest-bearing deposits decreased from 0.63% during the three months ended June 30, 2013 to 0.53% in the three months ended June 30, 2014. The cost of total interest-bearing deposits decreased to 0.54% in the six months ended June 30, 2014 from 0.64% during the six months ended June 30, 2013.

## Borrowed Funds

Interest paid on borrowed funds decreased by \$0.1 million, or 3.0% from \$2.8 million for the three months ended June 30, 2013 to \$2.7 million for the three months ended June 30, 2014. The cost of borrowed funds declined to 1.17% for the quarter ended June 30, 2014 from 1.39% during the three months ended June 30, 2013. Including accretion, decreases in borrowing rates resulted in a decrease in debt-related interest expenses of \$0.5 million. Accretion on acquired borrowed funds of \$0.7 million and \$0.9 million improved the Company's net interest margin by 7 basis points and 8 basis points for the three months ended June 30, 2014 and 2013, respectively.

Table of Contents

Interest paid on borrowed funds decreased by \$0.5 million, or 8.9% from \$5.9 million for the six months ended June 30, 2013 to \$5.4 million for the six months ended June 30, 2014. The cost of borrowed funds declined to 1.23% for the six months ended June 30, 2014 from 1.47% during the six months ended June 30, 2013. Including accretion, decreases in borrowing rates resulted in a decrease in debt-related interest expenses of \$1.1 million. Accretion on acquired borrowed funds of \$1.4 million and \$2.0 million improved the Company's net interest margin by 7 basis points and 9 basis points for the six months ended June 30, 2014 and 2013, respectively.

## Provision for Credit Losses

The provisions for credit losses are set forth below:

|                                               | Three Months<br>Ended June 30, |         | Dollar  | Percent | Six Months Ended<br>June 30, |         | Dollar  | Percent |   |
|-----------------------------------------------|--------------------------------|---------|---------|---------|------------------------------|---------|---------|---------|---|
|                                               | 2014                           | 2013    | Change  | Change  | 2014                         | 2013    | Change  | Change  |   |
|                                               | (Dollars in Thousands)         |         |         |         |                              |         |         |         |   |
| Provision (credit) for loan and lease losses: |                                |         |         |         |                              |         |         |         |   |
| Commercial real estate                        | \$1,857                        | \$1,512 | \$345   | 22.8    | % \$3,693                    | \$2,078 | \$1,615 | 77.7    | % |
| Commercial                                    | 900                            | 434     | 466     | 107.4   | % 1,524                      | 1,596   | (72)    | -4.5    | % |
| Indirect automobile                           | 77                             | (136)   | 213     | -156.6  | % 2                          | (208)   | 210     | -101.0  | % |
| Consumer                                      | (6)                            | 497     | (503)   | -101.2  | % (90)                       | 574     | (664)   | -115.7  | % |
| Unallocated                                   | (646)                          | 81      | (727)   | -897.5  | % (530)                      | 147     | (677)   | -460.5  | % |
| Total provision for loan and lease losses     | 2,182                          | 2,388   | (206)   | -8.6    | % 4,599                      | 4,187   | 412     | 9.8     | % |
| Unfunded credit commitments                   | 94                             | 51      | 43      | 84.3    | % 120                        | 107     | 13      | 12.1    | % |
| Total provision for credit losses             | \$2,276                        | \$2,439 | \$(163) | -6.7    | % \$4,719                    | \$4,294 | \$425   | 9.9     | % |

The provisions for credit losses for the second quarter of 2014 and 2013 were \$2.3 million and \$2.4 million, respectively. The provisions for credit losses for the six months ended June 30, 2014 and 2013 were \$4.7 million and \$4.3 million, respectively. The \$0.2 million quarter-over-quarter decrease in the provision for loan and lease losses was due in large part to an increase in the allowance for loan and lease losses on the acquired portfolios during the six months ended June 30, 2013, no additional provision on the acquired portfolio was necessary during the six months ended June 30, 2014, coupled with a reduction in the unallocated allowance, offset by loan growth of \$241.4 million during the six months ended June 30, 2014. See management's discussion of "Financial Condition — Allowance for Loan and Lease Losses" and Note 5, "Allowance for Loan and Lease Losses," to the unaudited consolidated financial statements for a description of how management determined the allowance for loan and lease losses for each portfolio and class of loans.

Table of Contents

## Non-Interest Income

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

|                                                       | Three Months Ended June 30, 2014 |         | Dollar Change | Percent Change |   | Six Months Ended June 30, 2013 |         | Dollar Change | Percent Change |   |
|-------------------------------------------------------|----------------------------------|---------|---------------|----------------|---|--------------------------------|---------|---------------|----------------|---|
|                                                       | (Dollars in Thousands)           |         |               |                |   |                                |         |               |                |   |
| Deposit fees                                          | \$2,204                          | \$1,929 | \$275         | 14.3           | % | 4,163                          | 3,995   | 168           | 4.2            | % |
| Loan fees                                             | 124                              | 386     | (262)         | -67.9          | % | 560                            | 807     | (247)         | -30.6          | % |
| Loss from investments in affordable housing projects  | (539)                            | (624)   | 85            | -13.6          | % | (1,043)                        | (936)   | (107)         | 11.4           | % |
| Gain on sales of securities, net                      | (13)                             | —       | (13)          | —              | % | (13)                           | —       | (13)          | —              | % |
| Gain on sales of loans and leases held-for-sale       | 54                               | 183     | (129)         | -70.5          | % | 656                            | 481     | 175           | 36.4           | % |
| Gain on sale/disposals of premises and equipment, net | (6)                              | (21)    | 15            | -71.4          | % | 1,504                          | (21)    | 1,525         | -7,261.9       | % |
| Other                                                 | 1,466                            | 1,286   | 180           | 14.0           | % | 2,587                          | 2,140   | 447           | 20.9           | % |
| Total non-interest income                             | \$3,290                          | \$3,139 | \$151         | 4.8            | % | \$8,414                        | \$6,466 | \$1,948       | 30.1           | % |

Total non-interest income increased \$0.2 million, or 4.8%, to \$3.3 million for the three months ended June 30, 2014, from \$3.1 million for the three months ended June 30, 2013. The increase is primarily attributable to a \$0.3 million increase in deposit fees, a \$0.1 million decrease in the losses from investment in affordable housing projects and a \$0.1 million increase in rental income included in other non-interest income, offset by a decrease of \$0.3 million in loan fees and a \$0.1 million decrease in gain on sales of loans and leases held-for-sale.

Total non-interest income increased \$1.9 million, or 30.1%, to \$8.4 million for the six months ended June 30, 2014, from \$6.5 million for the six months ended June 30, 2013. The increase is primarily attributable to a \$1.5 million net gain on sale/disposals of premises and equipment, a \$0.2 million increase in rental income included in other non-interest income, a \$0.2 million increase in gain on sales of loans and leases held-for-sale, a \$0.2 million increase in deposit fees, offset by a \$0.2 million decrease in loan fees.

## Non-Interest Expense

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

|                                       | Three Months<br>Ended June 30,<br>2014 |          | 2013  | Dollar<br>Change | Percent<br>Change | Six Months Ended<br>June 30,<br>2014 |          | 2013    | Dollar<br>Change | Percent<br>Change |
|---------------------------------------|----------------------------------------|----------|-------|------------------|-------------------|--------------------------------------|----------|---------|------------------|-------------------|
|                                       | (Dollars in Thousands)                 |          |       |                  |                   |                                      |          |         |                  |                   |
| Compensation and employee<br>benefits | \$17,295                               | \$16,697 | \$598 | 3.6              | %                 | \$35,327                             | \$32,994 | \$2,333 | 7.1              | %                 |
| Occupancy                             | 3,154                                  | 2,865    | 289   | 10.1             | %                 | 7,559                                | 5,948    | 1,611   | 27.1             | %                 |
| Equipment and data processing         | 4,348                                  | 4,262    | 86    | 2.0              | %                 | 8,725                                | 8,362    | 363     | 4.3              | %                 |
| Professional services                 | 1,487                                  | 1,513    | (26)  | -1.7             | %                 | 3,214                                | 3,014    | 200     | 6.6              | %                 |
| FDIC insurance                        | 847                                    | 936      | (89)  | -9.5             | %                 | 1,707                                | 1,870    | (163)   | -8.7             | %                 |
| Advertising and marketing             | 776                                    | 768      | 8     | 1.0              | %                 | 1,441                                | 1,438    | 3       | 0.2              | %                 |
|                                       | 827                                    | 1,177    | (350) | -29.7            | %                 | 1,688                                | 2,342    | (654)   | -27.9            | %                 |

Amortization of identified  
intangible assets

|                            |          |          |       |   |      |   |          |          |         |   |      |   |
|----------------------------|----------|----------|-------|---|------|---|----------|----------|---------|---|------|---|
| Other                      | 2,488    | 2,598    | (110  | ) | -4.2 | % | 5,137    | 5,617    | (480    | ) | -8.5 | % |
| Total non-interest expense | \$31,222 | \$30,816 | \$406 |   | 1.3  | % | \$64,798 | \$61,585 | \$3,213 |   | 5.2  | % |

Non-interest expense for the three months ended June 30, 2014 increased \$0.4 million compared to the same period in 2013. The increase was due to a \$0.6 million increase in compensation and employee benefits expense, a \$0.3 million increase in occupancy expense, offset by a decrease of \$0.4 million in amortization of identified intangible assets and a decrease of \$0.1

Table of Contents

million in other expenses. Non-interest expense for the six months ended June 30, 2014 increased \$3.2 million compared to the same period in 2013. The increase was primarily due to a \$2.3 million increase in compensation and employee benefits expense, a \$1.6 million increase in occupancy expense, offset by a decrease of \$0.7 million in amortization of identified intangible assets and a decrease of \$0.5 million in other expenses.

The efficiency ratio decreased to 62.79% for the three-month period ending June 30, 2014 from 63.53% for the three-month period ending June 30, 2013. The efficiency ratio decreased to 63.17% for the six-month period ending June 30, 2014 from 64.49% for the six-month period ending June 30, 2013. Efficiency ratios improved because increases in non-interest expense was outpaced by increases in net interest income and non-interest income.

Compensation and employee benefit expense for the three months ended June 30, 2014 increased \$0.6 million, or 3.6%, as compared to the same period in 2013, and increased \$2.3 million, or 7.1%, for the six months ended June 30, 2014 as compared to the same period in 2013. The increases in both periods were driven primarily by additional staffing for the opening of the Waltham, MA, branch of Brookline Bank and Wakefield, RI, branch of Bank Rhode Island and to support the growth in equipment financing.

Occupancy expense for the three months ended June 30, 2014 increased \$0.3 million, or 10.1%, as compared to the same period in 2013. Occupancy expense for the six months ended June 30, 2014 increased \$1.6 million, or 27.1%, as compared to the same period in 2013. The increases in both periods were primarily due to additional expenses associated with the newly opened branches, as well as the recognition of future lease obligation associated with the consolidation of an operations center and three discontinued branch properties.

Amortization of identified intangible assets for the three months ended June 30, 2014 decreased \$0.4 million, or 29.7%, as compared to the same period in 2013, and decreased \$0.7 million, or 27.9%, for the six months ended June 30, 2014 as compared to the same period in 2013. The decreases in both periods were due to the accelerated method of amortization for certain intangible assets and that several intangible assets that were fully amortized at December 31, 2013.

Other expense decreased \$0.1 million, or 4.2%, from the three months ended June 30, 2013 to the three months ended June 30, 2014. Other expense decreased \$0.5 million, or 8.5%, from the six months ended June 30, 2013 to the six months ended June 30, 2014. The decreases in both periods were largely due to cost reduction costs related to the runoff of the indirect auto portfolio.

## Provision for Income Taxes

|                                          | Three Months Ended June 30, 2014<br>(Dollars in Thousands) |   |           |   | Dollar<br>Change | Percent<br>Change |  | Six Months Ended June 30, 2014 |   |           |   | Dollar<br>Change | Percent<br>Change |
|------------------------------------------|------------------------------------------------------------|---|-----------|---|------------------|-------------------|--|--------------------------------|---|-----------|---|------------------|-------------------|
| Income before provision for income taxes | \$ 16,226                                                  |   | \$ 15,247 |   | \$ 979           | 6.4 %             |  | \$ 33,065                      |   | \$ 29,617 |   | \$ 3,448         | 11.6 %            |
| Provision for income taxes               | 5,774                                                      |   | 5,382     |   | 392              | 7.3 %             |  | 11,769                         |   | 10,511    |   | 1,258            | 12.0 %            |
| Net income                               | \$ 10,452                                                  |   | \$ 9,865  |   | \$ 587           | 6.0 %             |  | \$ 21,296                      |   | \$ 19,106 |   | \$ 2,190         | 11.5 %            |
| Effective tax rate                       | 35.6                                                       | % | 35.3      | % | N/A              | 0.8 %             |  | 35.6                           | % | 35.5      | % | N/A              | 0.3 %             |

The Company recorded income tax expense of \$5.8 million for the three months ended June 30, 2014, compared to \$5.4 million for the three months ended June 30, 2013, representing effective tax rates of 35.6% and 35.3%, respectively. On a year-to-date basis, the Company recorded income tax expense of \$11.8 million for the first six months of 2014, compared to \$10.5 million for the same period of 2013, representing effective tax rates of 35.6% and 35.5%, respectively.

The slight increase in the effective tax rate is primarily attributable to the absence of the rehabilitation tax credit in 2014. The increase was partially offset by tax credits received from the investment in two new affordable housing projects.

## Table of Contents

### Liquidity and Capital Resources

#### Liquidity

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

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

Deposits, which are considered the most stable source of liquidity, totaled \$3.9 billion at June 30, 2014, and represented 78.8% of total funding (the sum of total deposits and total borrowings), compared to deposits of \$3.8 billion, or 82.5% of total funding, at December 31, 2013. Core deposits, which consist of demand checking, NOW, savings and money market accounts, totaled \$3.0 billion at June 30, 2014 and represented 76.7% of total deposits, compared to core deposits of \$2.9 billion, or 75.6% of total deposits, at December 31, 2013. While deposits are considered the most reliable source of liquidity, the Company is careful to increase deposits without adversely impacting the weighted average cost of those funds.

Borrowings are used to diversify the Company’s funding mix and to support asset growth. When profitable lending and investment opportunities exist, access to borrowings provides a means to grow the balance sheet. Borrowings totaled \$1.0 billion at June 30, 2014, representing 21.2% of total funding, compared to \$0.8 billion, or 17.5% of total funding, at December 31, 2013. As members of the FHLBB, the Banks have access to both short- and long-term borrowings. The Banks also have access to funding through retail repurchase agreements, brokered deposits and \$119.0 million of uncommitted lines of credit, and may utilize additional sources of funding in the future, including borrowings at the Federal Reserve “discount window,” to supplement its liquidity. At June 30, 2014, the Company’s total borrowing limit from the FHLBB for advances and repurchase agreements was \$1.2 billion as compared to \$1.0 billion at December 31, 2013, based on the level of qualifying collateral available for these borrowings.

In general, the Company seeks to maintain a high degree of liquidity and targets cash, cash equivalents and investment securities available-for-sale balances between 10% and 30% of total assets. At June 30, 2014, cash and cash equivalents and available-for-sale securities totaled \$608.3 million, or 10.9% of total assets. This compares to \$584.9 million, or 11.0% of total assets at December 31, 2013.

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

#### Off-Balance-Sheet Financial Instruments

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

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

Table of Contents

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

|                                                                     | At June 30, 2014 | At December 31,<br>2013 |
|---------------------------------------------------------------------|------------------|-------------------------|
|                                                                     | (In Thousands)   |                         |
| Financial instruments whose contract amounts represent credit risk: |                  |                         |
| Commitments to originate loans and leases:                          |                  |                         |
| Commercial real estate                                              | \$67,378         | \$48,973                |
| Commercial                                                          | 146,347          | 143,252                 |
| Residential mortgage                                                | 10,524           | 8,027                   |
| Unadvanced portion of loans and leases                              | 549,473          | 586,279                 |
| Unused lines of credit:                                             |                  |                         |
| Home equity                                                         | 212,857          | 205,665                 |
| Other consumer                                                      | 6,386            | 6,503                   |
| Other commercial                                                    | 1,138            | 1,035                   |
| Unused letters of credit:                                           |                  |                         |
| Financial standby letters of credit                                 | 18,322           | 20,410                  |
| Performance standby letters of credit                               | 3,189            | 2,989                   |
| Commercial and similar letters of credit                            | 2,302            | 440                     |
| Back-to-back interest-rate swaps                                    | 28,017           | 22,418                  |

#### Capital Resources

At June 30, 2014, the Company and the Banks are all under the primary regulation of and must comply with the capital requirements of the FRB. At that date, the Company, Brookline Bank, BankRI and First Ipswich exceeded all regulatory capital requirements and were considered “well-capitalized.”

Table of Contents

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

|                                 |     | Actual                 |       |   | Minimum Required for Capital Adequacy Purposes |       |   | Minimum Required To Be Considered “Well-Capitalized” |       |   |
|---------------------------------|-----|------------------------|-------|---|------------------------------------------------|-------|---|------------------------------------------------------|-------|---|
|                                 |     | Amount                 | Ratio |   | Amount                                         | Ratio |   | Amount                                               | Ratio |   |
|                                 |     | (Dollars in Thousands) |       |   |                                                |       |   |                                                      |       |   |
| At June 30, 2014:               |     |                        |       |   |                                                |       |   |                                                      |       |   |
|                                 |     |                        |       |   |                                                |       |   |                                                      |       |   |
| Brookline Bancorp, Inc.         |     |                        |       |   |                                                |       |   |                                                      |       |   |
| Tier 1 leverage capital ratio   | (1) | \$490,886              | 9.2   | % | \$212,735                                      | 4.0   | % | N/A                                                  | N/A   |   |
| Tier 1 risk-based capital ratio | (2) | 490,886                | 10.6  | % | 184,891                                        | 4.0   | % | N/A                                                  | N/A   |   |
| Total risk-based capital ratio  | (3) | 543,728                | 11.8  | % | 369,569                                        | 8.0   | % | N/A                                                  | N/A   |   |
|                                 |     |                        |       |   |                                                |       |   |                                                      |       |   |
| Brookline Bank                  |     |                        |       |   |                                                |       |   |                                                      |       |   |
| Tier 1 leverage capital ratio   | (1) | \$292,341              | 8.7   | % | \$134,255                                      | 4.0   | % | \$167,819                                            | 5.0   | % |
| Tier 1 risk-based capital ratio | (2) | 292,341                | 9.6   | % | 122,191                                        | 4.0   | % | 183,286                                              | 6.0   | % |
| Total risk-based capital ratio  | (3) | 330,522                | 10.8  | % | 244,379                                        | 8.0   | % | 305,473                                              | 10.0  | % |
|                                 |     |                        |       |   |                                                |       |   |                                                      |       |   |
| BankRI                          |     |                        |       |   |                                                |       |   |                                                      |       |   |
| Tier 1 leverage capital ratio   | (1) | \$143,642              | 8.3   | % | \$69,476                                       | 4.0   | % | \$86,845                                             | 5.0   | % |
| Tier 1 risk-based capital ratio | (2) | 143,642                | 10.7  | % | 53,598                                         | 4.0   | % | 80,397                                               | 6.0   | % |
| Total risk-based capital ratio  | (3) | 156,098                | 11.6  | % | 107,284                                        | 8.0   | % | 134,105                                              | 10.0  | % |
|                                 |     |                        |       |   |                                                |       |   |                                                      |       |   |
| First Ipswich                   |     |                        |       |   |                                                |       |   |                                                      |       |   |
| Tier 1 leverage capital ratio   | (1) | \$31,372               | 10.3  | % | \$12,183                                       | 4.0   | % | \$15,229                                             | 5.0   | % |
| Tier 1 risk-based capital ratio | (2) | 31,372                 | 13.0  | % | 9,631                                          | 4.0   | % | 14,446                                               | 6.0   | % |
| Total risk-based capital ratio  | (3) | 33,557                 | 13.9  | % | 19,272                                         | 8.0   | % | 24,090                                               | 10.0  | % |
|                                 |     |                        |       |   |                                                |       |   |                                                      |       |   |
| At December 31, 2013:           |     |                        |       |   |                                                |       |   |                                                      |       |   |
|                                 |     |                        |       |   |                                                |       |   |                                                      |       |   |
| Brookline Bancorp, Inc.         |     |                        |       |   |                                                |       |   |                                                      |       |   |
| Tier 1 leverage capital ratio   | (1) | \$480,472              | 9.4   | % | \$205,330                                      | 4.0   | % | N/A                                                  | N/A   |   |
| Tier 1 risk-based capital ratio | (2) | 480,472                | 11.0  | % | 174,558                                        | 4.0   | % | N/A                                                  | N/A   |   |
|                                 | (3) | 529,982                | 12.2  | % | 348,959                                        | 8.0   | % | N/A                                                  | N/A   |   |

## Total risk-based capital ratio

## Brookline Bank

|                                 |     |           |      |   |           |     |   |           |      |   |
|---------------------------------|-----|-----------|------|---|-----------|-----|---|-----------|------|---|
| Tier 1 leverage capital ratio   | (1) | \$299,822 | 9.4  | % | \$127,992 | 4.0 | % | \$159,990 | 5.0  | % |
| Tier 1 risk-based capital ratio | (2) | 299,822   | 10.4 | % | 114,984   | 4.0 | % | 172,477   | 6.0  | % |
| Total risk-based capital ratio  | (3) | 335,748   | 11.7 | % | 229,768   | 8.0 | % | 287,210   | 10.0 | % |

## BankRI

|                                 |     |           |      |   |          |     |   |          |      |   |
|---------------------------------|-----|-----------|------|---|----------|-----|---|----------|------|---|
| Tier 1 leverage capital ratio   | (1) | \$134,904 | 8.1  | % | \$66,784 | 4.0 | % | \$83,480 | 5.0  | % |
| Tier 1 risk-based capital ratio | (2) | 134,904   | 10.6 | % | 51,052   | 4.0 | % | 76,577   | 6.0  | % |
| Total risk-based capital ratio  | (3) | 145,847   | 11.4 | % | 102,080  | 8.0 | % | 127,600  | 10.0 | % |

## First Ipswich

|                                 |     |          |      |   |          |     |   |          |      |   |
|---------------------------------|-----|----------|------|---|----------|-----|---|----------|------|---|
| Tier 1 leverage capital ratio   | (1) | \$30,435 | 9.8  | % | \$12,461 | 4.0 | % | \$15,576 | 5.0  | % |
| Tier 1 risk-based capital ratio | (2) | 30,435   | 13.6 | % | 8,971    | 4.0 | % | 13,457   | 6.0  | % |
| Total risk-based capital ratio  | (3) | 32,289   | 14.4 | % | 17,938   | 8.0 | % | 22,423   | 10.0 | % |

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

## Table of Contents

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

#### Market Risk

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

#### Interest-Rate Risk

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

#### Asset/Liability Management

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

Management controls the Company's interest-rate exposure using several strategies, which include adjusting the maturities of securities in the Company's investment portfolio, limiting or expanding the terms of loans originated and limiting fixed-rate deposits with terms of more than five years and adjusting maturities of FHLBB advances. The Company limits this risk by restricting the types of MBSs it invests in to those with limited average life changes under certain interest-rate-shock scenarios, or securities with embedded prepayment penalties. The Company also places limits on holdings of fixed-rate mortgage loans with maturities greater than five years. The Company also may use derivative instruments, principally interest-rate swaps, to manage its interest-rate risk; however, the Company had no derivative fair value hedges or derivative cash flows at June 30, 2014 or December 31, 2013. See Note 9, "Derivatives and Hedging Activities," to the unaudited consolidated financial statements.

Table of Contents

## Measuring Interest-Rate Risk

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

The Company's interest-rate risk position is measured using both income simulation and interest-rate sensitivity "gap" analysis. Income simulation is the primary tool for measuring the interest-rate risk inherent in the Company's balance sheet at a given point in time by showing the effect on net interest income, over a twelve-month period, of a variety of interest-rate shocks. These simulations take into account repricing, maturity and prepayment characteristics of individual products. The ALCO reviews simulation results to determine whether the exposure resulting from changes in market interest rates remains within established tolerance levels over a twelve-month horizon, and develops appropriate strategies to manage this exposure. The Company's interest-rate risk analysis remains modestly asset-sensitive at June 30, 2014.

At June 30, 2014, net interest income simulation indicated that the Company's exposure to changing interest rates was within established tolerances. The ALCO reviews the methodology utilized for calculating interest-rate risk exposure and may periodically adopt modifications to this methodology. The following table presents the estimated impact of interest-rate changes on the Company's estimated net interest income over the twelve-month periods indicated:

| Gradual Change in<br>Interest Rate Levels | Estimated Exposure to Net Interest Income<br>over Twelve-Month Horizon Beginning |         |   |                   |         |   |
|-------------------------------------------|----------------------------------------------------------------------------------|---------|---|-------------------|---------|---|
|                                           | June 30, 2014                                                                    |         |   | December 31, 2013 |         |   |
|                                           | Dollar                                                                           | Percent |   | Dollar            | Percent |   |
|                                           | Change                                                                           | Change  |   | Change            | Change  |   |
|                                           | (Dollars in Thousands)                                                           |         |   |                   |         |   |
| Up 300 basis points                       | (993                                                                             | ) -0.53 | % | 590               | 0.33    | % |
| Up 200 basis points                       | (492                                                                             | ) -0.26 | % | 414               | 0.23    | % |
| Up 100 basis points                       | (144                                                                             | ) -0.08 | % | 220               | 0.12    | % |
| Down 100 basis points                     | (3,794                                                                           | ) -2.03 | % | (3,648            | ) -2.02 | % |

The estimated impact of a 300 basis points increase in market interest rates on the Company's estimated net interest income over a twelve-month horizon was a negative 0.53% at June 30, 2014 compared to a positive 0.33% at December 31, 2013. The change was due to the modeled slowdown of prepayments on the loans and leases portfolio as well as incremental growth in medium term, fixed rate commercial real estate loans and commercial loans and leases funded with shorter term funding.

The Company also uses interest-rate sensitivity "gap" analysis to provide a more general overview of its interest-rate risk profile. At June 30, 2014, the Company's one-year cumulative gap was a negative \$643.0 million, or 11.51% of total assets, compared with a negative \$271.6 million, or 5.1% of total assets at December 31, 2013.

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

changes in interest rates. For additional discussion on interest-rate risk see Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" on pages 72 to 75 of the Company's 2013 Annual Report on Form 10-K.

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

Table of Contents

EVE at Risk is calculated by estimating the net present value of all future cash flows from existing assets and liabilities using current interest rates as well as parallel shocks to the current interest-rate environment. The following table sets forth the estimated percentage change in the Company's EVE at Risk, assuming various shifts in interest rates. Given the interest rate environment at June 30, 2014, simulations for interest rate declines of more than 100 basis points were not deemed to be meaningful.

| Parallel Shock in Interest Rate Levels | Estimated Percent Change in EVE at Risk |                      |   |
|----------------------------------------|-----------------------------------------|----------------------|---|
|                                        | At June 30, 2014                        | At December 31, 2013 |   |
| Up 300%                                | -12.30                                  | % -3.05              | % |
| Up 200%                                | -10.95                                  | % -3.87              | % |
| Up 100%                                | -7.54                                   | % -2.06              | % |
| Down 100%                              | 2.35                                    | % -1.11              | % |

## Item 4. Controls and Procedures

## Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), the Company has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer considered that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the Company's management, including its Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

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

Management's Report on Internal Control Over Financial Reporting as of December 31, 2013 and the related Report of Independent Registered Public Accounting Firm thereon appear on pages F-1 and F-2 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.



## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

There are no material pending legal proceedings other than those that arise in the normal course. In the opinion of management, after consulting with legal counsel, the consolidated financial position and results of operations of the Company are not expected to be affected materially by the outcome of such proceedings.

### Item 1A. Risk Factors

There has been no material changes to the risk factors disclosed in Item 1A of the Company's Form 10-K for the year ended December 31, 2013.

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

- a) Not applicable.
- b) Not applicable.
- c) None.

### Item 3. Defaults Upon Senior Securities

- a) None.
- b) None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

None.

---

Item 6. Exhibits

Exhibits

|                |                                                                                                                                                                 |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Exhibit 10.1   | Brookline Bancorp, Inc. 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on May 9, 2014) |
| 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*** | <p>The following materials from Brookline Bancorp, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, formatted in XBRL (eXtensible Business Reporting Language):</p> <p>(i) Unaudited Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013;</p> <p>(ii) Unaudited Consolidated Statements of Income for the three months and six months ended June 30, 2014 and 2013; (iii) Unaudited Consolidated Statements of Comprehensive Income for the three months and six months ended June 30, 2014 and 2013; (iv) Unaudited Consolidated Statements of Changes in Equity for the six months ended June 30, 2014 and 2013; (v) Unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013; and (vi) Notes to Unaudited Consolidated Financial Statements at and for the six months ended June 30, 2014 and 2013.</p> |
|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

\* Filed herewith.

\*\* Furnished herewith.

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

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: August 8, 2014

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

Date: August 8, 2014

By: /s/ Carl M. Carlson  
Carl M. Carlson  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)