## BROOKLINE BANCORP INC

Form 10-Q
November 09, 2015
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## UNITED STATES SECURITIES AND EXCHANGE COMMISSION <br> Washington, DC 20549

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
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)

131 Clarendon Street, Boston, MA
(Address of principal executive offices)

04-3402944
(I.R.S. Employer Identification No.)

02116
(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 $\times$ NO o

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

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller Reporting Company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

At November 9, 2015, the number of shares of common stock, par value $\$ 0.01$ per share, outstanding was $70,177,440$.

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## PART I — FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Financial Statements
BROOKLINE BANCORP, INC. AND SUBSIDIARIES
Unaudited Consolidated Balance Sheets

## ASSETS

Cash and due from banks
Short-term investments
Total cash and cash equivalents
Investment securities available-for-sale
Investment securities held-to-maturity (fair value of \$63,232 and \$500)
Total investment securities
Loans and leases held-for-sale
Loans and leases:
Commercial real estate loans
Commercial loans and leases
Indirect automobile loans
Consumer loans
Total loans and leases
Allowance for loan and lease losses
Net loans and leases
Restricted equity securities
Premises and equipment, net of accumulated depreciation of \$49,973 and
$\$ 44,668$, respectively
Deferred tax asset
Goodwill
Identified intangible assets, net of accumulated amortization of \$28,425 and $\$ 26,238$, respectively
Other real estate owned ("OREO") and repossessed assets, net
Other assets*
Total assets*
At September 30, At December 31, 20152014
(In Thousands Except Share Data)
\$27,299 \$36,893
19,745 25,830
47,044 62,723
526,764 550,761
63,097 500
589,861 551,261
$10,992 \quad 1,537$

2,563,371 2,467,801
1,322,604 1,167,094
16,294 316,987
926,883 870,725
4,829,152 4,822,607
$(56,472)(53,659)$
4,772,680 4,768,948
75,553 74,804
77,472 80,619
25,730 27,687
$137,890 \quad 137,890$
11,357 13,544
1,301 1,456
89,649 80,479
$\$ 5,839,529 \quad \$ 5,800,948$
LIABILITIES AND EQUITY
Deposits:
Non-interest-bearing deposits:
Demand checking accounts
$\$ 785,210 \quad \$ 726,118$
Interest-bearing deposits:
NOW accounts
254,767 235,063
Savings accounts
Money market accounts
Certificate of deposit accounts
500,104 531,727

Total interest-bearing deposits
$1,540,104 \quad 1,518,490$

Total deposits
Borrowed funds:
Advances from the Federal Home Loan Bank of Boston ("FHLBB")
Subordinated debentures and notes
1,064,392 946,708
3,359,367 3,231,988

Other borrowed funds
82,873 82,763

Total borrowed funds
28,434 39,615
960,220 1,126,404

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| Mortgagors' escrow accounts | 7,996 | 8,501 |
| :--- | :--- | :--- |
| Accrued expenses and other liabilities | 57,996 | 61,332 |
| Total liabilities | $5,170,789$ | $5,154,343$ |

Commitments and contingencies (Note 14)
Stockholders' Equity:
Brookline Bancorp, Inc. stockholders' equity:
Common stock, $\$ 0.01$ par value; 200,000,000 shares authorized; 75,744,445
shares issued
Additional paid-in capital 617,475
$\begin{array}{lll}\text { Retained earnings, partially restricted* } & \text { 84,860 }\end{array}$
Accumulated other comprehensive income/(loss) $\quad 1,191 \quad(1,622$
$\begin{array}{lll}\text { Treasury stock, at cost; 4,861,085 shares and 5,040,571 shares, respectively } & (56,202 & )(58,282) \\ \text { Unallocated common stock held by the Employee Stock Ownership Plan } & (1,214 & )(1,370 \\ \text { ("ESOP"); 222,645 shares and 251,382 shares, respectively } & 663,468 & 641,818 \\ \text { Total Brookline Bancorp, Inc. stockholders' equity* } & 5,272 & 4,787 \\ \text { Noncontrolling interest in subsidiary } & 668,740 & 646,605 \\ \text { Total stockholders' equity* } & \$ 5,839,529 & \$ 5,800,948 \\ \text { Total liabilities and stockholders' equity* } & \end{array}$
(*) Previously reported amounts prior to January 1, 2015 have been restated to reflect a retrospective change in accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01. Refer to Note 8, "Investments in Qualified Affordable Projects".

See accompanying notes to the unaudited consolidated financial statements.

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

|  | Three Months Ended September 30, | Ended <br> 2014 <br> Except Sh | $\begin{aligned} & \text { Nine Mon } \\ & 30, \\ & 2015 \\ & \text { Data) } \end{aligned}$ | nded September $2014$ |
| :---: | :---: | :---: | :---: | :---: |
| Interest and dividend income: |  |  |  |  |
| Loans and leases | \$52,725 | \$51,769 | \$157,790 | \$154,144 |
| Debt securities | 2,866 | 2,312 | 8,480 | 6,931 |
| Marketable and restricted equity securities | 1,079 | 520 | 2,094 | 1,508 |
| Short-term investments | 17 | 15 | 98 | 73 |
| Total interest and dividend income | 56,687 | 54,616 | 168,462 | 162,656 |
| Interest expense: |  |  |  |  |
| Deposits | 4,326 | 4,248 | 12,926 | 12,740 |
| Borrowed funds | 3,774 | 3,044 | 11,249 | 8,424 |
| Total interest expense | 8,100 | 7,292 | 24,175 | 21,164 |
| Net interest income | 48,587 | 47,324 | 144,287 | 141,492 |
| Provision for credit losses | 1,755 | 2,034 | 5,931 | 6,753 |
| Net interest income after provision for credit losses | 46,832 | 45,290 | 138,356 | 134,739 |
| Non-interest income: |  |  |  |  |
| Deposit fees | 2,261 | 2,352 | 6,522 | 6,515 |
| Loan fees | 205 | 227 | 818 | 724 |
| Loan level derivative income | 900 | 322 | 1,841 | 384 |
| Loss on sales of investment securities, net | - | - | - | (13 |
| Gain on sales of loans and leases held-for-sale | 446 | 564 | 1,594 | 1,283 |
| (Loss)/gain on sale/disposals of premises and equipment, net | - | (2 | ) - | 1,502 |
| Other | 972 | 2,726 | 3,346 | 5,244 |
| Total non-interest income* | 4,784 | 6,189 | 14,121 | 15,639 |
| Non-interest expense: |  |  |  |  |
| Compensation and employee benefits | 17,875 | 18,258 | 52,484 | 53,585 |
| Occupancy | 3,535 | 3,334 | 10,444 | 10,893 |
| Equipment and data processing | 3,600 | 4,193 | 11,300 | 12,918 |
| Professional services | 984 | 991 | 3,241 | 4,198 |
| FDIC insurance | 929 | 873 | 2,627 | 2,580 |
| Advertising and marketing | 878 | 745 | 2,449 | 2,186 |
| Amortization of identified intangible assets | 725 | 828 | 2,187 | 2,516 |
| Other | 2,744 | 2,692 | 8,316 | 7,829 |
| Total non-interest expense | 31,270 | 31,914 | 93,048 | 96,705 |
| Income before provision for income taxes* | 20,346 | 19,565 | 59,429 | 53,673 |
| Provision for income taxes* | 6,897 | 7,163 | 21,116 | 19,700 |
| Net income before noncontrolling interest in subsidiary* | 13,449 | 12,402 | 38,313 | 33,973 |


| Less net income attributable to noncontrolling <br> interest in subsidiary | 561 | 662 | 1,857 | 1,560 |
| :--- | :--- | :--- | :--- | :--- |
| Net income attributable to Brookline Bancorp, Inc.* $\$ 12,888$ | $\$ 11,740$ | $\$ 36,456$ | $\$ 32,413$ |  |
|  |  |  |  |  |
| Earnings per common share: | $\$ 0.18$ | $\$ 0.17$ | $\$ 0.52$ | $\$ 0.46$ |
| Basic* | 0.18 | 0.17 | 0.52 | 0.46 |
| Diluted* |  |  |  |  |
| Weighted average common shares outstanding   <br> during the period:   <br> Basic   <br> Diluted   | $70,129,056$ | $69,989,909$ | $70,071,999$ | $69,918,248$ |
| Dividends declared per common share | $70,240,020$ | $70,088,987$ | $70,207,983$ | $70,029,383$ |
|  | $\$ 0.090$ | $\$ 0.085$ | $\$ 0.265$ | $\$ 0.255$ |

(*) Previously reported amounts prior to January 1, 2015 have been restated to reflect a retrospective change in accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01. Refer to Note 8, "Investments in Qualified Affordable Projects".

See accompanying notes to the unaudited consolidated financial statements.
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BROOKLINE BANCORP, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Comprehensive Income
Three Months Ended
September 30,
$2015 \quad 2014$
(In Thousands)
$\begin{array}{llll}\text { Net income before noncontrolling interest in subsidiary* }\end{array} \mathbf{\$ 1 3 , 4 4 9} \quad \$ 12,402 \quad \$ 38,313 \quad \$ 33,973$
Other comprehensive income, net of taxes:

| Investment securities available-for-sale: |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Unrealized securities holding gains (losses) | 4,608 | (2,257 | ) | 4,495 |  | 5,386 |
| Income tax (expense) benefit | (1,642 | 850 |  | (1,682 | ) | (2,043 |
| Net unrealized securities holding gains (losses) | 2,966 | (1,407 | ) | 2,813 |  | 3,343 |
| Less reclassification adjustments for securities losses included in net income: |  |  |  |  |  |  |
| Loss on sales of securities, net | - | - |  | - |  | (13 |
| Income tax benefit | - | - |  | - |  | 5 |
| Net reclassification adjustments for securities losses included in net income | - | - |  | - |  | (8) |
| Net securities holding gains (losses) | 2,966 | (1,407 | ) | 2,813 |  | 3,351 |
| Postretirement benefits: |  |  |  |  |  |  |
| Adjustment of accumulated obligation for postretirement benefits |  | (105 | ) | - |  | (190 |
| Income tax benefit | - | 40 |  | - |  | 73 |
| Net adjustment of accumulated obligation for postretirement benefits | - | (65 | ) | - |  | (117 |
| Other comprehensive income (loss), net of taxes | 2,966 | (1,472 | ) | 2,813 |  | 3,234 |
| Comprehensive income* | 16,415 | 10,930 |  | 41,126 |  | 37,207 |
| Net income attributable to noncontrolling interest in subsidiary | 561 | 662 |  | 1,857 |  | 1,560 |
| Comprehensive income attributable to Brookline Bancorp, Inc.* | \$15,854 | \$10,268 |  | \$39,269 |  | \$35,647 |

(*) Previously reported amounts prior to January 1, 2015 have been restated to reflect a retrospective change in accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01. Refer to Note 8, "Investments in Qualified Affordable Projects".

See accompanying notes to the unaudited consolidated financial statements.
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BROOKLINE BANCORP, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Changes in Equity
Nine Months Ended September 30, 2015 and 2014

| Commdditional | Retained | Accumulated | Unallocated Total Brookline ${ }^{\text {Noncontrolling }}$ |
| :---: | :---: | :---: | :---: |
|  |  | Other |  |
| commpand-in |  | Comprehensive Treasury | Common Stock ${ }^{\text {Bancorp, Inc }}$ Interest in |
| Stock Capital | Earnings* | (Loss) | Held by ESSP ${ }^{\text {ckity* }}$ *ers ${ }^{\text {Subsidiary }}{ }^{\text {Equity* }}$ |
|  |  | Income |  |

(In Thousands Except Share Data)
Balance at
December 31, $\quad \$ 757 \$ 617,475 \quad \$ 84,860 \quad \$(1,622) \$(58,282) \$(1,370) \$ 641,818 \quad \$ 4,787 \quad \$ 646,605$ 2014

Net income
 Bancorp, Inc.

Net income attributable to

| noncontrolling | - |  |  |  |  |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| 1,857 | 1,857 |  |  |  |  |  |  |  |  | interest in subsidiary

Issuance of $\begin{array}{lllllllllll}\text { noncontrolling } & - & - & - & - & - & & & & & \\ & & & & & & & & & & \end{array}$ units

Other

| comprehensive | - | - | - | 2,813 | - | - | 2,813 | - | 2,813 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |

income
Common stock
 $\$ 0.265$ per share

Dividend to owners of
 interest in
subsidiary
Compensation under recognition - $\begin{array}{llllllll} & 1,313 & ) & \text { - } & 767 & 2,080 & - & 767\end{array}$ and retention plans

| Common stock | - | 90 | - | - | 156 | 246 | - |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| held by ESOP <br> committed to be |  |  |  |  |  |  |  |

released (28,737
shares)

Balance at
September 30, \$757 \$616,252 \$ 102,684 \$ 1,191 \$ (56,202) \$ (1,214) \$ 663,468 \$ 5,272 \$668,740 2015
(*) Previously reported amounts prior to January 1,2015 have been restated to reflect a retrospective change in accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01. Refer to Note 8, "Investments in Qualified Affordable Projects".

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Changes in Equity (Continued)
Nine Months Ended September 30, 2015 and 2014

| Commditional | Accumulated |  | Unallocated Total Brookline ${ }_{\text {Noncontroling }}$ |
| :---: | :---: | :---: | :---: |
|  |  | Other |  |
| CommPaid-in | Retained | Comprehensive ${ }^{\text {Treasury }}$ | Common Stock Bancorp, Inc Interest in Total |
| Stock ${ }_{\text {Capital }}$ | Earnings* | (Loss) Stock | Held by ESOP ${ }^{\text {ckholders }}$ Subsidiary ${ }^{\text {Equity* }}$ |
|  |  | Income | Equity* |

Balance at
December 31, $\quad \$ 757 \$ 617,538 \quad \$ 65,448$ \$ (7,915) $\$(59,826) \$(1,590) \$ 614,412 \quad \$ 4,304 \quad \$ 618,716$ 2013

Net income $\begin{array}{lllllllllll}\text { attributable to } & - & - & 32,413 & - & & & & & & \\ \text { Brookline } & & & & & & 32,413 & - & 32,413\end{array}$ Brookline
Bancorp, Inc.
Net income attributable to

| noncontrolling <br> interest in <br> subsidiary | - | - | - | - | - | - | - | 1,560 | 1,560 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |

Issuance of

| noncontrolling | - | - | - | - | - | - |  | 6 |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |

units

Other

| comprehensive | - | - | - | 3,234 | - | - | 3,234 | - |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| loss |  |  |  |  |  |  |  |  |

$\$ 0.255$ per share
Dividend to
owners of
 interest in subsidiary

Compensation
$\begin{array}{lllllllll}\text { under recognition } & - & (755 & ) & - & - & 1,598 & - & 843\end{array}$ and retention plans
$\begin{array}{llllllllll}\text { Common stock } & - & 214 & - & - & - & 165 & 379 & - & 379\end{array}$ held by ESOP
committed to be
released (30,213
shares)

Balance at
September 30, \$757 \$616,997 \$79,959 \$ (4,681) \$ (58,228) \$ (1,425) \$ 633,379 \$4,309 \$637,688 2014
(*) Previously reported amounts prior to January 1, 2015 have been restated to reflect a retrospective change in accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01. Refer to Note 8, "Investments in Qualified Affordable Projects".

See accompanying notes to the unaudited consolidated financial statements.
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BROOKLINE BANCORP, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Cash Flows

Cash flows from operating activities:
Net income attributable to Brookline Bancorp, Inc. ${ }^{(1)}$
Adjustments to reconcile net income to net cash provided from operating activities:
Net income attributable to noncontrolling interest in subsidiary
1,857
1,560
Provision for credit losses
Origination of loans and leases held-for-sale
Proceeds from loans and leases held-for-sale, net ${ }^{(2)}$
Deferred income tax expense
Depreciation of premises and equipment
Amortization of investment securities premiums and discounts, net
Amortization of deferred loan and lease origination costs, net
Amortization of identified intangible assets
Amortization of debt issuance costs
Accretion of acquisition fair value adjustments, net
Gain on sale/disposals of premises and equipment, net
Loss on sales of investment securities, net
Gain on sales of loans and leases held-for-sale
Gain/(loss) on sales of OREO and repossessed assets, net
Write-down of OREO and repossessed assets
Compensation under recognition and retention plans
5,931 6,753
(33,366 ) (18,065
24,984 32,167
$275 \quad 567$
5,313 5,207
1,381 2,186
3,808 7,525
2,187 2,516
$56 \quad 4$
(4,829 ) (9,110 )
( $673^{2}$
ESOP shares committed to be released 246
(1,502 )

Net change in:
Cash surrender value of bank-owned life insurance (779) (805)
Other assets ${ }^{(1)}$
Accrued expenses and other liabilities
(8,280 ) (415 )

Net cash provided from operating activities (1) (2)
(3,738 ) (1,470
30,790 59,692
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
Purchases of investment securities available-for-sale
Proceeds from maturities, calls, and principal repayments of investment
securities held-to-maturity
Purchases of investment securities held-to-maturity $\quad(68,454)(500)$
Purchases of restricted equity securities
Proceeds from sales of loans and leases held-for-investment, net ${ }^{(2)}$
Net increase in loans and leases (2)
Proceeds from sales of OREO and repossessed assets (2)
Proceeds from sales of premises and equipment
Purchase of premises and equipment, net
Net cash used for investing activities ${ }^{(2)}$
(749 ) (8,245 )

267,164
(282,826 ) (386,251 )
5,844 8,966
(2,289

1,972
59,961
) $(96,932)$
(50,538 ) (96,932 )
5,894 500
) (8,245 )
) $(6,785)$
) $(422,231$ )

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Cash Flows (Continued)

Cash flows from financing activities:
Increase in demand checking, NOW, savings and money market accounts
Increase/(decrease) in certificates of deposit
Proceeds from FHLBB advances
Repayment of FHLBB advances
Proceeds from issuance of subordinated notes
Decrease in other borrowed funds, net
(Decrease)/increase in mortgagors' escrow accounts, net
Payment of dividends on common stock
Proceeds from issuance of noncontrolling units
Payment of dividends to owners of noncontrolling interest in subsidiary
Net cash provided from financing activities
Net increase/(decrease) in cash and cash equivalents
Cash and cash equivalents at beginning of period
Cash and cash equivalents at end of period
Nine Months Ended September 30,
2015
(In Thousands)

Supplemental disclosures of cash flows information:
Cash paid during the period for:
Interest on deposits, borrowed funds and subordinated debt
Income taxes
\$27,527
\$23,278
Non-cash investing activities:
Transfer from loans to other real estate owned
21,686
13,689
(1) Previously reported amounts prior to January 1,2015 have been restated to reflect a retrospective change in accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01. Refer to Note 8, "Investments in Qualified Affordable Projects".
(2) Cash flows resulting from the sale of the indirect automobile portfolio and the OREO and repossessed assets which had been recorded as cash provided from operating activities in the filings prior to June 30, 2015 have been revised to cash flows from investing activities in the second quarter of 2015 to properly reflect the cash flow activity. There is no impact to the Company's net income or related per share amounts for the nine months ended September 30, 2015 and September 30, 2014.

See accompanying notes to the unaudited consolidated financial statements.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014

## (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 financial institution; and First Ipswich Bank ("First 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., Longwood Securities Corp. and its $84.5 \%$-owned subsidiary, Eastern Funding LLC ("Eastern Funding"), operates 24 full-service banking offices in the greater Boston metropolitan area. BankRI, which includes its wholly-owned subsidiaries Macrolease Corporation ("Macrolease"), Acorn Insurance Agency, BRI Realty Corp., BRI Investment Corp. and its wholly-owned subsidiaries BRI MSC 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 5 full-service banking offices on the north shore of eastern Massachusetts.

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, 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, New York, and Macrolease, which is based in Plainview, New York. The Company ceased the origination of indirect automobile loans in December 2014.

The Company and the Banks are supervised, examined and regulated by the Board of Governors of the Federal Reserve System ("FRB"). As a Massachusetts-chartered saving bank and trust company, Brookline Bank and First Ipswich, respectively, 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 financial institution, 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 ("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 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, 2014.

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.

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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. Except for the adoption of Accounting Standards Update ("ASU") 2014-01, there were no changes to stockholders' equity and net income reported. Refer to Note 8, "Investments in Qualified Affordable Projects" for the impact the adoption had on the Company's financial statements.

## (2) Recent Accounting Pronouncements

In August 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. This ASU was issued to clarify the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements, since this was not addressed in the guidance in ASU 2015-03, which requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. Given the absence of authoritative guidance with ASU 2015-03, ASU 2015-15 states that the SEC staff will not object to an entity deferring and presenting debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the terms of the line-of-credit arrangement. As of September 30, 2015, the Company has accounted for the debt issuance costs related to the line-of-credit arrangement as a reduction of the debt liability, consistent with ASU 2015-03 and with the Company's accounting treatment for other debt issuance costs. Management has determined that this ASU has no impact to the Company.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. This ASU was issued to defer the effective date of ASU 2014-09 for all entities by one year. In other words, public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods (including interim reporting periods within those period) beginning after December 15, 2017. The Company is currently assessing the applicability of this ASU and has not determined the impact, if any, as of September 30, 2015.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This ASU requires that all debt issuance costs be presented in the balance sheet as direct deductions from the carrying amount of the related debt liability. Amortization of the costs is reported as
interest expense. This ASU is applied retrospectively for the first interim or annual period presented beginning after December 15, 2015; early adoption is permitted. As of September 30, 2015, the Company has accounted for its debt issuance cost as a reduction of the debt liability.

The Company adopted ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, which required retrospective application. Refer to Note 8, "Investments in Qualified Affordable Projects" for the impact the adoption had on the Company's financial statements.

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## (3) Investment Securities

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

Investment securities available-for-sale:
Debt securities:

| GSEs | $\$ 27,580$ | $\$ 362$ | $\$ 9$ | $\$ 27,933$ |
| :--- | :--- | :--- | :--- | :--- |
| GSE CMOs | 207,260 | 289 | 1,819 | 205,730 |
| GSE MBSs | 241,518 | 2,901 | 460 | 243,959 |
| SBA commercial loan asset-backed securities | 173 | - | 1 | 172 |
| Corporate debt obligations | 46,146 | 530 | 6 | 46,670 |
| Trust preferred securities | 1,465 | - | 150 | 1,315 |
| Total debt securities | 524,142 | 4,082 | 2,445 | 525,779 |
| Marketable equity securities | 954 | 31 | - | 985 |
| Total investment securities available-for-sale | $\$ 525,096$ | $\$ 4,113$ | $\$ 2,445$ | $\$ 526,764$ |
| Investment securities held-to-maturity: | $\$ 22,431$ | $\$ 66$ | $\$ 17$ | $\$ 22,480$ |
| GSEs | 19,962 | 16 | 76 | 19,902 |
| GSEs MBSs | 20,204 | 156 | 10 | 20,350 |
| Municipal obligations | 500 | - | - | 500 |
| Foreign government securities | $\$ 63,097$ | $\$ 238$ | $\$ 103$ | $\$ 63,232$ |

Investment securities available-for-sale:
Debt securities:

| GSEs | $\$ 22,929$ | $\$ 88$ | $\$ 29$ | $\$ 22,988$ |
| :--- | :--- | :--- | :--- | :--- |
| GSE CMOs | 238,910 | 80 | 4,821 | 234,169 |
| GSE MBSs | 249,329 | 2,531 | 879 | 250,981 |
| SBA commercial loan asset-backed securities | 205 | - | 2 | 203 |
| Corporate debt obligations | 39,805 | 403 | 1 | 40,207 |
| Trust preferred securities | 1,463 | - | 223 | 1,240 |
| Total debt securities | 552,641 | 3,102 | 5,955 | 549,788 |
| Marketable equity securities | 947 | 26 | - | 973 |
| Total investment securities available-for-sale | $\$ 553,588$ | $\$ 3,128$ | $\$ 5,955$ | $\$ 550,761$ |
| Investment securities held-to-maturity: |  |  |  | $\$-$ |
| Foreign government securities | $\$ 500$ | $\$-$ | $\$-$ | $\$ 500$ |
| Total investment securities held-to-maturity | $\$ 500$ | $\$-$ | $\$-$ | $\$ 500$ |

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At September 30, 2015, the fair value of all investment securities available-for-sale was $\$ 526.8$ million, with net unrealized gains of $\$ 1.7$ million, compared to a fair value of $\$ 550.8$ million and net unrealized losses of $\$ 2.8$ million at December 31, 2014. At September 30, 2015, $\$ 190.5$ million, or $36.2 \%$ of the portfolio, had gross unrealized losses of $\$ 2.4$ million, compared to $\$ 335.7$ million, or $60.9 \%$, with gross unrealized losses of $\$ 6.0$ million at December 31, 2014.

At September 30, 2015, the fair value of all investment securities held-to-maturity was $\$ 63.2$ million, with net unrealized gains of $\$ 0.1$ million, compared to a fair value of $\$ 0.5$ million with no unrealized gains at December 31, 2014. At September 30, 2015, $\$ 20.1$ million, or $31.8 \%$ of the portfolio, had gross unrealized losses of $\$ 0.1$ million. There were no investment securities held-to-maturity with net unrealized losses at December 31, 2014.

Investment Securities as Collateral
At September 30, 2015 and December 31, 2014, respectively, $\$ 469.6$ million and $\$ 473.1$ million of investment securities were pledged as collateral for repurchase agreements; municipal deposits; treasury, tax and loan deposits; swap agreements; and FHLBB borrowings.

Other-Than-Temporary Impairment ("OTTI")
Investment securities at September 30, 2015 and December 31, 2014 that have been in a continuous unrealized loss position for less than twelve months or twelve months or longer are as follows:

Investment securities available-for-sale:

| GSEs | $\$ 1,991$ | $\$ 9$ | $\$-$ | $\$-$ | $\$ 1,991$ | $\$ 9$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| GSE CMOs | 37,166 | 222 | 106,368 | 1,597 | 143,534 | 1,819 |
| GSE MBSs | 22,629 | 95 | 17,868 | 365 | 40,497 | 460 |
| SBA commercial loan | - | - | 162 | 1 | 162 | 1 |
| asset-backed securities | 3,018 | 6 | - | - | 3,018 | 6 |
| Corporate debt obligations <br> Trust preferred securities | - | - | 1,315 | 150 | 1,315 | 150 |
| Temporarily impaired debt <br> securities available-for-sale | 64,804 | 332 | 125,713 | 2,113 | 190,517 | 2,445 |
| Investment securities <br> held-to-maturity: |  |  |  |  |  |  |
| GSEs | 2,970 | 17 | - | - | 2,970 | 17 |
| GSEs MBSs <br> Municipal obligations | 14,352 | 76 | - | - | 14,352 | 76 |
| Temporarily impaired debt <br> securities held-to-maturity | 20,133 | 10 | - | - | 2,811 | 10 |
|  | $\$ 84,937$ | $\$ 435$ | $\$ 125,713$ | $\$ 2,113$ | $\$ 210,650$ | $\$ 2,548$ |

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Total temporarily impaired investment securities

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Investment securities
available-for-sale:

| GSEs | $\$ 11,086$ | $\$ 29$ | $\$-$ | $\$-$ | $\$ 11,086$ | $\$ 29$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| GSE CMOs | 39,095 | 179 | 190,345 | 4,642 | 229,440 | 4,821 |
| GSE MBSs | 50,099 | 84 | 39,555 | 795 | 89,654 | 879 |
| SBA commercial loan <br> asset-backed securities | 8 | - | 186 | 2 | 194 | 2 |
| Corporate debt obligations <br> Trust preferred securities | 4,069 | - | - | - | - | 4,069 |
| Total temporarily impaired <br> investment securities | $\$ 104,357$ | $\$ 293$ | $\$ 231,326$ | $\$ 5,662$ | $\$ 335,683$ | $\$ 5,955$ |

The Company performs regular analysis on the investment securities portfolio to determine whether a decline in fair value indicates that an investment security 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 investment 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 investment security before recovery of its amortized cost, the credit portion of the impairment loss is recognized in the Company's unaudited consolidated statements of income 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 investment 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 investment security before recovery of its amortized cost, the entire difference between the amortized cost and the fair value of the investment security will be recognized in the Company's unaudited consolidated statements of income.

## Investment Securities Available-For-Sale Impairment Analysis

The following discussion summarizes, by investment security type, the basis for evaluating if the applicable investment securities within the Company's available-for-sale portfolio were OTTI at September 30, 2015. Based on the analysis below, it is more likely than not that the Company will not sell or be required to sell the investment securities before recovery of its amortized cost. The Company's ability and intent to hold these investment 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 investment securities are not OTTI at September 30, 2015. If market conditions for investment securities worsen or the creditworthiness of the underlying issuers deteriorates, it is possible that the Company may recognize additional OTTI in future periods.

## 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 September 30, 2015, only GNMA MBSs and CMOs, and Small Business Administration ("SBA") commercial loan asset-backed securities with an estimated fair value of $\$ 20.2$ million were backed explicitly by the full faith and credit of the U.S. Government, compared to $\$ 26.2$ million at December 31, 2014.

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At September 30, 2015, the Company held GSE debentures with a total fair value of $\$ 27.9$ million with a net unrealized gain of $\$ 0.4$ million. At December 31, 2014, the Company held GSE debentures with a total fair value of $\$ 23.0$ million, which approximated amortized cost. At September 30, 2015, one of the eleven securities in this portfolio was in unrealized loss positions. At December 31, 2014, four of the eight securities in this portfolio were 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 nine months ended September 30, 2015, the Company purchased $\$ 11.8$ million of GSE debentures. This compares to a total of $\$ 8.9$ million purchased during the same period in 2014.

At September 30, 2015, the Company held GSE mortgage-related securities with a total fair value of $\$ 449.7$ million with a net unrealized gain of $\$ 0.9$ million. This compares to a total fair value of $\$ 485.2$ million with a net unrealized loss of $\$ 3.1$ million at December 31, 2014. At September 30, 2015, 55 of the 250 securities in this portfolio were in unrealized loss positions, compared to 79 of the 250 securities at December 31, 2014. All securities are performing and backed by the implicit (FHLB / FNMA / FHLMC) or explicit (GNMA) guarantee of the U.S. Government. During the nine months ended September 30, 2015, the Company purchased $\$ 29.4$ million in GSE CMOs and GSE MBSs. This compares to a total of $\$ 76.0$ million purchased during the same period in 2014.

## SBA Commercial Loan Asset-Backed Securities

At September 30, 2015 and December 31, 2014, the Company held eight SBA securities with a total fair value of $\$ 0.2$ million, which approximated amortized cost. At September 30, 2015 and December 31, 2014, seven of the eight 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.

## 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 fifteen corporate obligation securities with a total fair value of $\$ 46.7$ million and a net unrealized gain of $\$ 0.5$ million at September 30, 2015. This compares to thirteen corporate obligation securities with a total fair value of $\$ 40.2$ million with a net unrealized gain of $\$ 0.4$ million at December 31, 2014. At September 30, 2015, one of the fifteen securities in this portfolio was in an unrealized loss position. At December 31, 2014, one of the thirteen securities in this portfolio was in an unrealized loss position. Full collection of the obligations is expected because the financial condition of the issuer is sound and has not 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 nine months ended September 30, 2015, the Company purchased $\$ 9.3$ million of corporate obligations. This compares to a total of $\$ 12.0$ million purchased during the same period in 2014.

## Trust Preferred Securities

Trust preferred securities represent subordinated debt issued by financial institutions. At September 30, 2015, the Company owned two trust preferred securities with a total fair value of $\$ 1.3$ million with a net unrealized loss of $\$ 0.2$ million. This compares to two trust preferred securities with a total fair value of $\$ 1.2$ million with a net unrealized loss of $\$ 0.2$ million at December 31, 2014. At September 30, 2015 and December 31, 2014, 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 September 30, 2015 and December 31, 2014, the Company owned two marketable equity securities with a fair value of $\$ 1.0$ million, which approximated amortized cost. At September 30, 2015 and December 31, 2014, neither of the securities in this portfolio was in an unrealized loss position.

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Investment Securities Held-to-Maturity Impairment Analysis
At September 30, 2015, the Company owned 62 held-to-maturity investment securities with a total fair value of $\$ 63.2$ million and a net unrealized gain of $\$ 0.1$ million. This compares to a fair value of $\$ 0.5$ million at December 31, 2014. As of September 30, 2015, 12 of the securities were in an unrealized loss position compared to none of the securities in an unrealized loss position at December 31, 2014. Management does not intend to sell these securities prior to maturity. As such, Management has determined that the investment securities are not OTTI at September 30, 2015. During the nine months ended September 30, 2015, the Company purchased $\$ 68.5$ million of held-to-maturity investment securities. This compares to a total of $\$ 0.5$ million purchased during the same period in 2014.

## Portfolio Maturities

The final stated maturities of the debt securities are as follows at the dates indicated:

At September 30, 2015

| Amortized | Estimated | Weighted |
| :--- | :--- | :--- |
| Cost | Fair Value | Average |
| Rate |  |  |
| (Dollars in Thousands) |  |  |

At December 31, 2014

| Amortized | Estimated | Weighted |
| :--- | :--- | :--- |
| Cost | Fair Value | Average |
|  |  | Rate |


| $\%$ | $\$ 3,057$ | $\$ 3,081$ | 3.00 |
| :--- | :--- | :--- | :--- |
| $\%$ | $\%$ |  |  |
| $\%$ | 55,631 | 56,586 | 2.48 |
| $\%$ | $\%$ |  |  |
| $\%$ | 103,268 | 104,208 | 2.00 |
| $\%$ | $\%$ |  |  |
| $\%$ | $\$ 552,641$ | 385,913 | 1.91 |
| $\%$ | $\$ 549,788$ | 1.99 | $\%$ |

Investment securities
held-to-maturity:

| Within 1 year | $\$ 579$ | $\$ 579$ | 1.12 | $\%$ | $\$-$ | $\$-$ | - |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| After 1 year through 5 years | 8,034 | 8,063 | 1.28 | $\%$ | 500 | 500 | 1.30 |
| $\%$ |  |  |  |  |  |  |  |
| After 5 years through 10 years | 34,601 | 34,769 | 2.09 | $\%-$ | - | - | $\%$ |
| Over 10 years | 19,883 | 19,821 | 1.63 | $\%-$ | - | - | $\%$ |
|  | $\$ 63,097$ | $\$ 63,232$ | 1.83 | $\% ~ \$ 500$ | $\$ 500$ | 1.30 | $\%$ |

Actual maturities of debt securities may differ from those presented above since certain obligations amortize and provide the issuer the right to call or prepay the obligation prior to the scheduled final stated maturity without penalty. MBSs and CMOs are included above based on their final stated maturities; the actual maturities, however, may occur earlier due to anticipated prepayments and stated amortization of cash flows.

At September 30, 2015, issuers of debt securities with an estimated fair value of $\$ 5.0$ million had the right to call or prepay the obligations. Of the $\$ 5.0$ million, $\$ 3.0$ million matures in 1-5 years and $\$ 2.0$ million matures in 6-10 years. At December 31, 2014, issuers of debt securities with an estimated fair value of $\$ 16.1$ million had the right to call or prepay the obligations. Of the $\$ 16.1$ million, approximately $\$ 5.0$ million matures in 1-5 years, $\$ 9.9$ million matures in 6-10 years and $\$ 1.2$ million matures after ten years.

Security Sales

Security transactions are recorded on the trade date. When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on the sale. There were no security sales during the three-month and nine-month periods ended September 30, 2015.

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|  | Three Months | Nine Months |
| :---: | :---: | :---: |
|  | Ended September | Ended September |
|  | 30, 2014 <br> (In Thousands) |  |
| Sales of debt securities | \$- | \$5,083 |
| Gross gains from sales | - | 302 |
| Gross losses from sales | - | 315 |
| Loss on sales of securities, net | \$- | \$(13 |

(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 September 30, 2015

| Originated |  | Acquired | Total |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- |
|  | Weighted |  | Weighted |  | Weighted |
| Balance | Average <br> Coupon | Balance | Average <br> Coupon | Balance | Average <br>  Coupon |

Commercial real estate loans:
Commercial real estate
mortgage
Multi-family mortgage
Construction
Total commercial real estate loans

| $\$ 1,598,116$ | 4.01 | $\%$ | $\$ 212,434$ | 4.18 | $\%$ | $\$ 1,810,550$ | 4.03 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| 576,297 | 4.02 | $\%$ | 38,263 | 4.34 | $\%$ | 614,560 | 4.04 |
| 137,695 | 3.51 | $\%$ | 566 | 5.04 | $\%$ | 138,261 | 3.52 |
| $2,312,108$ | 3.98 | $\%$ | 251,263 | 4.21 | $\%$ | $2,563,371$ | 4.00 |
|  |  |  |  |  |  | $\%$ |  |
| 560,088 | 3.84 | $\%$ | 20,623 | 5.51 | $\%$ | 580,711 | 3.90 |
| 674,449 | 6.86 | $\%$ | 9,882 | 6.01 | $\%$ | 684,331 | 6.84 |
| 57,562 | 4.52 | $\%$ | - | $\%$ | 57,562 | 4.52 | $\%$ |
| $1,292,099$ | 5.45 | $\%$ | - | $\%, 505$ | 5.67 | $\%$ | $1,322,604$ |
|  |  | $\%$ | 5.45 | $\%$ |  |  |  |
| 16,294 | 5.55 | $\%$ | - | $\%$ | 16,294 | 5.55 | $\%$ |
|  |  |  |  |  |  |  |  |
| 513,645 | 3.63 | $\%$ | 92,418 | 3.86 | $\%$ | 606,063 | 3.66 |
| 224,777 | 3.29 | $\%$ | 83,594 | 3.88 | $\%$ | $\% 308,371$ | 3.45 |
| 12,307 | 4.91 | $\%$ | 142 | 17.21 | $\%$ | 12,449 | 5.06 |
| 750,729 | 3.55 | $\%$ | 176,154 | 3.88 | $\%$ | $\%$ |  |
| $\$ 4,371,230$ | 4.35 | $\%$ | $\$ 457,922$ | 4.18 | $\%$ | $\$ 4,829,152$ | 3.61 |

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|  | At Decemb Originated | $\text { 31, } 2014$ |  | Acquired |  |  | Total |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Balance <br> (Dollars in | Weighted <br> Average <br> Coupon <br> housands) |  | Balance | Weighted Average Coupon |  | Balance | Weighte Average Coupon |  |
| Commercial real estate loans: Commercial real estate mortgage | \$1,425,621 | 4.18 | \% | \$254,461 | 4.29 | \% | \$ 1,680,082 | 4.20 | \% |
| Multi-family mortgage | 576,214 | 4.11 | \% | 63,492 | 4.50 | \% | 639,706 | 4.15 | \% |
| Construction | 146,074 | 3.79 | \% | 1,939 | 5.50 | \% | 148,013 | 3.81 | \% |
| Total commercial real estate loans | 2,147,909 | 4.13 | \% | 319,892 | 4.34 | \% | 2,467,801 | 4.16 | \% |
| Commercial loans and leases: |  |  |  |  |  |  |  |  |  |
| Commercial | 462,730 | 3.88 | \% | 51,347 | 4.14 | \% | 514,077 | 3.91 | \% |
| Equipment financing | 587,496 | 6.92 | \% | 13,928 | 6.22 | \% | 601,424 | 6.90 | \% |
| Condominium association | 51,593 | 4.60 | \% | - | - | \% | 51,593 | 4.60 | \% |
| Total commercial loans and leases | 1,101,819 | 5.53 | \% | 65,275 | 4.58 | \% | 1,167,094 | 5.48 | \% |
| Indirect automobile loans | 316,987 | 4.47 | \% | - | - | \% | 316,987 | 4.47 | \% |
| Consumer loans: |  |  |  |  |  |  |  |  |  |
| Residential mortgage | 472,078 | 3.60 | \% | 99,842 | 3.77 | \% | 571,920 | 3.63 | \% |
| Home equity | 181,580 | 3.35 | \% | 105,478 | 3.85 | \% | 287,058 | 3.53 | \% |
| Other consumer | 11,580 | 5.13 | \% | 167 | 16.35 | \% | 11,747 | 5.29 | \% |
| Total consumer loans | 665,238 | 3.56 | \% | 205,487 | 3.82 | \% | 870,725 | 3.62 | \% |
| Total loans and leases | \$4,231,953 | 4.43 | \% | \$590,654 | 4.19 | \% | \$4,822,607 | 4.40 | \% |

The Company lends primarily in the eastern half of Massachusetts, southern New Hampshire and Rhode Island, with the exception of equipment financing, $33.6 \%$ of which is in the greater New York/New Jersey metropolitan area and $66.4 \%$ of which is in other areas in the United States of America at September 30, 2015, compared to $35.9 \%$ in the greater New York/New Jersey metropolitan area and $64.1 \%$ in other areas in the United States of America at December 31, 2014.

Competition for the indirect automobile 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. Given this market condition, management ceased the Company's origination of indirect automobile loans in December 2014. For the quarter ended March 31, 2015, the Company sold over $90 \%$ of the portfolio for $\$ 255.2$ million, which resulted in a loss of $\$ 11.8$ thousand. Refer to Note 5, "Allowance for Loan and Lease Losses" for the impact of the sale on the Company's allowance for loan and lease losses.

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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:


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 is due to credit deterioration, or if the change in cash flow expectations are related to noncredit events. This cash flow analysis is used to evaluate the need for a provision for loan and lease losses and/or prospective yield adjustments. During the nine months ended September 30, 2015 and 2014, accretable yield adjustments totaling $\$ 3.0$ million and $\$ 3.8$ million, respectively, were made for certain 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 applicable to acquired loans and leases totaled $\$ 2.8$ million and $\$ 3.6$ million at September 30, 2015 and December 31, 2014, respectively.

Loans and Leases Pledged as Collateral
At September 30, 2015 and December 31, 2014, there were $\$ 1.9$ billion and $\$ 1.6$ billion, respectively, of loans and leases pledged as collateral for repurchase agreements; municipal deposits; treasury, tax and loan deposits; swap agreements; and FHLBB borrowings. The Banks did not have any outstanding FRB borrowings at September 30, 2015 and December 31, 2014.

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## (5) Allowance for Loan and Lease Losses

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

Three Months Ended September 30, 2015

| Commercial <br> Real Estate <br> (In Thousands) | Indirect <br> Automobile | Consumer | Unallocated Total |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| $\$ 29,216$ | $\$ 20,229$ | $\$ 381$ | $\$ 4,012$ | $\$ 2,560$ | $\$ 56,398$ |  |
| - | $(1,388$ | $)$ | $(296$ | $)$ | $(247$ | - |
| - | 112 | 179 | 41 | - | 332 |  |
|  | 2,845 | 2,009 | 57 | 322 | $(2,560$ | $)$ |
| $\$ 31,061$ | $\$ 20,962$ | $\$ 321$ | $\$ 4,128$ | $\$-$ | $\$ 56,472$ |  |

Three Months Ended September 30, 2014
Commercial
Real Estate Commercial $\begin{aligned} & \text { Indirect } \\ & \text { Automobile }\end{aligned}$ Consumer Unallocated Total

Balance at June 30, 2014
Charge-offs
Recoveries
Provision (credit) for loan and lease losses
Balance at September 30, 2014

Balance at December 31, 2014
Charge-offs
Recoveries
Provision (credit) for loan and lease losses
Balance at September 30, 2015

Balance at December 31, 2013
Charge-offs
Recoveries
Provision (credit) for loan and lease losses
Balance at September 30, 2014
$\left.\begin{array}{llllll}\text { (In Thousands) } & & & & \\ \$ 26,715 & \$ 15,866 & \$ 3,686 & \$ 3,017 & \$ 2,402 & \$ 51,686 \\ (64 & ) & (605 & ) & (264 & ) \\ - & 261 & 55 & 203 & - & (1,136\end{array}\right)$

Nine Months Ended September 30, 2015
Commercial
Real Estate Commercial $\begin{aligned} & \text { Indirect } \\ & \text { Automobile }\end{aligned}$ Consumer Unallocated Total
(In Thousands)


Nine Months Ended September 30, 2014
Commercial
Real Estate Commercial $\begin{aligned} & \text { Indirect } \\ & \text { Automobile }\end{aligned}$ Consumer Unallocated Total (In Thousands)

| $\$ 23,022$ | $\$ 15,220$ | $\$ 3,924$ | $\$ 3,375$ | $\$ 2,932$ | $\$ 48,473$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| $(64$ | $)(1,952$ | $)(781$ | $)(585$ | $)$ | $(3,382$ |
| - | 730 | 332 | 141 | - | 1,203 |
| 6,462 | $(49$ | $)(14$ | $)$ | 638 | $(509$ |
| $\$ 29,420$ | $\$ 13,949$ | $\$ 3,461$ | $\$ 3,569$ | $\$ 2,523$ | $\$ 52,822$ |

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The liability for unfunded credit commitments, which is included in other liabilities, was $\$ 1.4$ million, $\$ 1.3$ million and $\$ 1.3$ million at September 30, 2015, December 31, 2014 and September 30, 2014, respectively. The liability for unfunded credit commitments reflects changes in the estimate of loss exposure associated with certain unfunded credit commitments. No credit commitments were charged off against the liability account in the nine-month periods ended September 30, 2015 and 2014.

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Provision for Credit Losses
The provision for credit losses are set forth below for the periods indicated:

|  | Three Months Ended <br> September 30, <br> $2015 \quad 2014$ <br> (In Thousands) |  |  | Nine Months Ended <br> September 30, <br> 2015 <br> 2014 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Provision (credit) for loan and lease losses: |  |  |  |  |  |  |  |
| Commercial real estate | \$1,845 |  | \$2,769 |  | \$2,017 |  | \$6,462 |
| Commercial | 2,009 |  | (1,573 | ) | 6,670 |  | (49 |
| Indirect automobile | 57 |  | (16 | ) | (1,667 | ) | (14 |
| Consumer | 322 |  | 728 |  | 1,165 |  | 638 |
| Unallocated | (2,560 | ) | 21 |  | (2,418 | ) | (509 |
| Total provision for loan and lease losses | 1,673 |  | 1,929 |  | 5,767 |  | 6,528 |
| Unfunded credit commitments | 82 |  | 105 |  | 164 |  | 225 |
| Total provision for credit losses | \$1,755 |  | \$2,034 |  | \$5,931 |  | \$6,753 |

## 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 generally applied to principal. If collection of the principal is reasonably assured, interest payments are recognized as income on the cash basis. Loans are generally 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. Additions to the allowance for loan and lease losses are made by charges to the provision for credit losses. Losses on loans and leases are charged off against the allowance when all or a portion of a loan or lease is considered uncollectible. Subsequent recoveries on loans previously charged off, if any, are credited to the allowance when realized.

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. 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 segments:
(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 four classes: commercial loans, equipment financing, taxi medallion, and loans to condominium associations. The indirect automobile loan segment is

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not divided into classes. Consumer loans are divided into three classes: residential mortgage loans, home equity loans and other consumer loans. A formula-based credit evaluation approach is applied to each group, coupled with an analysis of certain loans for impairment.

The general allowance related to loans collectively evaluated for impairment is determined using a formula-based approach utilizing the risk ratings of individual credits and loss factors derived from historic portfolio loss rates, which include estimates of incurred losses over an estimated loss emergence period ("LEP"). The LEP was generated utilizing a charge-off look-back analysis which studied the time from the first indication of elevated risk of repayment (or other early event indicating a problem) to eventual charge-off to support the LEP considered in the allowance calculation. This reserving methodology established the approximate number of months of LEP that represents incurred losses for each portfolio. In addition to

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quantitative measures, relevant qualitative factors include, but are not limited to: (1) levels and trends in past due and impaired loans, (2) levels and trends in charge-offs, (3) changes in underwriting standards, policy exceptions, and credit policy, (4) experience of lending management and staff, (5) economic trends, (6) industry conditions, (7) effects of changes in credit concentrations, (8) interest rate environment, and (9) regulatory and other changes. The general allowance related to the acquired loans collectively evaluated for impairment is determined based upon the degree, if any, of deterioration in the pooled loans subsequent to acquisition. The qualitative factors used in the determination are the same as those used for originated loans.

During the third quarter of 2015, the Company enhanced and refined its general allowance methodology to provide a more precise quantification of probable losses in the portfolio. Under the enhanced methodology, management combined the historical loss histories of the Banks to generate a single set of ratios. Management believes it is appropriate to aggregate the ratios as the Banks share common environmental factors, operate in similar markets, and utilize common underwriting standards in accordance with a Companywide Credit Policy. In prior periods, a historical loss history applicable to each Bank was used. Additional refinements include a change in the weighting to place more emphasis on recent loss experience rather than the charge-off look-back analysis that involves application of loss ratios over a longer period of time. This enhancement provides an allowance calculation that more accurately reflects the term of loans in the portfolio.

Management employed a similar analysis for the consolidation of the qualitative factors as it did for the quantitative factors. Again, management believes the realignment of the existing nine qualitative factors used at each of the Banks into a single Companywide group of factors is appropriate based on the commonality of environmental factors, markets and underwriting standards among the Banks. In prior periods each of the Banks utilized a set of qualitative factors applicable to each Bank.

The Company's September 30, 2015 allowance calculation included a further segmentation of the commercial loans and leases to reflect the increased risk in the Company's taxi medallion portfolio. At September 30, 2015 this portfolio is approximately $\$ 36.0$ million. Based on industry factors, management established a specific loss factor for this portfolio that best represents the risks associated with it.

Based on the refinements to the Company's allowance methodology discussed above, management determined that the potential risks anticipated by the unallocated allowance are now incorporated into the allowance methodology, making the unallocated allowance unnecessary. In prior periods, the unallocated allowance was used to recognize the estimated risk associated with the allocated general and specific allowances. It incorporated management's evaluation of existing conditions that were not included in the allocated allowance determinations and provided for losses that arise outside of the ordinary course of business.

Specific valuation allowances are established for impaired originated loans with book values greater than the discounted present value of expected future cash flows or, in the case of collateral-dependent impaired loans, for any excess of a loan's book balance and the fair value of its underlying collateral. Specific valuation allowances are established for acquired loans with deterioration in the discounted present value of expected future cash flows since acquisitions or, in the case of collateral dependent impaired loans, for any increase in the excess of a loan's book balance greater than the fair value of its underlying collateral. A specific valuation allowance for losses on troubled debt restructured loans is determined by comparing the net carrying amount of the troubled debt restructured loan with the restructured loan's cash flows discounted at the original effective rate. Impaired loans are reviewed quarterly with adjustments made to the calculated reserve as necessary.

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As of September 30, 2015, management believes that the methodology for calculating the allowance is sound and that the allowance provides a reasonable basis for determining and reporting on probable losses in the Company's loan portfolios.

The general allowance for loan and lease losses was $\$ 51.9$ million at September 30, 2015, compared to $\$ 50.1$ million at December 31, 2014. The general portion of the allowance for loan and lease losses increased by $\$ 1.8$ million during the nine months ended September 30, 2015, primarily driven by growth in commercial real estate and commercial loan and lease portfolios, offset by the sale of the indirect automobile portfolio, which resulted in a release of $\$ 1.9$ million in the general allowance for loan and lease losses in the first quarter of 2015.

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The specific allowance for loan and lease losses was $\$ 4.5$ million at September 30, 2015, compared to $\$ 1.2$ million at December 31, 2014. The specific allowance increased $\$ 3.3$ million during the nine months ended September 30, 2015, primarily due to one commercial relationship which was downgraded during the nine months ended September 30, 2015.

The changes to the methodology described above resulted in a reallocation of reserve from unallocated to specific loan segments. As such, the reserve for unallocated allowance for loan and lease losses at September 30, 2015 was reduced to zero at September 30, 2015, as compared to $\$ 2.4$ million at December 31, 2014. The unallocated portion of the allowance for loan and lease losses decreased by $\$ 2.4$ million during the nine months ended September 30, 2015.

## 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 losses due to the capacity of the borrowers to pay and the adequacy of the value of assets pledged as collateral.

## 5 Rating - Other Asset Especially Mentioned ("OAEM")

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Borrowers exhibit potential credit weaknesses or downward trends deserving management's attention. If not checked or corrected, these trends can weaken the Company's asset 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.

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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 September 30, 2015 by credit quality indicator.

|  | At Septembe Commercial Real Estate Mortgage (In Thousand | 30, 2015 <br> Multi- <br> Family <br> Mortgage <br> s) | Construction | Commercial | Equipment <br> Financing | Condominium <br> Association | Other Consumer |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Originated: <br> Loan rating: |  |  |  |  |  |  |  |
| Pass | \$1,581,797 | \$574,822 | \$ 137,481 | \$547,301 | \$670,511 | \$57,562 | \$12,255 |
| OAEM | 13,164 | 1,166 | 214 | 6,932 | 808 | - | - |
| Substandard | 3,155 | 309 | - | 5,051 | 1,647 | - | 52 |
| Doubtful | - | - | - | 804 | 1,483 | - | - |
| Total originated | 1,598,116 | 576,297 | 137,695 | 560,088 | 674,449 | 57,562 | 12,307 |
| Acquired: |  |  |  |  |  |  |  |
| Loan rating: |  |  |  |  |  |  |  |
| Pass | 202,802 | 36,419 | 566 | 16,387 | 9,882 | - | 142 |
| OAEM | 620 | 617 | - | 978 | - | - | - |
| Substandard | 8,611 | 1,227 | - | 3,258 | - | - | - |
| Doubtful | 401 | - | - | - | - | - | - |
| Total acquired | 212,434 | 38,263 | 566 | 20,623 | 9,882 | - | 142 |
| Total loans | \$1,810,550 | \$614,560 | \$138,261 | \$580,711 | \$684,331 | \$57,562 | \$12,449 |

At September 30, 2015, there were no loans categorized as definite loss.

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Originated:
Credit score:

| Over 700 | $\$ 6,473$ | 39.7 | $\%$ |
| :--- | :--- | :--- | :--- |
| $661-700$ | 2,378 | 14.6 | $\%$ |
| 660 and below | 7,337 | 45.0 | $\%$ |
| Data not available | 106 | 0.7 | $\%$ |
| Total loans | $\$ 16,294$ | 100.0 | $\%$ |

Originated:
Loan-to-value ratio:
Less than $50 \%$
Originated:
Loan-to-value ratio:
Less than $50 \%$
Less than 50\%
50\%-69\%
70\% - 79\%
80\% and over
Data not available
Total originated
At September 30, 2015
Residential Mortgage Home Equity
(\$ In Thousands) (\$ In Thousands)
At September 30, 2015
Indirect Automobile (\$ In Thousands)

Total originted

| $\$ 111,152$ | 18.3 | $\%$ | $\$ 127,693$ | 41.4 |
| :--- | :--- | :--- | :--- | :--- |
| $\%$ |  |  |  |  |
| 211,505 | 34.9 | $\%$ | 46,724 | 15.2 |
| 169,499 | 28.0 | $\%$ | 31,665 | 10.3 |
| 20,403 | 3.4 | $\%$ | 17,984 | 5.8 |
| 1,086 | 0.2 | $\%$ | 711 | 0.2 |
| 513,645 | 84.8 | $\%$ | 224,777 | 72.9 |

Acquired:
Loan-to-value ratio:

| Less than 50\% | 19,455 | 3.2 | $\%$ | 51,476 | 16.7 | $\%$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| $50 \%-69 \%$ | 33,664 | 5.5 | $\%$ | 19,716 | 6.4 | $\%$ |
| $70 \%-79 \%$ | 19,668 | 3.2 | $\%$ | 9,041 | 2.9 | $\%$ |
| $80 \%$ and over | 14,895 | 2.5 | $\%$ | 2,913 | 0.9 | $\%$ |
| Data not available | 4,736 | 0.8 | $\%$ | 448 | 0.2 | $\%$ |
| Total acquired | 92,418 | 15.2 | $\%$ | 83,594 | 27.1 | $\%$ |
|  |  |  |  |  |  |  |
| Total loans | $\$ 606,063$ | 100.0 | $\%$ | $\$ 308,371$ | 100.0 | $\%$ |

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The following tables present the recorded investment in loans in each class at December 31, 2014 by credit quality indicator.

At December 31, 2014
Commercial Multi-

| Real Estate | Family | Construction Commercial | Equipment <br> Mortgage | Mortgage |
| :--- | :---: | :---: | :---: | :--- | (In Thousands)

Originated:
Loan rating:

| Pass | $\$ 1,402,121$ | $\$ 574,972$ | $\$ 146,074$ | $\$ 447,778$ | $\$ 583,340$ | $\$ 51,593$ | $\$ 11,540$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| OAEM | 22,491 | 1,242 | - | 12,193 | 932 | - | - |
| Substandard | 1,009 | - | - | 1,671 | 2,338 | - | 40 |
| Doubtful | - | - | - | 1,088 | 886 | - | - |
| Total originated | $1,425,621$ | 576,214 | 146,074 | 462,730 | 587,496 | 51,593 | 11,580 |

Acquired:
Loan rating:

| Pass | 237,439 | 60,837 | 1,709 | 43,925 | 13,795 | - | 167 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| OAEM | 8,351 | 713 | 230 | 1,852 | - | - | - |
| Substandard | 8,250 | 1,942 | - | 5,424 | 133 | - | - |
| Doubtful | 421 | - | - | 146 | - | - | - |
| Total acquired | 254,461 | 63,492 | 1,939 | 51,347 | 13,928 | - | 167 |
| Total loans | $\$ 1,680,082$ | $\$ 639,706$ | $\$ 148,013$ | $\$ 514,077$ | $\$ 601,424$ | $\$ 51,593$ | $\$ 11,747$ |

At December 31, 2014, there were no loans categorized as definite loss.
At December 31, 2014
Indirect Automobile (\$ In Thousands)
Originated:
Credit score:
$\begin{array}{lll}\text { Over } 700 & \$ 262,160 & 82.7\end{array}$
661-700 $\quad 43,422 \quad 13.7 \quad \%$
660 and below
Data not available
Total loans
9,927 3.1
$1,478 \quad 0.5$
$0.5 \quad \%$
\$316,987 100.0 \%

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Originated:
Loan-to-value ratio:

| Less than $50 \%$ | $\$ 105,342$ | 18.4 | $\%$ | $\$ 113,541$ | 39.6 | $\%$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| $50 \%-69 \%$ | 179,319 | 31.4 | $\%$ | 35,660 | 12.4 | $\%$ |
| $70 \%-79 \%$ | 166,467 | 29.1 | $\%$ | 27,123 | 9.4 | $\%$ |
| $80 \%$ and over | 19,335 | 3.4 | $\%$ | 4,195 | 1.5 | $\%$ |
| Data not available | 1,615 | 0.3 | $\%$ | 1,061 | 0.4 | $\%$ |
| Total originated | 472,078 | 82.6 | $\%$ | 181,580 | 63.2 | $\%$ |

Acquired:

| Loan-to-value ratio: |  |  |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Less than $50 \%$ | 19,574 | 3.4 | $\%$ | 70,293 | 24.5 | $\%$ |
| $50 \%-69 \%$ | 35,131 | 6.2 | $\%$ | 22,581 | 7.9 | $\%$ |
| $70 \%-79 \%$ | 22,972 | 4.0 | $\%$ | 10,569 | 3.7 | $\%$ |
| $80 \%$ and over | 16,268 | 2.8 | $\%$ | 1,178 | 0.4 | $\%$ |
| Data not available | 5,897 | 1.0 | $\%$ | 857 | 0.3 | $\%$ |
| Total acquired | 99,842 | 17.4 | $\%$ | 105,478 | 36.8 | $\%$ |
|  |  |  |  |  |  |  |
| Total loans | $\$ 571,920$ | 100.0 | $\%$ | $\$ 287,058$ | 100.0 | $\%$ |

The following table presents information regarding foreclosed residential real estate property at September 30, 2015.
At September 30, 2015
(In Thousands)
Foreclosed residential real estate property held by the creditor
\$1,149
Recorded investment in mortgage loans collateralized by residential real estate property that 606 are in the process of foreclosure

| At December 31, 2014 |  |
| :--- | :--- |
| Residential Mortgage | Home Equity |
| (\$ In Thousands) | (\$ In Thousands) |

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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 September 30, 2015 and December 31, 2014.

At September 30, 2015

Past Due

| 31-60 | 61-90 | Greater |  |  |
| :---: | :---: | :---: | :---: | :---: |
| Days | Days | Than 90 | Total | Current |
| (In Thousands) |  |  |  |  |

Loans and Leases Past
Due Greater Nonaccrual Than 90 DaysLoans and and Accruing Leases

Originated:
Commercial real estate loans:

| Commercial real estate mortgage | \$104 | \$- | \$3,341 | \$3,445 | \$1,594,671 | \$1,598,116 | \$ 187 | \$3,155 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Multi-family mortgage | - | - | 309 | 309 | 575,988 | 576,297 | - | 309 |
| Construction | - | - | - | - | 137,695 | 137,695 | - | - |
| Total commercial rea | $1_{104}$ | - | 3,650 | 3,754 | 2,308,354 | 2,312,108 | 187 | 3,464 |

Commercial loans and
leases:

| Commercial | 3,482 | 100 | 3,860 | 7,442 | 552,646 | 560,088 | - | 5,327 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Equipment financing | 3,678 | 684 | 1,949 | 6,311 | 668,138 | 674,449 | - | 2,896 |
| Condominium association | 158 | - | - | 158 | 57,404 | 57,562 | - | - |
| Total commercial loans and leases | 7,318 | 784 | 5,809 | 13,911 | 1,278,188 | 1,292,099 | - | 8,223 |
| Indirect automobile Consumer loans: | 1,173 | 449 | 118 | 1,740 | 14,554 | 16,294 | - | 629 |
| Residential mortgage | 40 | - | 229 | 269 | 513,376 | 513,645 | - | 2,369 |
| Home equity | 144 | 51 | 115 | 310 | 224,467 | 224,777 | - | 268 |
| Other consumer | 12 | 2 | 46 | 60 | 12,247 | 12,307 | , | 52 |
| Total consumer loans | 196 | 53 | 390 | 639 | 750,090 | 750,729 | 1 | 2,689 |
| Total originated loans and leases | \$8,791 | \$1,286 | \$9,967 | \$20,044 | \$4,351,186 | \$4,371,230 | \$ 188 | \$15,005 |

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014
At September 30, 2015


Acquired:
Commercial real estate loans:

| Commercial real <br> estate mortgage | $\$ 3,620$ | $\$ 296$ | $\$ 4,911$ | $\$ 8,827$ | $\$ 203,607$ | $\$ 212,434$ | $\$ 4,910$ | $\$-$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Multi-family | - | - | 1,077 | 1,077 | 37,186 | 38,263 | 1,077 | - |
| mortgage | - | - | - | - | 566 | 566 | - | - |
| Construction | - | - | 5,988 | 9,904 | 241,359 | 251,263 | 5,987 | - | real estate loans Commercial loans and leases:


| Commercial | 373 | 250 | 3,121 | 3,744 | 16,879 | 20,623 | 171 | 2,999 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Equipment financing | - | - | - | 9,882 | 9,882 | - | - |  |
| Total commercial <br> loans and leases | 373 | 250 | 3,121 | 3,744 | 26,761 | 30,505 | 171 | 2,999 |
| Consumer loans: <br> Residential mortgage 200 | - | 2,474 | 2,674 | 89,744 | 92,418 | 2,304 | 170 |  |
| Home equity | 707 | 155 | 444 | 1,306 | 82,288 | 83,594 | 142 | 1,550 |
| Other consumer <br> Total consumer <br> loans <br> Total acquired loans <br> and leases$\$ 407$ | - | - | - | 142 | 142 | - | - |  |
| Total loans and <br> leases | $\$ 155$ | 2,918 | 3,980 | 172,174 | 176,154 | 2,446 | 1,720 |  |

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014
At December 31, 2014

| Past Due |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| 31-60 | $61-90$ | Greater |  |  |
| Days | Days | Than 90 <br> Days | Total | Current |
| (In Thousands) |  |  |  |  |

Loans and
Leases Past
Due Greater Nonaccrual Than 90 Days Loans and and Accruing Leases

Originated:
Commercial real estate loans:

| Commercial real <br> estate mortgage | $\$ 1,631$ | $\$ 416$ | $\$ 160$ | $\$ 2,207$ | $\$ 1,423,414$ | $\$ 1,425,621$ | $\$-$ | $\$ 1,009$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Multi-family <br> mortgage | 385 | - | - | 385 | 575,829 | 576,214 | - | - |
| Construction | - | - | - | - | 146,074 | 146,074 | - | - |
| Total commercial | 2,016 | 416 | 160 | 2,592 | $2,145,317$ | $2,147,909$ | - | 1,009 |

Commercial loans
and leases:

| Commercial | 758 | 876 | 1,499 | 3,133 | 459,597 | 462,730 | 2 | 2,722 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Equipment financing | 1,534 | 138 | 2,392 | 4,064 | 583,432 | 587,496 | - | 3,214 |
| Condominium association | 501 | - | - | 501 | 51,092 | 51,593 | - | - |
| Total commercial loans and leases | 2,793 | 1,014 | 3,891 | 7,698 | 1,094,121 | 1,101,819 | 2 | 5,936 |
| Indirect automobile | 4,635 | 923 | 166 | 5,724 | 311,263 | 316,987 | - | 645 |
| Consumer loans: |  |  |  |  |  |  |  |  |
| Residential mortgage |  | - | 501 | 501 | 471,577 | 472,078 | - | 1,340 |
| Home equity | 75 | 52 | 129 | 256 | 181,324 | 181,580 | - | 161 |
| Other consumer | 17 | 5 | 30 | 52 | 11,528 | 11,580 | - | 41 |
| Total consumer loans |  | 57 | 660 | 809 | 664,429 | 665,238 | - | 1,542 |
| Total originated loans and leases | \$9,536 | \$2,410 | \$4,877 | \$16,823 | \$4,215,130 | \$4,231,953 | \$2 | \$9,132 |

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014
At December 31, 2014


Acquired:
Commercial real estate loans:

| Commercial real <br> estate mortgage | $\$ 989$ | $\$ 3,705$ | $\$ 2,387$ | $\$ 7,081$ | $\$ 247,380$ | $\$ 254,461$ | $\$ 2,387$ | $\$-$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Multi-family | 195 | 729 | 363 | 1,287 | 62,205 | 63,492 | 363 | - |
| mortgage | - | - | - | - | 1,939 | 1,939 | - | - |
| Construction <br> Total commercial | 1,184 | 4,434 | 2,750 | 8,368 | 311,524 | 319,892 | 2,750 | - | real estate loans

Commercial loans
and leases:

| Commercial | 712 | 488 | 3,033 | 4,233 | 47,114 | 51,347 | 624 | 2,474 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Equipment financing 2 | 52 | 66 | 120 | 13,808 | 13,928 | 73 | 9 |  |
| Total commercial <br> loans and leases | 714 | 540 | 3,099 | 4,353 | 60,922 | 65,275 | 697 | 2,483 |
| Consumer loans: <br> Residential mortgage |  | - | 2,715 | 2,715 | 97,127 | 99,842 | 2,372 | 342 |
| Home equity | 1,005 | 733 | 923 | 2,661 | 102,817 | 105,478 | 187 | 1,757 |
| Other consumer <br> Total consumer <br> loans | - | - | - | - | 167 | 167 | - | - |
| Total acquired loans <br> and leases | $\$ 2,905$ | 733 | 3,638 | 5,376 | 200,111 | 205,487 | 2,559 | 2,099 |
|  | $\$ 5,707$ | $\$ 9,487$ | $\$ 18,097$ | $\$ 572,557$ | $\$ 590,654$ | $\$ 6,006$ | $\$ 4,582$ |  |
| Total loan and leases \$12,439 | $\$ 8,117$ | $\$ 14,364$ | $\$ 34,920$ | $\$ 4,787,687$ | $\$ 4,822,607$ | $\$ 6,008$ | $\$ 13,714$ |  |

Commercial Real Estate Loans - At September 30, 2015, 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 $-37.5 \%$; multi-family mortgage loans - $12.7 \%$; and construction loans - $2.9 \%$.

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 September 30, 2015, 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 $12.0 \%$; equipment financing loans - $14.2 \%$; and loans to condominium associations - $1.2 \%$.

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 the respective class in the portfolio.

Indirect Automobile Loans - At September 30, 2015, indirect automobile loans represented $0.3 \%$ of the Company's total loan and lease portfolio. Determination of the allowance for loan and lease losses for this portfolio is based primarily on payment status and historical loss rates.

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Table Of Contents<br>BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014
Consumer Loans - At September 30, 2015, 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 - $12.6 \%$; home equity loans $6.4 \%$; 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. 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
A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both interest and principal) according to the contractual terms of the loan agreement. The Company has defined the population of impaired loans to include nonaccrual loans and troubled debt restructured loans.

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.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014

|  | At September 30, 2015 |  |  | At December 31, 2014 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Recorded <br> Investment <br> (1) <br> (In Thousa | Unpaid <br> Principal <br> Balance <br> nds) | Related <br> Allowance | Recorded Investment (2) | Unpaid <br> Principal <br> Balance | Related <br> Allowance |
| Originated: |  |  |  |  |  |  |
| With no related allowance recorded: |  |  |  |  |  |  |
| Commercial real estate | \$3,069 | \$3,064 | \$- | \$2,751 | \$2,748 | \$- |
| Commercial | 14,411 | 14,381 | - | 13,440 | 13,421 | - |
| Consumer | 4,487 | 4,480 | - | 3,055 | 3,048 | - |
| Total originated with no related allowance recorded | 21,967 | 21,925 | - | 19,246 | 19,217 | - |
| With an allowance recorded: |  |  |  |  |  |  |
| Commercial real estate | 6,165 | 6,165 | 2,176 | 4,119 | 4,119 | 108 |
| Commercial | 4,852 | 4,840 | 2,127 | 2,019 | 2,011 | 768 |
| Consumer | - | - | - | 176 | 176 | 10 |
| Total originated with an allowance recorded | 11,017 | 11,005 | 4,303 | 6,314 | 6,306 | 886 |
| Total originated impaired loans and leases | 32,984 | 32,930 | 4,303 | 25,560 | 25,523 | 886 |
| Acquired: |  |  |  |  |  |  |
| With no related allowance recorded: |  |  |  |  |  |  |
| Commercial real estate | 10,772 | 10,772 | - | 9,413 | 9,428 | - |
| Commercial | 4,084 | 4,084 | - | 6,049 | 6,047 | - |
| Consumer | 7,969 | 7,984 | - | 6,688 | 6,688 | - |
| Total acquired with no related allowance recorded | 22,825 | 22,840 | - | 22,150 | 22,163 | - |
| With an allowance recorded: |  |  |  |  |  |  |
| Commercial real estate | - | - | - | 244 | 244 | 22 |
| Commercial | 596 | 596 | 231 | 478 | 478 | 214 |
| Consumer | 92 | 92 | 7 | 225 | 225 | 41 |
| Total acquired with an allowance recorded | 688 | 688 | 238 | 947 | 947 | 277 |
| Total acquired impaired loans and leases | 23,513 | 23,528 | 238 | 23,097 | 23,110 | 277 |
| Total impaired loans and leases | \$56,497 | \$56,458 | \$4,541 | \$48,657 | \$48,633 | \$ 1,163 |

${ }^{(1)}$ Includes originated and acquired nonaccrual loans of $\$ 12.3$ million and $\$ 4.7$ million, respectively, at September 30, 2015.
${ }^{(2)}$ Includes originated and acquired nonaccrual loans of $\$ 7.1$ million and $\$ 4.6$ million, respectively, at December 31, 2014.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014

Three Months Ended
September 30, 2015
Average Interes Investment Recognized Investment Recognized (In Thousands)
Originated:
With no related allowance recorded:
Commercial real estate
Commercial
Consumer
Total originated with no related allowance
recorded
With an allowance recorded:
Commercial real estate
Commercial
Consumer
Total originated with an allowance recorded
Total originated impaired loans and leases

Acquired:
With no related allowance recorded:

| Commercial real estate | 10,813 | 39 | 11,652 | 73 |
| :--- | :--- | :--- | :--- | :--- |
| Commercial | 4,113 | 16 | 8,017 | 36 |
| Consumer | 8,094 | 19 | 6,629 | 13 |
| Total acquired with no related allowance | 23,020 | 74 | 26,298 | 122 |
| recorded |  |  |  |  |
| With an allowance recorded: | - | - | 3,164 | 36 |
| Commercial real estate | 596 | - | 760 | - |
| Commercial | 93 | 1 | 538 | 1 |
| Consumer | 1 | 4,462 | 37 |  |
| $\quad$ Total acquired with an allowance recorded | 689 | 75 | 30,760 | 159 |
| Total acquired impaired loans and leases | 23,709 |  |  | $\$ 48,993$ |

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014
Nine Months Ended
September 30, 2015

| Average | Interest |
| :--- | :--- |
| Recorded | Income |
| Investment | Recognized |
| (In Thousands) |  |

Originated:
With no related allowance recorded:

| Commercial real estate | $\$ 4,403$ | $\$ 65$ | $\$ 2,857$ | $\$ 80$ |
| :--- | :--- | :--- | :--- | :--- |
| Commercial | 15,095 | 474 | 6,386 | 188 |
| Consumer | 4,156 | 45 | 2,509 | 27 |
| Total originated with no related allowance 23,654 | 584 | 11,752 | 295 |  |
| recorded |  |  |  |  |
| With an allowance recorded: | 4,791 | 148 | 1,097 | 22 |
| Commercial real estate | 6,687 | 8 | 2,898 | 49 |
| Commercial | 112 | - | 1,298 | 15 |
| Consumer | 11,590 | 156 | 5,293 | 86 |
| Total originated with an allowance | 740 | 17,045 | 381 |  |
| recorded |  |  |  |  |

Acquired:
With no related allowance recorded:

| Commercial real estate | 9,912 | 114 | 13,211 | 301 |
| :--- | :--- | :--- | :--- | :--- |
| Commercial | 4,516 | 48 | 7,671 | 95 |
| Consumer | 7,927 | 48 | 6,569 | 23 |
| Total acquired with no related allowance | 22,355 | 210 | 27,451 | 419 |
| recorded |  |  |  |  |
| With an allowance recorded: | 81 | - | 3,035 | 76 |
| Commercial real estate | 689 | - | 1,085 | 15 |
| Commercial <br> Consumer <br> Total acquired with an allowance | 274 | 6 | 436 | 2 |
| recorded | 1,044 | 6 | 4,556 | 93 |
| Total acquired impaired loans and leases | 23,399 | 216 | 32,007 | 512 |
| Total impaired loans and leases | $\$ 58,643$ | $\$ 956$ | $\$ 49,052$ | $\$ 893$ |

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014
The following tables present information regarding impaired and non-impaired loans and leases at the dates indicated:
At September 30, 2015
Commercial
Real Estate

(In Thousands) $\quad$\begin{tabular}{l}
Indirect <br>
Automobile

 Consumer 

Unallocated Total
\end{tabular}

Allowance for Loan and Lease
Losses:
Originated:

| Individually evaluated for <br> impairment | $\$ 2,176$ | $\$ 2,127$ | $\$-$ | $\$-$ | $\$-$ | $\$ 4,303$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Collectively evaluated for <br> impairment | 27,746 | 18,420 | 321 | 3,634 | - | 50,121 |
| Total originated loans and leases | 29,922 | 20,547 | 321 | 3,634 | - | 54,424 |

Acquired:

| Individually evaluated for - 231 - 7 <br> impairment     |  | - | 238 |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Collectively evaluated for <br> impairment | 422 | 79 | - | 36 | - | 537 |
| Acquired with deteriorated credit <br> quality | 717 | 105 | - | 451 | - | 1,273 |
| Total acquired loans and leases | 1,139 | 415 | - | 494 | - | 2,048 |
| Total allowance for loan and lease <br> losses | $\$ 31,061$ | $\$ 20,962$ | $\$ 321$ | $\$ 4,128$ | $\$-$ | $\$ 56,472$ |

Loans and Leases:
Originated:

| Individually evaluated for <br> impairment | $\$ 9,234$ | $\$ 16,976$ | $\$-$ | $\$ 4,299$ | $\$-$ | $\$ 30,509$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Collectively evaluated for <br> impairment | $2,302,874$ | $1,275,123$ | 16,294 | 746,430 | - | $4,340,721$ |
| Total originated loans and leases | $2,312,108$ | $1,292,099$ | 16,294 | 750,729 | - | $4,371,230$ |

Acquired:

| Individually evaluated for | 3,212 | 4,427 | - | 2,651 | - | 10,290 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| impairment |  |  |  |  |  |  |
| Collectively evaluated for <br> impairment | 68,821 | 14,453 | - | 109,468 | - | 192,742 |
| Acquired with deteriorated credit <br> quality | 179,230 | 11,625 | - | 64,035 | - | 254,890 |
| Total acquired loans and leases | 251,263 | 30,505 | - | 176,154 | - | 457,922 |
| Total loans and leases | $\$ 2,563,371$ | $\$ 1,322,604$ | $\$ 16,294$ | $\$ 926,883$ | $\$-$ | $\$ 4,829,152$ |

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014

|  | At December Commercial Real Estate (In Thousands) | $31,2014$ <br> Commercial <br> s) | Indirect <br> Automobile | Consumer | Unallocated | Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Allowance for Loan and Lease |  |  |  |  |  |  |
| Losses: |  |  |  |  |  |  |
| Originated: |  |  |  |  |  |  |
| Individually evaluated for impairment | \$108 | \$768 | \$- | \$10 | \$- | \$886 |
| Collectively evaluated for impairment | 27,457 | 14,631 | 2,331 | 3,088 | 2,418 | 49,925 |
| Total originated loans and leases | 27,565 | 15,399 | 2,331 | 3,098 | 2,418 | 50,811 |
| Acquired: |  |  |  |  |  |  |
| Individually evaluated for impairment | - | 144 | - | 41 | - | 185 |
| Collectively evaluated for impairment | 648 | 222 | - | 2 | - | 872 |
| Acquired with deteriorated credit quality | 1,381 | 192 | - | 218 | - | 1,791 |
| Total acquired loans and leases | 2,029 | 558 | - | 261 | - | 2,848 |
| Total allowance for loan and lease losses | \$29,594 | \$15,957 | \$2,331 | \$3,359 | \$2,418 | \$53,659 |
| Loans and Leases: |  |  |  |  |  |  |
| Originated: |  |  |  |  |  |  |
| Individually evaluated for impairment | \$6,870 | \$15,459 | \$- | \$3,231 | \$- | \$25,560 |
| Collectively evaluated for impairment | 2,141,039 | 1,086,360 | 316,987 | 662,007 | - | 4,206,393 |
| Total originated loans and leases | 2,147,909 | 1,101,819 | 316,987 | 665,238 | - | 4,231,953 |
| Acquired: |  |  |  |  |  |  |
| Individually evaluated for impairment | 626 | 4,458 | - | 2,562 | - | 7,646 |
| Collectively evaluated for impairment | 97,141 | 38,504 | - | 134,973 | - | 270,618 |
| Acquired with deteriorated credit quality | 222,125 | 22,313 | - | 67,952 | - | 312,390 |
| Total acquired loans and leases | 319,892 | 65,275 | - | 205,487 | - | 590,654 |
| Total loans and leases | \$2,467,801 | \$1,167,094 | \$316,987 | \$870,725 | \$- | \$4,822,607 |

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A specific valuation allowance for losses on troubled debt restructured loans is determined by comparing the net carrying amount of the troubled debt restructured loan with the restructured loan's cash flows discounted at the original effective rate.

The following table sets forth information regarding troubled debt restructured loans and leases at the dates indicated:
At September 30, At December 31,
2015 2014
(In Thousands)
Troubled debt restructurings:
On accrual \$17,746
\$14,815
On nonaccrual
5,960
5,625
Total troubled debt restructurings
\$23,706
\$20,440
35

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Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014
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 September 30, 2015
Recorded Investment Specific Defaulted ${ }^{(1)}$


| Originated: |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Commercial | 7 | \$ 5,600 | \$5,197 | \$ 119 | \$ 239 | \$- | - | \$- |
| Equipment financing | 4 | 318 | 305 | - | - | - | - | - |
| Residential mortgage | 1 | 152 | 153 | - | 153 | - | - | - |
| Home equity | 2 | 273 | 274 | - | 101 |  |  |  |
| Total Originated | 14 | 6,343 | 5,929 | 119 | 493 | - | - | - |
| Acquired: |  |  |  |  |  |  |  |  |
| Commercial | 2 | 379 | 372 | - | - | - | 1 | 399 |
| Home equity | 1 | 175 | 174 | - | - | - | - | - |
| Total Acquired | 3 | 554 | 546 | - | - | - | 1 | 399 |
| Total | 17 | \$ 6,897 | \$6,475 | \$ 119 | \$493 | \$- | 1 | \$399 |

(1) Includes loans and leases that have been modified within the past twelve months and subsequently had payment defaults during the period indicated.

At and for the Three Months Ended September 30, 2014
Recorded Investment Specific Defaulted ${ }^{(1)}$

(Dollars in Thousands)
Originated:

| Commercial | 1 | $\$ 1,970$ | $\$ 1,970$ | $\$-$ | $\$-$ | $\$-$ | - | $\$-$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Equipment | 5 | 696 | 699 | 18 | 191 | - | - | - |
| financing | 5 | 2,666 | 2,669 | 18 | 191 | - | - | - |
| Total Originated | 6 |  |  |  |  |  |  |  |
| Acquired: |  | 851 | 924 | - | 45 | - | 1 | 1,335 |
| Commercial | 4 | 824 | - | 45 | - | 1 | 1,335 |  |
| Total Acquired | 4 | 851 | $\$ 3,593$ | $\$ 18$ | $\$ 236$ | $\$-$ | 1 | $\$ 1,335$ |

(1) Includes loans and leases that have been modified within the past twelve months and subsequently had payment defaults during the period indicated.

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Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014
At and for the Nine Months Ended September 30, 2015


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| Total | 19 | $\$ 6,575$ | $\$ 6,562$ | $\$ 18$ | $\$ 971$ | $\$-$ | 11 | $\$ 3,172$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |

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Notes to Unaudited Consolidated Financial Statements
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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 <br> September 30, <br> 20152014 <br> (In Thousands) |  | Nine Months Ended September 30, 2015$2014$ |  |
| :---: | :---: | :---: | :---: | :---: |
| Loans with one modification: |  |  |  |  |
| Extended maturity | \$1,632 | \$2,849 | \$2,137 | \$3,427 |
| Adjusted principal | - | - | - | - |
| Adjusted interest rate | - | - | - | 866 |
| Interest only | 1,335 | - | 1,335 | 16 |
| Combination maturity, principal, interest rate | 906 | 200 | 1,004 | 200 |
| Total loans with one modification | 3,873 | 3,049 | 4,476 | 4,509 |
| Loans with more than one modification: |  |  |  |  |
| Extended maturity | 2,602 | 36 | 2,603 | 1,253 |
| Adjusted principal | - | 508 | - | 508 |
| Interest only | - | - | - | 292 |
| Combination maturity, principal, interest rate | - | - | 11 | - |
| Total loans with more than one modification | 2,602 | 544 | 2,614 | 2,053 |
| Total loans with modifications | \$6,475 | \$3,593 | \$7,090 | \$6,562 |

The financial impact of the modification of performing and nonperforming loans and leases for the three and nine months ended September 30, 2015 was nominal. The financial impact of the modification of performing and nonperforming loans and leases for the three and nine months ended September 30, 2014 was less than $\$ 0.1$ million for each period.

As of September 30, 2015 and 2014, 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 nine months ended September 30, 2014, which is included in gain on sale/disposals of premises and equipment, net in the Company's unaudited consolidated statements of income. There were no sales of premises and equipment during the three and nine months ended September 30, 2015.

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(7) Goodwill and Other Intangible Assets

The following table sets forth the carrying value of goodwill and other intangible assets at the dates indicated:
$\left.\begin{array}{lll} & \begin{array}{l}\text { At September 30, } \\ 2015 \\ \text { (In Thousands) }\end{array} & \begin{array}{l}\text { At December 31, } \\ 2014\end{array} \\ \text { Goodwill } & \$ 137,890\end{array}\right) \$ \$ 137,890$

The Company concluded that the BankRI name would continue to be utilized in its marketing strategies; therefore, the trade name with carrying value of $\$ 1.1$ million has an indefinite life.

The estimated aggregate future amortization expense (in thousands) for intangible assets with a finite life remaining at September 30, 2015 is as follows:

Remainder of 2015 \$724
Year ending:
$2016 \quad 2,500$
2017 2,089
2018 1,669
2019 1,295
Thereafter $\quad 1,991$
Total \$10,268

> Investments in Qualified Affordable Housing Projects

The Company began investing in affordable housing projects that benefit low- and moderate-income individuals in 2009. As of September 30, 2015, the Company has investments in 8 of these projects. The project sponsor or general partner controls the project's management. In each case, the Company is a limited partner with less than $50 \%$ of the outstanding equity interest in any single project.

On January 1, 2015, the Company adopted ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, which required retrospective application. Prior to the implementation of ASU 2014-01, the Company's investments in qualified affordable housing projects were accounted for using the equity method. Under the equity method, operating losses or gains from these investments were included as a component of non-interest income in the Company's consolidated statements of income. ASU 2014-01 calls for the use of the proportional amortization method calculation and the operating losses or gains for these investments are included as a component of the provision for income taxes in the Company's consolidated statements of income. Under the proportional amortization method, the initial costs of the investment in qualified affordable housing projects is amortized based on the tax credits and other benefits received.

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Further information regarding the Company's investments in affordable housing projects follows:
$\left.\begin{array}{lll} & \begin{array}{l}\text { At September 30, } \\ 2015\end{array} & \begin{array}{l}\text { At December 31, } \\ 2014\end{array} \\ \text { (In Thousands) }\end{array}\right)$

ASU 2014-01 was applied retrospectively to all periods presented. The cumulative effect on retained earnings was \$1.1 million at January 1, 2015.

The following table illustrates the prior period adjustments related to the adoption of ASU 2014-01.
At December 31, 2014
(In Thousands)
Other assets, as reported
\$79,411
Prior period adjustment
1,068
Other assets, as adjusted
\$80,479
Retained earnings, as reported $\quad \$ 83,792$
Prior period adjustment 1,068
Retained earnings, as adjusted $\$ 84,860$
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|  | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2014 |
| :---: | :---: | :---: |
|  | (In Thousands) |  |
| Loss from investments in affordable housing projects, as reported | \$543 | \$1,586 |
| Prior period adjustment | (543 | (1,586 |
| Loss from investments in affordable housing projects, as adjusted | \$- | \$- |
| Provision for income taxes, as reported | \$6,779 | \$ 18,548 |
| Prior period adjustment | 384 | 1,152 |
| Provision for income taxes, as adjusted | \$7,163 | \$19,700 |
| Net income, as reported | \$11,581 | \$31,979 |
| Prior period adjustment | 159 | 434 |
| Net income, as adjusted | \$11,740 | \$32,413 |
| Basic earnings per share, as reported | \$0.17 | \$0.46 |
| Prior period adjustment | - | - |
| Basic earnings per share, as adjusted | \$0.17 | \$0.46 |
| Effective tax rate, as reported | 35.64 \% | 35.61 \% |
| Prior period adjustment | 0.97 \% | 1.09 \% |
| Effective tax rate, as adjusted | 36.61 \% | 36.70 \% |

(9) Comprehensive Income/(Loss)

Comprehensive income (loss) represents the sum of net income (loss) and other comprehensive income (loss). For the three and nine months ended September 30, 2015 and September 30, 2014, 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:

Balance at June 30, 2015
Other comprehensive income
Balance at September 30, 2015
Three Months Ended September 30, 2015

| Investment <br> Securities <br> Available-for-Sale | Postretirement |  |
| :--- | :--- | :--- |
| Benefits | Accumulated Other <br> Comprehensive <br> Income |  |
| $\$(1,886$ | $\$ 111$ | $\$(1,775$ |
| 2,966 | - | 2,966 |
| $\$ 1,080$ | $\$ 111$ | $\$ 1,191$ |

Three Months Ended September 30, 2014

| Investment | Postretirement | Accumulated Other <br> Comprehensive |
| :--- | :--- | :--- |
| Securities | Available-for-Sale | Benefits |
| In Thousands) |  |  |
| Income |  |  |

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$\left.\begin{array}{llll}\text { Balance at June 30, 2014 } & \$(3,574 & ) & \$ 365 \\ \text { Other comprehensive loss } & (1,407 & ) & (65 \\ \text { Balance at September 30, } 2014 & \$(4,981 & ) & \$ 300\end{array}\right)$

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Balance at December 31, 2014
Other comprehensive income
Balance at September 30, 2015

Balance at December 31, 2013
Other comprehensive income (loss)
Balance at September 30, 2014
Nine Months Ended September 30, 2015

| Investment <br> Securities <br> Available-for-Sale | Postretirement | Benefits |
| :--- | :--- | :--- |
| (In Thousands) | Accumulated Other <br> Comprehensive <br> Income |  |
| $\$(1,733$ | $\$ 111$ | $\$(1,622$ |
| 2,813 | - | 2,813 |
| $\$ 1,080$ | $\$ 111$ | $\$ 1,191$ |

Nine Months Ended September 30, 2014
$\left.\begin{array}{lll}\begin{array}{l}\text { Investment } \\ \text { Securities } \\ \text { Available-for-Sale }\end{array} & \text { Postretirement } \\ \text { (In Thousands) }\end{array} \quad \begin{array}{l}\text { Accumulated Other } \\ \text { Comprehensive }\end{array}\right)$

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

Nine Months

September 30, 2014

Other comprehensive income (loss) component Unrealized gains (losses) on investment securities available-for-sale

Total reclassifications for the period

Income Statement Line Affected by Reclassification

Loss on sales of securities, net
Provision for income taxes
) Net income

The Company did not reclassify any amounts out of accumulated other comprehensive income (loss) for the three months ended September 30, 2014, and the three and nine months ended September 30, 2015.
(10) Derivatives and Hedging Activities

The Company may use interest-rate contracts (swaps, caps and floors) as part of interest-rate risk management strategy. Interest-rate swap, cap and floor agreements are entered into as hedges against future interest-rate fluctuations on specifically identified assets or liabilities. The Company did not have derivative fair value hedges or derivative cash flow hedges at September 30, 2015 or December 31, 2014.

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

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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 the Company's unaudited consolidated statements of income. The Company had 46 interest-rate swaps related to this program with an aggregate notional amount of $\$ 293.9$ million at September 30, 2015, compared with 22 interest-rate swaps with an aggregate notional amount of $\$ 109.4$ million at December 31, 2014.

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Asset derivatives and liability derivatives are included in other assets and accrued expenses and other liabilities on the unaudited consolidated balance sheets, respectively. The table below presents the fair value and classification of the Company's derivative financial instruments at September 30, 2015 and December 31, 2014.

At September 30, 2015 At December 31, 2014
Asset Liability Asset Liability Derivatives Derivatives Derivatives Derivatives (In Thousands)
Total derivatives (interest-rate products) not designated as hedging instruments

$$
\$ 8,113 \quad \$ 8,261 \quad \$ 2,676 \quad \$ 2,714
$$

Changes in the fair value are recognized directly in the Company's unaudited consolidated statements of income and are included in other non-interest income in the consolidated statements of income. The table below presents the gain (loss) recognized in income due to changes in the fair value for the three and nine months ended September 30, 2015 and September 30, 2014.
(Loss) gain recognized in income on derivatives

| Three Months Ended | Nine Months Ended |  |
| :--- | :--- | :--- |
| September 30, <br> 2015 2014 <br> (In Thousands) | September 30, <br> \$(313 ) $\$ 32$ | $\$(109$ |

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. As the swaps are subject to master netting agreements, the Company had limited exposure relating to interest rate swaps with institutional counterparties. The estimated net credit risk exposure was $\$ 0.1$ million at September 30, 2015, compared to $\$ 38.0$ thousand at December 31, 2014.

Certain 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 $\$ 11.4$ million and $\$ 5.4$ million in the normal course of business at September 30, 2015 and December 31, 2014, respectively.

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 September 30, 2015

| Gross | Gross Amounts | Net Amounts of | Gross Amounts Not Offset in the |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Amounts of | Offset in the | Assets Presented inStatement of Financial Position <br> Recognized | Statement of <br> the Statement of | Financial | Cash Collateral <br> Assets /Liabilifferenancial PositionFinancial Position <br> Instruments <br> (Received)/ Posted |
| (In Thousands) |  |  |  |  |  |
| $\$ 8,113$ | $\$-$ | $\$ 8,113$ | $\$-$ | $\$-$ | $\$ 8,113$ |

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Liability Derivatives $\$ 8,261$
\$ -
\$ 8,261
\$7,335 \$ 4,030
\$19,626

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Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014

|  | At December 31, 2014 |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Gross | Gross | Net Amounts of Gross Amounts Not Offset in the |  |  |  |
|  | Amounts of | Offse | Assets Pr | irStateme | Financial | Net Amount |
|  | Recognized | State | the State | Financia | Cash Coll |  |
|  | Assets /Liabi (In Thousands) | ifiésan | oFinancial | Instrum | (Receive |  |
| Asset Derivatives | \$2,676 | \$ - | \$ 2,676 | \$- | \$ - | \$2,676 |
| Liability Derivatives | \$2,714 | \$ - | \$ 2,714 | \$ 4,173 | \$ 1,180 | \$8,067 |

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.

## (11) Stock Based Compensation

As of September 30, 2015, the Company had three active recognition and retention plans: the 2003 Recognition and Retention Plan (the "2003 RRP") with 1,250,000 authorized shares, the 2011 Restricted Stock Award Plan (the "2011 RSA") with 500,000 authorized shares and the 2014 Equity Incentive Plan (the " 2014 Plan") with 1,750,000 authorized shares. The 2003 RRP, the 2011 RSA and the 2014 Plan are collectively referred to as the "Plans". 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, generally $50 \%$ 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 of financial institutions. These are referred to as "performance-based shares". The specific performance measure targets relate to return on assets, return on tangible equity, asset quality and total shareholder return. Generally, if a participant leaves the Company prior to the third anniversary date of an award, any unvested shares are forfeited. Dividends declared with respect to shares awarded are 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 are reserved for issuance as restricted stock awards to officers, employees, consultants 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 be retired back to treasury and be made available again for issuance under the Plans.

During the three months and nine months ended September 30, 2015, 107,133 shares and 112,553 shares were issued upon satisfaction of required conditions of the Plans, respectively. This compared to 111,255 shares and 113,042 shares during the three months and nine months ended September 30, 2014.

Total expense for the Plans was $\$ 0.4$ million for the three months ended September 30, 2015 and 2014. Total expense for the Plans was $\$ 0.9$ million for the nine months ended September 30, 2015 compared to $\$ 1.0$ million for the nine months ended September 30, 2014.

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(12) 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 September 30, 2015 |  | September 30, 2014 |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Basic | Fully <br> Diluted | Basic | Fully <br> Diluted |
|  | (In Thousands Except Share Data) |  |  |  |
| Numerator: |  |  |  |  |
| Net income* | \$12,888 | \$12,888 | \$11,740 | \$11,740 |
| Denominator: |  |  |  |  |
| Weighted average shares outstanding | 70,129,056 | 70,129,056 | 69,989,909 | 69,989,909 |
| Effect of dilutive securities | - | 110,964 | - | 99,078 |
| Adjusted weighted average shares outstanding | 70,129,056 | 70,240,020 | 69,989,909 | 70,088,987 |
| EPS* | \$0.18 | \$0.18 | \$0.17 | \$0.17 |
|  | Nine Months Ended |  |  |  |
|  | September 30, 2015 |  | September 30, 2014 |  |
|  | Basic | Fully | Basic | Fully |
|  |  | Diluted | Basic | Diluted |
|  | (In Thousands Except Share Data) |  |  |  |
| Numerator: |  |  |  |  |
| Net income* | \$36,456 | \$36,456 | \$32,413 | \$32,413 |
| Denominator: |  |  |  |  |
| Weighted average shares outstanding | 70,071,999 | 70,071,999 | 69,918,248 | 69,918,248 |
| Effect of dilutive securities | - | 135,984 | - | 111,135 |
| Adjusted weighted average shares outstanding | 70,071,999 | 70,207,983 | 69,918,248 | 70,029,383 |
| EPS* | \$0.52 | \$0.52 | \$0.46 | \$0.46 |

(*) Previously reported amounts prior to January 1, 2015 have been restated to reflect a retrospective change in accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01.
(13) 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 and nine months ended September 30, 2015 and September 30, 2014.

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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 September 30, 2015
Level 1 Level 2 Level 3 Total (In Thousands)
Assets:
Investment securities available-for-sale:
Debt securities:

| GSEs | $\$-$ | $\$ 27,933$ | $\$-$ | $\$ 27,933$ |
| :--- | :--- | :--- | :--- | :--- |
| GSE CMOs | - | 205,730 | - | 205,730 |
| GSE MBSs | - | 243,959 | - | 243,959 |
| SBA commercial loan asset-backed securities | - | 172 | - | 172 |
| Corporate debt obligations | - | 46,670 | - | 46,670 |
| Trust preferred securities | - | 1,315 | - | 1,315 |
| Total debt securities | - | 525,779 | - | 525,779 |
| Marketable equity securities | 985 | - | - | 985 |
| Total investment securities available-for-sale | $\$ 985$ | $\$ 525,779$ | $\$-$ | $\$ 526,764$ |
|  | $\$-$ | $\$ 8,113$ | $\$-$ | $\$ 8,113$ |
| Interest-rate swaps |  |  |  |  |
| Liabilities: | $\$-$ | $\$ 8,261$ | $\$-$ | $\$ 8,261$ |

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| Carrying Value at December | 31, 2014 |  |
| :--- | ---: | ---: | ---: |
| Level 1 Level 2 Level 3 | Total |  |
| (In Thousands) |  |  |

Assets:
Investment securities available-for-sale:
Debt securities:

| GSEs | $\$-$ | $\$ 22,988$ | $\$-$ | $\$ 22,988$ |
| :--- | :--- | :--- | :--- | :--- |
| GSE CMOs | - | 234,169 | - | 234,169 |
| GSE MBSs | - | 250,981 | - | 250,981 |
| SBA commercial loan asset-backed securities | - | 203 | - | 203 |
| Corporate debt obligations | - | 40,207 | - | 40,207 |
| Trust preferred securities | - | 1,240 | - | 1,240 |
| Total debt securities | - | 549,788 | - | 549,788 |
| Marketable equity securities | 973 | - | - | 973 |
| Total investment securities available-for-sale | $\$ 973$ | $\$ 549,788$ | $\$-$ | $\$ 550,761$ |
| Interest-rate swaps | $\$-$ | $\$ 2,676$ | $\$-$ | $\$ 2,676$ |
| Liabilities: |  |  |  |  |
| Interest-rate swaps | $\$-$ | $\$ 2,714$ | $\$-$ | $\$ 2,714$ |

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 GSE debentures, GSE mortgage-related securities, SBA commercial loan asset backed securities, corporate debt securities, and trust preferred securities, all of which are included in Level 2. As of September 30, 2015 and December 31, 2014, no investment securities were valued using pricing models 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.

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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. See also Note 10, "Derivatives and Hedging Activities."

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

|  | Thre <br> Sep <br> 2015 <br> (In | Ended 2014 | Nine Months Ended September $30,$ <br> 2015 $2014$ |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Investment securities available-for-sale, beginning of period | \$- | \$- | \$- | \$1,775 |  |
| Investment security sales | - | - | - | (1,658 |  |
| Total realized losses included in other income | - | - | - | (242 |  |
| Total unrealized gains included in other comprehensive income | - | - | - | 125 |  |
| Investment securities available-for-sale, end of period | \$- | \$- | \$- | \$- |  |

There were no transfers between levels for assets and liabilities recorded at fair value on a recurring basis during the three and nine months ended September 30, 2015 and 2014.

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:

Assets measured at fair value on a non-recurring basis:

Collateral-dependent impaired loans and leases
OREO
Repossessed assets
Total assets measured at fair value on a non-recurring basis

Carrying Value at September 30, 2015
Level 1 Level 2 Level 3 Total
(In Thousands)

| $\$-$ | $\$-$ | $\$ 12,485$ | $\$ 12,485$ |
| :--- | :--- | :--- | :--- |
| - | - | 1,149 | 1,149 |
| - | 152 | - | 152 |
| $\$-$ | $\$ 152$ | $\$ 13,634$ | $\$ 13,786$ |

Carrying Value at December 31, 2014
Level 1 Level 2 Level 3 Total
(In Thousands)
Assets measured at fair value on a non-recurring basis:

| Collateral-dependent impaired loans and leases | $\$-$ |  | $\$-$ |  | $\$ 6,376$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| OREO | - | - | 953 | 95376 |  |
| Repossessed assets | - | 503 |  | 9 | 503 |
| Total assets measured at fair value on a non-recurring <br> basis | $\$-$ |  | $\$ 503$ |  | $\$ 7,329$ |

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.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014
Other Real Estate Owned
The Company records OREO at the lower of cost or fair value. In estimating fair value, the Company utilizes purchase and sales agreements (Level 2) or comparable sales, recent appraisals or cash flows discounted at an interest rate commensurate with the risk associated with these cash flows (Level 3), adjusted for selling costs and other expenses.

Repossessed Assets
Repossessed assets 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 the dates indicated.

|  | Fair Value <br> At September 30, <br> 2015 | At December 31, |
| :--- | :--- | :--- | :--- |
| (Dollars in Thousands) |  |  |$\quad$| Valuation Technique |
| :--- |

(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. 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.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014

|  |  | Fair Value |  | Measurements |
| :--- | :---: | :--- | :--- | :--- |
| Carrying | Estimated | Level 1 | Level 2 | Level 3 |
| Value | Fair Value | Inputs | Inputs | Inputs |
| (In Thousands) |  |  |  |  |

At September 30, 2015
Financial assets:
Investment securities held-to-maturity:

| GSEs | $\$ 22,431$ | $\$ 22,480$ | $\$-$ | $\$ 22,480$ | $\$-$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| GSE MBSs | 19,962 | 19,902 | - | 19,902 | - |
| Municipal Obligations | 20,204 | 20,350 | - | 20,350 | - |
| Foreign Government Obligations | 500 | 500 | - | - | 500 |
| Loans held-for-sale | 10,992 | 10,992 | - | 10,992 | - |
| Loans and leases, net | $4,772,680$ | $4,765,997$ | - | - | $4,765,997$ |
| Financial liabilities: |  |  |  |  |  |
| Certificates of deposit | $1,064,392$ | $1,073,688$ | - | $1,073,688$ | - |
| Borrowed funds | 960,220 | 966,232 | - | 966,232 | - |

At December 31, 2014
Financial assets:

| Investment securities held-to-maturity | $\$ 500$ | $\$ 500$ | $\$-$ | $\$-$ | $\$ 500$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Loans held-for-sale | 1,537 | 1,537 | - | 1,537 | - |
| Loans and leases, net | $4,768,948$ | $4,753,605$ | - | - | $4,753,605$ |
| Financial liabilities: |  |  |  |  |  |
| Certificates of deposit | 946,708 | 949,320 | - | 949,320 | - |
| Borrowed funds | $1,126,404$ | $1,132,940$ | - | $1,132,940$ | - |

## Investment Securities Held-to-Maturity

The fair values of certain investment securities held-to-maturity are estimated using 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 GSE debentures, GSE MBSs, and municipal obligations, all of which are included in Level 2. Additionally, fair values of foreign government obligations 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 are estimated by segregating the portfolio into its primary loan and lease categories-commercial real estate mortgage, multi-family mortgage, construction, commercial, equipment

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

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Table Of Contents<br>BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014

## 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.

## (14) 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 a 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.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014
Financial instruments with off-balance-sheet risk at the dates indicated follow:

| At September 30, <br> 2015 <br> (In Thousands) | At Decemb |
| :--- | :--- |
|  |  |
| $\$ 108,274$ | $\$ 107,179$ |
| 71,064 | 102,353 |
| 8,650 | 20,520 |
| 564,323 | 629,351 |
|  |  |
| 271,016 | 239,240 |
| 12,715 | 10,876 |
| 630 | 728 |
|  | 16,762 |
| 11,553 | 3,126 |
| 402 | 50 |
| 227 | 109,362 |
| 293,926 |  |

Financial instruments whose contract amounts represent credit risk:
Commitments to originate loans and leases:
Commercial real estate
Commercial
Residential mortgage
Unadvanced portion of loans and leases
Unused lines of credit:
Home equity
Other consumer
Other commercial
Unused letters of credit:
Financial standby letters of credit
Performance standby letters of credit
Commercial and similar letters of credit
Back-to-back interest-rate swaps
293,926
109,362
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 $\$ 1.4$ million at September 30, 2015 and $\$ 1.3$ million at December 31, 2014.
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 an offsetting swap 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 was $\$ 8.1$ million and $\$ 8.3$ million, respectively, at September 30, 2015. The fair value of interest rate swap assets and liabilities was $\$ 2.7$ million and $\$ 2.7$ million, respectively, at December 31, 2014.
Lease Commitments
The Company leases certain office space under various noncancellable operating leases. These leases have original terms ranging from 5 years to over 20 years. Certain leases contain renewal options and escalation clauses which can increase rental expenses based principally on the consumer price index and fair market rental value provisions.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements
At and for the Nine Months Ended September 30, 2015 and 2014
A summary of future minimum rental payments under such leases at the dates indicated follows:
Minimum Rental Payments
(In Thousands)
Remainder of 2015
\$ 1,422
Year ending:
2016
5,344
2017 4,820
2018 4,265
2019 3,353
Thereafter
12,266
Total
\$ 31,470
The leases contain escalation clauses for real estate taxes and other expenditures. Total rental expense was $\$ 4.0$ million during the nine months ended September 30, 2015, with minimal lease acceleration. This compared to rental expense of $\$ 5.2$ million during the nine months ended September 30, 2014, which included $\$ 0.7$ million in lease acceleration related to a relocation of an operations center and a closure of a branch property.

Legal Proceedings
There are various outstanding legal proceedings in the normal course of business. 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.

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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 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, 2014 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 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 and mobile 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 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

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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 manages the Banks under uniform strategic objectives, with one set of uniform policies consistently applied by one executive management team. Within this environment, the Company believes that the ability to make customer decisions locally enhances management's motivation, service levels and, as a consequence, the Company's financial results. As such, while most back-office functions 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.

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The Company and the Banks are supervised, examined and regulated by the Board of Governors of the Federal Reserve System ("FRB"). As a Massachusetts-chartered savings bank and trust company, respectively, 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 financial institution, 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 ("FDIC") continues to insure each of the Banks' deposits up to $\$ 250,000$ per depositor. Additionally, as a Massachusetts-chartered savings bank, Brookline Bank is also insured by the Depositors Insurance Fund ("DIF"), a private industry-sponsored 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.

The Company's common stock is traded on the Nasdaq Global Select Marke ${ }^{\$ \mathrm{M}}$ under the symbol "BRKL."

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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

| September 30, June 30, | March 31, | December 31, | September 30, |  |
| :--- | :--- | :--- | :--- | :--- |
| 2015 | 2015 | 2015 | 2014 | 2014 |
| (Dollars in Thousands, Except Per Share Data) |  |  |  |  |

PER COMMON SHARE DATA

Earnings per share - Basic* ${ }^{*} 0.18$
Book value per share (end of period)*9.45
Tangible book value per share (end of 7.33 period) (1)*
Dividends paid per common share $\quad 0.090$
Stock price (end of period) 10.14
\$0.17
9.33
7.19
$\begin{array}{llll}0.090 & 0.085 & 0.085 & 0.085\end{array}$
$\begin{array}{llll}11.29 & 10.05 & 10.03 & 8.55\end{array}$

PERFORMANCE RATIOS (2)

| Net interest margin (taxable equivalent basis) | 3.54 | \% | 3.49 | \% | 3.57 | \% | 3.49 |  | 3.53 | \% |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Return on average assets* | 0.89 | \% | 0.82 | \% | 0.80 | \% | 0.76 | \% | 0.83 | \% |
| Return on average tangible asset | 0.91 | \% | 0.85 | \% | 0.82 | \% | 0.78 | \% | 0.85 | \% |
| Return on average stockholders' equity* | 7.81 | \% | 7.24 | \% | 7.22 | \% | 6.79 | \% | 7.41 | \% |
| Return on average tangible stockholders' equity (1)* | 10.11 | \% | 9.40 | \% | 9.41 | \% | 8.90 | \% | 9.77 | \% |
| Dividend payout ratio (1)* | 49.13 | \% | 53.32 | \% | 51.05 | \% | 54.93 | \% | 50.89 | \% |
| Efficiency ratio (3)* | 58.59 |  | 58.52 |  | 59.11 | \% | 62.27 |  | 59.64 | \% |

## ASSET QUALITY RATIOS

Net loan and lease charge-offs as a
$\begin{array}{lllllllllllll}\text { percentage of average loans and } & 0.13 & \% & 0.04 & \% & 0.07 & \% & 0.07 & \% & 0.07 & \%\end{array}$ leases (annualized)
Nonperforming loans and leases as a percentage of total loans and leases
Nonperforming assets as a percentage of total assets*
Allowance for loan and lease losses as a percentage of total loans and leases Allowance for loan and lease losses related to originated loans and leases as a percentage of originated loans and leases (1)

CAPITAL RATIOS
$\begin{array}{llllllllll}\text { Stockholders' equity to total assets** } & 11.36 & \text { \% } & 11.30 & \% & 11.32 & \% & 11.06 & \% & 11.08 \\ \text { Tangible equity ratio (1)* } & 9.04 & \% & 8.94 & \% & 8.93 & \% & 8.68 & \% & 8.64\end{array}$
FINANCIAL CONDITION DATA
$\begin{array}{llllll}\text { Total assets* } & \$ 5,839,529 & \$ 5,782,934 & \$ 5,755,146 & \$ 5,800,948 & \$ 5,718,944\end{array}$

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| Total loans and leases | $4,829,152$ | $4,729,581$ | $4,634,594$ | $4,822,607$ | $4,736,028$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Allowance for loan and lease losses | 56,472 | 56,398 | 55,106 | 53,659 | 52,822 |
| Goodwill and identified intangible | 149,247 | 149,972 | 150,696 | 151,434 | 152,261 |
| assets | $4,144,577$ | $4,129,408$ | $4,114,795$ | $3,958,106$ | $3,889,204$ |
| Total deposits | 960,220 | 937,648 | 924,925 | $1,126,404$ | $1,132,865$ |
| Total borrowed funds | 663,468 | 653,516 | 651,319 | 641,818 | 633,379 |
| Stockholders' equity* |  |  |  |  |  |
|  |  |  |  | $\$ 47,576$ | $\$ 47,324$ |
| EARNINGS DATA | $\$ 48,587$ | $\$ 47,172$ | $\$ 48,528$ | 1,724 | 2,034 |
| Net interest income | 1,755 | 1,913 | 2,263 | 4,541 | 6,189 |
| Provision for credit losses | 4,784 | 4,867 | 4,470 | 32,455 | 31,914 |
| Non-interest income* | 31,270 | 30,452 | 31,326 | 10,875 | 11,740 |
| Non-interest expense | 12,888 | 11,865 | 11,703 |  |  |

(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.
(3) Efficiency ratio is calculated by dividing non-interest expense by the sum of non-interest income and net interest income.
Previously reported amounts prior to January 1, 2015 have been restated to reflect a retrospective change in
(*)accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01. Refer to Note 8, "Investments in Qualified Affordable Projects".

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Executive Overview

## Growth

Total assets of $\$ 5.8$ billion at September 30, 2015 increased $\$ 38.6$ million, or $0.9 \%$ on an annualized basis, from December 31, 2014. The increase was primarily driven by increases in investment securities and loans and leases, partly offset by decreases in cash and cash equivalents.

Total loans and leases of $\$ 4.8$ billion at September 30, 2015 increased $\$ 6.5$ million, or $0.2 \%$ on an annualized basis, from $\$ 4.8$ billion at December 31, 2014. The Company's commercial loan portfolios, which are comprised of commercial real estate loans and commercial loans and leases, continued to exhibit growth in the quarter. The Company's commercial loan portfolios, which totaled $\$ 3.9$ billion, or $80.5 \%$ of total loans and leases, at September 30, 2015 , increased $\$ 251.1$ million, or $9.2 \%$ on an annualized basis, from $\$ 3.6$ billion, or $75.4 \%$ of total loans and leases, at December 31, 2014. The $\$ 251.1$ million increase in the commercial loan portfolios was offset by the $\$ 300.7$ million decrease in the indirect automobile portfolio due to the sale during the first quarter of 2015.

Total deposits of $\$ 4.1$ billion at September 30, 2015 increased $\$ 186.5$ million from December 31, 2014. Core deposits, defined as the sum of demand checking, NOW, money market, and savings accounts, increased at a $3.0 \%$ annualized rate during the first nine months of 2015.

## Asset Quality

The ratio of the allowance for loan and lease losses to total loans and leases was $1.17 \%$ at September 30, 2015, compared to $1.11 \%$ at December 31, 2014. The allowance for loan and lease losses related to originated loans and leases as a percentage of total originated loans and leases was $1.25 \%$ at September 30, 2015, compared to $1.20 \%$ at December 31, 2014. The Company continued to employ its historical underwriting methodology throughout the nine-month period ended September 30, 2015.

Nonperforming assets at September 30, 2015 totaled $\$ 21.0$ million, or $0.36 \%$ of total assets, as compared with $\$ 15.2$ million, or $0.26 \%$ of total assets, at December 31, 2014. Net charge-offs for the three months ended September 30, 2015 were $\$ 1.6$ million, or $0.13 \%$ of average loans and leases on an annualized basis, compared to $\$ 0.8$ million, or $0.07 \%$ annualized, for the three months ended September 30, 2014. Net charge-offs for the nine months ended September 30, 2015 were $\$ 3.0$ million, or $0.08 \%$ of average loans and leases on an annualized basis, compared to $\$ 2.2$ million, or $0.06 \%$ annualized, for the nine months ended September 30, 2014.

## Capital Strength

The Company is a "well-capitalized" bank holding company as defined in the Federal Reserve Board's Regulation Y. The Company's common equity tier 1 capital ratio was $10.61 \%$ at September 30, 2015. The Company's Tier 1 leverage ratio was $9.49 \%$ at September 30, 2015, compared to $9.01 \%$ at December 31, 2014. Tier 1 risk-based ratio was $10.88 \%$ at September 30, 2015, compared to $10.55 \%$ at December 31, 2014. Total risk-based ratio was $13.55 \%$ at September 30, 2015, compared to $13.24 \%$ at December 31, 2014. The Company's ratio of stockholders' equity to total assets was $11.36 \%$ and $11.06 \%$ at September 30, 2015 and December 31, 2014, respectively. The Company's tangible equity ratio was $9.04 \%$ and $8.68 \%$ at September 30, 2015 and December 31, 2014, respectively.

## Net Income

For the three months ended September 30, 2015, the Company reported net income of $\$ 12.9$ million, or $\$ 0.18$ per basic and diluted share, up nearly $\$ 1.2$ million, or $9.8 \%$, from $\$ 11.7$ million, or $\$ 0.17$ per basic share, for the three

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months ended September 30, 2014. This increase in net income is primarily the result of an increase in net interest income of $\$ 1.3$ million, a decrease in the provision for credit losses of $\$ 0.3$ million, a decrease in non-interest expense of $\$ 0.6$ million, and a decrease in provision for income taxes of $\$ 0.3$ million. This was offset by a decrease in non-interest income of $\$ 1.4$ million. Refer to "Results of Operations - Comparison of the Three and Nine-Month Periods Ended September 30, 2015 and September 30, 2014" below for further discussion.

For the nine months ended September 30, 2015, the Company reported net income of $\$ 36.5$ million, or $\$ 0.52$ per basic and diluted share, up nearly $\$ 4.1$ million, or $12.5 \%$, from $\$ 32.4$ million, or $\$ 0.46$ per basic share, for the nine months ended September 30, 2014. This increase in net income is primarily the result of an increase in net interest income of $\$ 2.8$ million, a decrease in the provision for credit losses of $\$ 0.8$ million, a decrease in non-interest expense of $\$ 3.7$ million. This was offset by a decrease in non-interest income of $\$ 1.5$ million and an increase in provision for income taxes of $\$ 1.4$ million. Refer to

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"Results of Operations - Comparison of the Three and Nine-Month Periods Ended September 30, 2015 and September 30, 2014" below for further discussion.

The annualized return on average assets was $0.89 \%$ and $0.84 \%$ for the three and nine months ended September 30, 2015, respectively, compared to $0.83 \%$ and $0.79 \%$ for the three and nine months ended September 30, 2014, respectively. The annualized return on average stockholders' equity was $7.81 \%$ and $7.43 \%$ for the three and nine months ended September 30, 2015, respectively, compared to $7.41 \%$ and $6.88 \%$ for the three and nine months ended September 30, 2014.

Net interest margin increased slightly to $3.54 \%$ for the three months ended September 30, 2015, compared to $3.53 \%$ for the three months ended September 30, 2014.

Net interest margin was $3.53 \%$ for the nine months ended September 30, 2015, compared to $3.67 \%$ for the nine months ended September 30, 2014. The decrease in the net interest margin in a highly competitive and declining interest rate environment is, in part, a result of a decrease in the yield on interest-earning assets by 10 basis points to $4.11 \%$ for the nine months ended September 30, 2015 from $4.21 \%$ for the nine months ended September 30, 2014 and an increase of 4 basis points in the Company's overall cost of funds to $0.63 \%$ for the nine months ended September 30, 2015 from $0.59 \%$ for the nine months ended September 30, 2014.

The Company's net interest margin and net interest income continued to be placed under significant pressure due to competitive pricing 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 2014 Annual Report on Form 10-K, management has identified the valuation of available-for-sale securities, accounting for assets and liabilities acquired, the determination of the allowance for loan and lease losses, the review of goodwill and intangibles for impairment, and income tax accounting as the Company's most critical accounting policies.

## Non-GAAP Financial Measures and Reconciliations to GAAP

In addition to evaluating the Company's results of operations in accordance with GAAP, management periodically supplements this evaluation with an analysis of certain non-GAAP financial measures, such as the return on tangible assets or equity, the tangible equity ratio, tangible book value per share, dividend payout ratio and the ratio of the allowance for loan and lease losses related to originated loans and leases as a percentage of originated loans and leases. 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.

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


The following tables summarize the Company's tangible equity ratio at the dates indicated:


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

|  | September 30 <br> 2015 <br> (Dollars In T | $\begin{aligned} & \text { June } 30 \text {, } \\ & 2015 \end{aligned}$ <br> ousands, E | March 31, <br> 2015 <br> Share Data) | $\begin{aligned} & \text { December 3 } \\ & 2014 \end{aligned}$ | $\begin{aligned} & \text { September 30, } \\ & 2014 \end{aligned}$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Tangible stockholders' equity* | \$514,221 | \$503,544 | \$500,623 | \$490,384 | \$481,118 |
| 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 | 4,861,085 | 5,048,525 | 5,042,238 | 5,040,571 | 5,035,956 |
| Less: Unallocated ESOP shares | 222,645 | 232,224 | 241,803 | 251,382 | 261,453 |
| Less: Unvested restricted shares | 486,999 | 406,566 | 418,035 | 419,702 | 427,952 |
| Common shares outstanding | 70,173,716 | 70,057,130 | 70,042,369 | 70,032,790 | 70,019,084 |
| Tangible book value per share* | \$7.33 | \$7.19 | \$7.15 | \$7.00 | \$6.87 |

(*) Previously reported amounts prior to January 1, 2015 have been restated to reflect a retrospective change in accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01. Refer to Note 8, "Investments in Qualified Affordable Projects".

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

|  | Three Months Ended |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Septemb 2015 <br> (Dollars | 0, June 30 2015 <br> housands) | $\begin{aligned} & \text { March 31, } \\ & 2015 \end{aligned}$ | $\begin{aligned} & \text { Decem } \\ & 2014 \end{aligned}$ |  | $\begin{aligned} & \text { Septem } \\ & 2014 \end{aligned}$ |
| Dividends paid | \$6,332 | \$6,326 | \$5,974 | \$5,974 |  | \$5,974 |
| Net income, as reported* | \$12,888 | \$11,865 | \$11,703 | \$ 10,875 |  | \$11,740 |
| Dividend payout ratio* | 49.13 | \% 53.32 | 51.05 | 54.93 | \% | 50.89 |

(*) Previously reported amounts prior to January 1, 2015 have been restated to reflect a retrospective change in accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01. Refer to Note 8, "Investments in Qualified Affordable Projects".

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

|  | September 30, 2015 <br> (Dollars in Th | June 30, 2015 <br> usands) | $\begin{aligned} & \text { March 31, } \\ & 2015 \end{aligned}$ | $\begin{aligned} & \text { December 31, } \\ & 2014 \end{aligned}$ | $\begin{aligned} & \text { September 30, } \\ & 2014 \end{aligned}$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Allowance for loan and lease losses | \$56,472 | \$56,398 | \$55,106 | \$53,659 | \$52,822 |
| Less: Allowance for acquired loan and lease losses | 2,048 | 2,655 | 2,911 | 2,848 | 1,933 |
| Allowance for originated loan and lease losses | \$54,424 | \$53,743 | \$52,195 | \$50,811 | \$50,889 |
| Total loans and leases | \$4,829,152 | \$4,729,581 | \$4,634,594 | \$4,822,607 | \$4,736,028 |
| Less: Total acquired loans and leases | 457,922 | 509,028 | 561,103 | 590,654 | 709,404 |
| Total originated loans and leases | \$4,371,230 | \$4,220,553 | \$4,073,491 | \$4,231,953 | \$4,026,624 |

Allowance for loan and lease losses

| related to originated loans and leases <br> as a percentage of originated loans <br> and leases | 1.25 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |$\quad \% 1.27 \quad \% \quad 1.28 \quad \% \quad 1.20 \quad \% \quad 1.26 \quad \%$

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

| At September 30, 2015 | At December 31, 2014 |  |
| :--- | :--- | :--- |
| BalancePercent <br> of Total | Balance | Percent <br> of Total |
| (Dollars in Thousands) |  |  |


| Commercial real estate loans: |  |  |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Commercial real estate mortgage | $\$ 1,810,550$ | 37.5 | $\%$ | $\$ 1,680,082$ | 34.8 | $\%$ |
| Multi-family mortgage | 614,560 | 12.7 | $\%$ | 639,706 | 13.2 | $\%$ |
| Construction | 138,261 | 2.9 | $\%$ | 148,013 | 3.1 | $\%$ |
| Total commercial real estate loans | $2,563,371$ | 53.1 | $\%$ | $2,467,801$ | 51.1 | $\%$ |
| Commercial loans and leases: |  |  |  |  |  | $\%$ |
| Commercial | 580,711 | 12.0 | $\%$ | 514,077 | 10.7 | $\%$ |
| Equipment financing | 684,331 | 14.2 | $\%$ | 601,424 | 12.5 | $\%$ |
| Condominium association | 57,562 | 1.2 | $\%$ | 51,593 | 1.1 | $\%$ |
| Total commercial loans and leases | $1,322,604$ | 27.4 | $\%$ | $1,167,094$ | 24.3 | $\%$ |
| Indirect automobile | 16,294 | 0.3 | $\%$ | 316,987 | 6.6 | $\%$ |
| Consumer loans: |  |  |  |  |  |  |
| Residential mortgage | 606,063 | 12.6 | $\%$ | 571,920 | 11.9 | $\%$ |
| Home equity | 308,371 | 6.4 | $\%$ | 287,058 | 5.9 | $\%$ |
| Other consumer | 12,449 | 0.3 | $\%$ | 11,747 | 0.2 | $\%$ |
| Total consumer loans | 926,883 | 19.2 | $\%$ | 870,725 | 18.0 | $\%$ |
| Total loans and leases | $4,829,152$ | 100.0 | $\%$ | $4,822,607$ | 100.0 | $\%$ |
| Allowance for loan and lease losses | $(56,472$ | $)$ |  | $(53,659$ | $)$ | $\%$ |
| Net loans and leases | $\$ 4,772,680$ |  | $\$ 4,768,948$ |  |  |  |

The following table sets forth the growth (decline) in the Company's loan and lease portfolios during the nine months ended September 30, 2015:

| Commercial real estate | $\$ 2,563,371$ | $\$ 2,467,801$ | $\$ 95,570$ | 5.2 | $\%$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Commercial | $1,322,604$ | $1,167,094$ | 155,510 | 17.8 | $\%$ |
| Indirect automobile | 16,294 | 316,987 | $(300,693$ | $)$ | N/A |
| Consumer | 926,883 | 870,725 | 56,158 | 8.6 | $\%$ |
| Total loans and leases | $\$ 4,829,152$ | $\$ 4,822,607$ | $\$ 6,545$ | 0.2 | $\%$ |

N/A - annualized percent change not meaningful
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, loans to business entities, including commercial lines of credit, loans to condominium associations and loans and leases used to finance equipment used by small businesses. The Company also provides financing for construction and development projects, home equity and other consumer loans.

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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

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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 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 53.1\% of total loans and leases outstanding at September 30, 2015. 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. For commercial customers who are interested in loans with terms longer than five years, the Company offers interest rate swaps to accommodate customer need.

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.

The commercial real estate portfolio was composed primarily of loans secured by apartment buildings ( $\$ 640.2$ million), office buildings ( $\$ 620.8$ million), retail stores ( $\$ 501.2$ million), industrial properties ( $\$ 296.7$ million), and mixed-use properties ( $\$ 193.5$ million) at September 30, 2015. At that date, over $97 \%$ of the commercial real estate loans outstanding were secured by properties located in New England.

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

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

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## Commercial Loans and Leases

The commercial loan and lease portfolio is composed of commercial loans, equipment financing loans and leases and condominium association loans and represented $27.4 \%$ of total loans outstanding at September 30, 2015. 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. Approximately $51 \%$ of the commercial loans outstanding at September 30, 2015 were made to borrowers located in New England. Approximately $17 \%$ of the outstanding balances were made to borrowers in New York and New Jersey by the Company's equipment financing divisions. The remaining $34 \%$ of the commercial loans outstanding were made to borrowers in other areas in the United States of America. 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 ("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 laundry, tow trucks, fitness, dry
cleaning, and convenience store equipment. 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 seven-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

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The indirect automobile loan portfolio represented $0.3 \%$ of total loans outstanding at September 30, 2015. Loans outstanding in the portfolio totaled $\$ 16.3$ million at September 30, 2015, down from $\$ 317.0$ million at December 31, 2014. In December 2014, the Company ceased the origination of indirect automobile loans and in March 2015, sold $\$ 255.2$ million of the indirect automobile loan portfolio. As of September 30, 2015, the Company continues to service the remaining portfolio.

## Consumer Loans

The consumer loan portfolio is composed of residential mortgage loans, home equity loans and lines of credit and other consumer loans and represented $19.2 \%$ of total loans outstanding at September 30, 2015. 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

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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 generally not maintained in the Company's portfolio but are, rather, sold into the secondary market on a servicing-released basis. At September 30, 2015, 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 September 30, 2015, originated other consumer loans equaled $\$ 12.3$ million, or $0.3 \%$ of total originated loans outstanding, at that date. Consumer equity and debt securities were pledged as collateral for a substantial part of these loans.

## 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 September 30, 2015, the Company had $\$ 50.5$ million of total assets, including acquired assets, that were designated as criticized. This compares to $\$ 71.4$ million of assets that were designated as criticized at December 31, 2014. 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.

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The following table sets forth information regarding nonperforming assets at the dates indicated:
At September 30, At December 31,
$2015 \quad 2014$
(Dollars in Thousands)

Nonaccrual loans and leases:

| Commercial real estate mortgage | $\$ 3,155$ | $\$ 1,009$ |
| :--- | :--- | :--- |
| Multi-family mortgage | 309 | - |
| Commercial | 8,326 | 5,196 |
| Equipment financing | 2,896 | 3,223 |
| Indirect automobile | 629 | 645 |
| Residential mortgage | 2,539 | 1,682 |
| Home equity | 1,818 | 1,918 |
| Other consumer | 52 | 41 |
| Total nonaccrual loans and leases | 19,724 | 13,714 |
| OREO | 1,149 | 953 |
| Other repossessed assets | 152 | 503 |
| Total nonperforming assets | $\$ 21,025$ | $\$ 15,170$ |
|  |  |  |
| Loans and leases past due greater than 90 days and still accruing | $\$ 8,792$ | $\$ 6,008$ |


| Total nonperforming loans and leases as a percentage of total loans and | 0.41 | $\%$ | 0.28 |
| :--- | :--- | :--- | :--- |
| leases | 0.36 | $\%$ | 0.26 |

Total nonperforming assets, which are composed of nonaccrual loans and leases, OREO and other repossessed assets, increased $\$ 5.9$ million from $\$ 15.2$ million at December 31, 2014 to $\$ 21.0$ million at September 30, 2015. The increase was primarily due to one commercial relationship which was downgraded during the first quarter of 2015, which had outstanding loan amounts of $\$ 4.2$ million.

Troubled Debt Restructured Loans and Leases
The following table sets forth information regarding troubled debt restructured loans and leases at the dates indicated:

| At September 30, <br> 2015 | At December 31, <br> (In Thousands) |
| :--- | :--- |
|  |  |
| $\$ 17,746$ | $\$ 14,815$ |
| 5,960 | 5,625 |
| $\$ 23,706$ | $\$ 20,440$ |

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

Balance at beginning of period
Additions
Net charge-offs (recoveries)
Repayments
Other reductions ${ }^{(1)}$
Balance at end of period

| Three months endedSeptember 30, |  | Nine months ended |  |
| :---: | :---: | :---: | :---: |
|  |  | Septemb | 30, |
| 2015 | 2014 | 2015 | 2014 |
| (In Thousands) |  |  |  |
| \$20,186 | \$18,388 | \$20,440 | \$18,348 |
| 6,475 | 3,347 | 7,090 | 5,433 |
|  | (19 | ) $(25$ | ) (149 |
| (2,955 | ) (933 | ) $(3,799$ | ) $(2,654$ |
| - | - | - | (195 |
| \$23,706 | \$20,783 | \$23,706 | \$20,783 |

## Allowance for Loan and Lease Losses

The allowance for loan and lease losses consists of general and specific 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, which includes estimates of incurred losses over an estimated loss emergence period ("LEP"), 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.

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.

During the third quarter of 2015, the Company enhanced and refined its general allowance methodology to provide a more precise quantification of probable losses in the portfolio. Under the enhanced methodology, management combined the historical loss histories of the Banks to generate a single set of ratios. Management believes it is appropriate to aggregate the ratios as the Banks share common environmental factors, operate in similar markets, and utilize common underwriting standards in accordance with a Companywide Credit Policy. In prior periods, a historical loss history applicable to each Bank was used. Additional refinements include a change in the weighting to place more emphasis on recent loss experience rather than the charge-off look-back analysis that involved application of loss ratios over a longer period of time. This enhancement provides an allowance calculation that better reflects the term of loans in the portfolio.

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Management employed a similar analysis for the consolidation of the qualitative factors as it did for the quantitative factors. Again, management believes the combination of the existing nine qualitative factors used at each of the Banks into a single Companywide group of factors is appropriate based on the commonality of environmental factors, markets and underwriting standards among the Banks. In prior periods each of the Banks utilized a set of qualitative factors applicable to each Bank.

The Company's September 30, 2015 allowance calculation included a further segmentation of the commercial loans and leases to reflect the increased risk in the Company's taxi medallion portfolio. At September 30, 2015 this portfolio is approximately $\$ 36.0$ million. Based on industry factors, Management established a specific loss factor for this portfolio that best represents the risks associated with it.

Based on the refinements to the Company's allowance methodology discussed above, management determined that the potential risks anticipated by the unallocated allowance are now incorporated into the allowance methodology, making the unallocated allowance unnecessary. In prior periods, the unallocated allowance was used to recognize the estimated risk associated with the allocated general and specific allowances. It incorporated management's evaluation of existing conditions that were not included in the allocated allowance determinations and provided for losses that arise outside of the ordinary course of business.

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 and nine months ended September 30, 2015 and 2014.

At and for the Three Months Ended September 30, 2015
$\begin{array}{lll}\text { Commercial } & \text { Commercial } & \begin{array}{l}\text { Indirect } \\ \text { Automobile }\end{array} \\ \text { Real Estate }\end{array}$
(Dollars in Thousands)

| Balance at June 30, 2015 | \$29,216 | \$20,229 |  | \$381 |  | \$4,012 | \$ 2,560 |  | \$56,398 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Charge-offs | - | (1,388 | ) | (296 | ) | (247 | ) - |  | (1,931 | ) |
| Recoveries | - | 112 |  | 179 |  | 41 | - |  | 332 |  |
| (Credit) provision for loan and lease losses | 1,845 | 2,009 |  | 57 |  | 322 | (2,560 | ) | 1,673 |  |
| Balance at September 30, 2015 | \$31,061 | \$20,962 |  | \$321 |  | \$4,128 | \$ - |  | \$56,472 |  |
| Total loans and leases Allowance for loan and lease losses as a percentage | \$2,563,371 1.21 | \$1,322,604 1.58 | \% | \$16,294 1.97 |  | \$926,883 0.45 | N/A \% N/A |  | \$4,829,152 1.17 |  | of total loans and leases



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Provision (credit) for loan and lease losses
Balance at September 30, 2014

Total loans and leases $\quad \$ 2,402,723 \quad \$ 1,121,853 \quad \$ 353,263 \quad \$ 858,189 \quad$ N/A $\$ 4,736,028$
Allowance for loan and $\begin{array}{llllllllll}\text { lease losses as a percentage } 1.22 & \% & 1.24 & \% & 0.98 & \% & 0.42 & \% & \text { N/A } & 1.12\end{array}$ of total loans and leases

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of total loans and leases

The allowance for loan and lease losses was $\$ 56.5$ million at September 30, 2015, or $1.17 \%$ of total loans and leases outstanding. This compared to an allowance for loan and lease losses of $\$ 53.7$ million, or $1.11 \%$ of total loans and leases outstanding, at December 31, 2014. 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, 2014 to September 30, 2015 was due to a specific reserve recorded for a commercial relationship which was downgraded during the first quarter and additional reserves recorded for continued loan growth, partially offset by release of reserves related to the sale of the indirect automobile portfolio during the first quarter.

## Commercial Real Estate Loans

The allowance for commercial real estate loan losses was $\$ 31.1$ million at September 30, 2015, or $1.21 \%$ of total commercial real estate loans outstanding. This compared to an allowance for commercial real estate loan losses of $\$ 29.6$ million, or $1.20 \%$ of total commercial real estate loans outstanding, at December 31, 2014. Specific reserves on commercial real estate loans were $\$ 2.2$ million and $\$ 0.1$ million at September 30, 2015 and December 31, 2014,

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respectively. The $\$ 1.5$ million increase in the allowance for commercial real estate loan losses during the first nine months of 2015 was primarily driven by loan growth of $\$ 95.6$ million, or $5.2 \%$ on an annualized basis from December 31, 2014 and deterioration of one relationship in the commercial real estate loan portfolio during the first quarter of 2015, partially offset by the improved credit quality of other commercial real estate loans.

The ratio of total criticized and classified commercial real estate loans to total commercial real estate loans decreased to $1.15 \%$ at September 30, 2015 from $1.81 \%$ at December 31, 2014. The ratio of originated commercial real estate loans on nonaccrual to total originated commercial real estate loans increased to 0.15\% at September 30, 2015 from $0.05 \%$ at December 31, 2014.

Net charge-offs for the three months ended September 30, 2015 and September 30, 2014 were nominal.

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Net charge-offs in the commercial real estate loan portfolio for the nine months ended September 30, 2015 were $\$ 0.6$ million. As a percentage of average commercial loans and leases, annualized net charge-offs for the nine months ended September 30, 2015 was $0.03 \%$. Net charge-offs for the nine months ended September 30, 2014 were nominal.

## Commercial Loans and Leases

The allowance for commercial loan and lease losses was $\$ 21.0$ million, or $1.58 \%$ of total commercial loans and leases outstanding, at September 30, 2015, compared to $\$ 16.0$ million, or $1.37 \%$, at December 31, 2014. Specific reserves on commercial loans and leases increased from $\$ 1.0$ million at December 31, 2014 to $\$ 2.4$ million at September 30, 2015. The $\$ 5.0$ million increase in the allowance for commercial loan and lease losses during the first nine months of 2015 was primarily driven by loan growth of $\$ 155.5$ million, or $17.8 \%$ on an annualized basis, from December 31, 2014 and deterioration of one relationship in the commercial loans and leases portfolio during the first quarter of 2015.

The ratio of total criticized and classified commercial loans and leases to total commercial loans and leases was $1.58 \%$ at September 30, 2015 as compared to $2.28 \%$ at December 31, 2014. The ratio of originated commercial loans and leases on nonaccrual to total originated commercial loans and leases increased to $0.64 \%$ at September 30, 2015 from $0.54 \%$ at December 31, 2014.

Net charge-offs in the commercial loan and lease portfolio for the three months ended September 30, 2015 and September 30, 2014 were $\$ 1.3$ million and $\$ 0.3$ million, respectively. As a percentage of average commercial loans and leases, annualized net charge-offs for the three months ended September 30, 2015 and September 30, 2014 were $0.39 \%$ and $0.12 \%$, respectively.

Net charge-offs in the commercial loan and lease portfolio for the nine months ended September 30, 2015 and September 30, 2014 were $\$ 1.7$ million and $\$ 1.2$ million, respectively. As a percentage of average commercial loans and leases, annualized net charge-offs for the nine months ended September 30, 2015 and September 30, 2014 were $0.18 \%$ and $0.15 \%$, respectively.

## Indirect Automobile Loans

The allowance for indirect automobile loan losses was $\$ 0.3$ million, or $1.97 \%$ of total indirect automobile loans outstanding, at September 30, 2015, compared to $\$ 2.3$ million, or $0.74 \%$ of the indirect automobile portfolio outstanding, at December 31, 2014. The $\$ 2.0$ million decrease in the allowance for indirect automobile loan losses was primarily a result of the sale of the majority of the indirect automobile portfolio in the first quarter of 2015. Loans outstanding decreased $\$ 300.7$ million from $\$ 317.0$ million at December 31, 2014 to $\$ 16.3$ million at September 30, 2015. Based on a review of the credit metrics of the remaining indirect automobile portfolio, and a change in the reserve factor, the allowance ratio increased for the remaining portfolio. There were no loans individually evaluated for impairment in the indirect automobile portfolio at September 30, 2015 and December 31, 2014.

The ratio of indirect automobile loans with borrower credit scores below 660 to the total indirect automobile portfolio increased to $45.0 \%$ at September 30, 2015 from $3.1 \%$ at December 31, 2014. The ratio of indirect automobile loans on nonaccrual to total indirect automobile loans increased to $3.86 \%$ at September 30, 2015 compared to $0.2 \%$ at December 31, 2014.

Net charge-offs in the indirect automobile portfolio for the three months ended September 30, 2015 was $\$ 0.1$ million. This compared to net charge-offs of $\$ 0.2$ million for the three months ended September 30, 2014. As a percentage of average loans and leases, annualized net charge-offs for the three months ended September 30, 2015 was $2.62 \%$. This

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compared to annualized net charge-offs of $0.23 \%$ for the three months ended September 30, 2014.
Net charge-offs in the indirect automobile portfolio for the nine months ended September 30, 2015 and 2014 were $\$ 0.3$ million and $\$ 0.4$ million, respectively. As a percentage of average loans and leases, annualized net charge-offs for the nine months ended September 30, 2015 and September 30, 2014 were $0.43 \%$ and $0.16 \%$, respectively.

Consumer Loans
The allowance for consumer loan losses, including residential loans and home equity loans and lines of credit, was $\$ 4.1$ million, or $0.45 \%$ of total consumer loans and leases outstanding, at September 30, 2015, compared to $\$ 3.4$ million, or $0.39 \%$, at December 31, 2014. There was a nominal reserve for consumer loans individually evaluated for impairment at September 30,

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2015 and December 31, 2014. The $\$ 0.7$ million increase in the allowance for consumer loans during the first nine months of 2015 was primarily driven by loan growth of $\$ 56.2$ million, or $8.6 \%$ on an annualized basis, from December 31, 2014. The ratio of originated consumer loans on nonaccrual to total originated consumer loans increased to $0.36 \%$ at September 30, 2015 from $0.23 \%$ at December 31, 2014. 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 is 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 is 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 borrower. The loss exposure is not considered to be high due to the combination of current property values, the historically low loan-to-value ratios, the low level of losses experienced in the past few years, and the low level of loan delinquencies at September 30, 2015. If the local economy weakens, 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 months ended September 30, 2015 and 2014 were $\$ 0.2$ million and $\$ 0.2$ million, respectively. As a percentage of average consumer loans and leases, annualized net charge-offs for the three months ended September 30, 2015 and September 30, 2014 were $0.09 \%$ and $0.08 \%$, respectively.

Net charge-offs in the consumer portfolio for the nine months ended September 30, 2015 and September 30, 2014 were $\$ 0.4$ million and $\$ 0.4$ million, respectively. As a percentage of average consumer loans and leases, annualized net charge-offs for the nine months ended September 30, 2015 and September 30, 2014 were $0.06 \%$ and $0.07 \%$, respectively.

## Unallocated Allowance

As a result of the changes to the methodology described above, the reserve for unallocated allowance for loan and lease losses at September 30, 2015 was reduced to zero, as compared to $\$ 2.4$ million at December 31, 2014. The unallocated portion of the allowance for loan and lease losses decreased by $\$ 2.4$ million during the nine months ended September 30, 2015.

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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.


Commercial real estate loans:
$\left.\begin{array}{llllllllll}\text { Commercial real estate } & \$ 22,530 & 39.8 & \% & 37.5 & \% & \$ 20,858 & 38.9 & \% & 34.8 \\ \text { mortgage } & & & & & & \\ \text { Multi-family } \\ \text { Construction } & 5,061 & 9.0 & \% & 12.7 & \% & 5,057 & 9.4 & \% & 13.2\end{array}\right) \%$

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 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 approximately $\$ 22.9$ million, or $5.0 \%$ on an annualized basis, to $\$ 636.9$ million at September 30, 2015 from $\$ 614.0$ million at December 31, 2014. The increase was primarily driven by the sale of the indirect automobile portfolio, offset by growth in the loans and leases portfolio, security portfolio and the maturity of FHLBB advances. Cash, cash equivalents, and investment securities were $10.9 \%$ of total

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assets at September 30, 2015, compared to $10.6 \%$ of total assets at December 31, 2014.
The following table sets forth certain information regarding the amortized cost and market value of the Company's investment securities at the dates indicated:

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Investment securities available-for-sale:
Debt securities:
GSEs
GSE MBSs
SBA commercial loan asset-backed securities
Corporate debt obligations
Trust preferred securities
Total debt securities
Marketable equity securities
Total investment securities available-for-sale

| At September 30, 2015 | At December 31, 2014 |  |  |
| :--- | :--- | :--- | :--- |
| Amortized | Fair Value | Amortized | Fair Value |
| Cost | Cost |  |  |
| (In Thousands) |  |  |  |

Investment securities held-to-maturity:

| GSEs | $\$ 22,431$ | $\$ 22,480$ | $\$-$ | $\$-$ |
| :--- | :--- | :--- | :--- | :--- |
| GSE MBSs | 19,962 | 19,902 | - | - |
| Municipal Obligations | 20,204 | 20,350 | - | - |
| Foreign Government Obligations | 500 | 500 | 500 | 500 |
| Total investment securities held-to-maturity | $\$ 63,097$ | $\$ 63,232$ | $\$ 500$ | $\$ 500$ |

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, GSE residential MBSs and CMOs, corporate debt securities, SBA commercial loan asset-backed securities, and trust preferred securities, all of which are included in Level 2.

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.

Maturities, calls and principal repayments for investment securities available-for-sale and investment securities held-to-maturity totaled $\$ 77.6$ million and $\$ 5.9$ million, respectively, for the nine months ended September 30, 2015 compared to $\$ 60.5$ million for investment securities available-for-sale during the same period in 2014. During the nine months ended September 30, 2015, the Company purchased $\$ 50.5$ million of investment securities available-for-sale and $\$ 68.5$ million investment securities held-to-maturity. This compared to $\$ 96.9$ million of investment securities available-for-sale and $\$ 0.5$ million of investment securities held-to-maturity for the same period in 2014. During the nine months ended September 30, 2015 the Company did not sell any investment securities available-for-sale or

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held-to-maturity. During the nine months ended September 30, 2014, the Company sold $\$ 5.1$ million of available-for-sale securities and no held-to-maturity securities.

At September 30, 2015, the fair value of all investment securities available-for-sale was $\$ 526.8$ million, with net unrealized gains of $\$ 1.7$ million, compared to a fair value of $\$ 550.8$ million and net unrealized losses of $\$ 2.8$ million at December 31, 2014. At September 30, 2015, $\$ 190.5$ million, or $36.2 \%$ of the portfolio, had gross unrealized losses of $\$ 2.4$ million. This compares to $\$ 335.7$ million, or $60.9 \%$ of the portfolio, with gross unrealized losses of $\$ 6.0$ million at December 31, 2014.

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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 investment securities before recovery, and, as a result, it will recover the amortized cost basis of the investment securities. As such, management has determined that these investment securities are not other-than-temporarily impaired at September 30, 2015. If market conditions for investment 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 13, "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 September 30, 2015 the Company owned stock in the Federal Reserve Bank of Boston with a carrying value of $\$ 16.8$ million compared to $\$ 16.0$ million at December 31, 2014.

## FHLBB Stock

The Company invests in the stock of the FHLBB as one of the requirements to borrow. At September 30, 2015, the Company maintains an excess balance of capital stock of $\$ 14.3$ million compared to $\$ 7.8$ million at December 31, 2014, which allows for additional borrowing capacity at each Bank. At September 30, 2015 and December 31, 2014, the Company owned stock in the FHLBB with a carrying value of $\$ 58.3$ million. The FHLBB stated that it remained in compliance with all regulatory capital ratios at September 30, 2015 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 September 30, 2015 |  |  | At December 31, 2014 |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Amount | Percent of Total |  | Weighted <br> Average <br> Rate |  | Amount | Percent of Total |  | Wei Ave Rate |  |
|  | (Dollars in Thousands) |  |  |  |  |  |  |  |  |  |
| Non-interest-bearing accounts | \$785,210 | 18.9 | \% | 0.00 | \% | \$726,118 | 18.3 | \% | 0.00 | \% |
| NOW accounts | 254,767 | 6.1 | \% | 0.07 | \% | 235,063 | 6.0 | \% | 0.07 | \% |
| Savings accounts | 500,104 | 12.1 | \% | 0.21 | \% | 531,727 | 13.4 | \% | 0.21 | \% |
| Money market accounts | 1,540,104 | 37.2 | \% | 0.43 | \% | 1,518,490 | 38.4 | \% | 0.52 | \% |
| Certificate of deposit accounts | 1,064,392 | 25.7 | \% | 0.90 | \% | 946,708 | 23.9 | \% | 0.88 | \% |
| Total interest-bearing deposits | 3,359,367 | 81.1 | \% | 0.52 | \% | 3,231,988 | 81.7 | \% | 0.54 | \% |
| Total deposits | \$4,144,577 | 100.0 | \% | 0.41 | \% | \$3,958,106 | 100.0 | \% | 0.43 | \% |

Total deposits increased $\$ 186.5$ million, or $6.3 \%$ on an annualized basis, to $\$ 4.1$ billion at September 30, 2015 as compared to $\$ 4.0$ billion at December 31, 2014. Deposits as a percentage of total assets increased from $68.2 \%$ at December 31, 2014 to $71.0 \%$ at September 30, 2015. The increase in deposits as a percentage of total assets is primarily due to the growth in brokered deposits, non-interest-bearing accounts and the maturity of FHLBB advances

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using the excess liquidity generated by the sale of the indirect auto loans in the first quarter of 2015.
At September 30, 2015, the Company had $\$ 213.0$ million of brokered deposits compared to $\$ 62.0$ million at December 31, 2014. Brokered deposits allow the Company to seek additional funding by attracting deposits from outside the Company's core market. The Company's investment policy limits the amount of brokered deposits to $15 \%$ of total assets. Brokered deposits are included in the certificate of deposit balance, which increased $\$ 117.7$ million, or $16.6 \%$ on an annualized basis, during the nine months ended September 30, 2015. Certificates of deposit have also increased as a percentage of total deposits to $25.7 \%$ at September 30, 2015 from 23.9\% at December 31, 2014.

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During the nine months ended September 30, 2015, core deposits increased $\$ 68.8$ million, or $3.0 \%$ on an annualized basis. However, as a percentage of total deposits, the ratio decreased from $76.1 \%$ at December 31, 2014 to $74.3 \%$ at September 30, 2015, primarily due to the shift in deposit mix and increase in brokered deposits.

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.


Core deposits:


Core deposits:

| Non-interest-bearing demand | $\$ 757,811$ | 18.4 | $\%$ | 0.00 | $\%$ | $\$ 694,272$ | 18.0 | $\%$ | 0.00 | $\%$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| checking accounts | 244,253 | 5.9 | $\%$ | 0.07 | $\%$ | 217,168 | 5.5 | $\%$ | 0.08 | $\%$ |
| NOW accounts | 537,606 | 13.0 | $\%$ | 0.20 | $\%$ | 515,433 | 13.4 | $\%$ | 0.23 | $\%$ |
| Savings accounts | $1,544,085$ | 37.4 | $\%$ | 0.45 | $\%$ | $1,523,269$ | 39.5 | $\%$ | 0.51 | $\%$ |
| Money market accounts | $3,083,755$ | 74.7 | $\%$ | 0.27 | $\%$ | $2,950,142$ | 76.4 | $\%$ | 0.31 | $\%$ |
| Total core deposits | $1,042,111$ | 25.3 | $\%$ | 0.88 | $\%$ | 909,647 | 23.6 | $\%$ | 0.86 | $\%$ |
| Certificate of deposit accounts | $\$ 4,125,866$ | 100.0 | $\%$ | 0.42 | $\%$ | $\$ 3,859,789$ | 100.0 | $\%$ | 0.44 | $\%$ |

The following table sets forth the maturity periods for certificates of deposit of $\$ 250,000$ or more deposited with the Company at the dates indicated:

At September 30, 2015
Amount $\quad$ Weighted
(Dollars in Thousands)

At December 31, 2014
Amount
Weighted
Average Rate

Maturity period:

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| Six months or less | $\$ 70,364$ | 0.72 | $\%$ | $\$ 81,937$ | 0.66 |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Over six months through 12 months | 34,495 | 0.96 | $\%$ | $\% 3,602$ | 0.93 |
| Over 12 months | 59,256 | 1.37 | $\%$ | $\% 3,298$ | 1.30 |
|  | $\$ 164,115$ | 1.01 | $\%$ | $\$ 158,837$ | 0.89 |

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Borrowed Funds
The following table sets forth certain information regarding FHLBB advances, subordinated debentures and notes and other borrowed funds for the periods indicated:

|  | Three Months Ended <br> September 30, <br> 20152014 <br> (Dollars in Thousands) |  | Nine Months Ended September 30, 2015 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Average balance outstanding | \$916,379 | \$ 1,082,832 |  | \$958,830 |  | \$951,846 |
| Maximum amount outstanding at any month-end during the period | 960,220 | 1,132,865 |  | 1,094,460 |  | 1,132,865 |
| Balance outstanding at end of period | 960,220 | 1,132,865 |  | 960,220 |  | 1,132,865 |
| Weighted average interest rate for the period | 1.61 | \% 1.10 | \% | 1.55 | \% | 1.17 |
| Weighted average interest rate at end of period | 1.55 | \% 1.30 | \% | 1.55 | \% | 1.30 |

## Advances from the FHLBB

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" as necessary.

FHLBB borrowings decreased $\$ 0.2$ billion to $\$ 0.8$ billion at September 30, 2015 from $\$ 1.0$ billion at December 31, 2014. The decrease in FHLBB borrowings was primarily due to maturities of advances from the FHLBB.

## 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 $\$ 11.2$ million during the nine months ended September 30, 2015, from $\$ 39.6$ million at December 31, 2014 to $\$ 28.4$ million at September 30, 2015, as customers shifted funds into other deposit products.

## Subordinated Debentures and Notes

In the third quarter of 2014, the Company offered $\$ 75.0$ million of $6.0 \%$ fixed-to-floating subordinated notes due September 15, 2029. The Company is obligated to pay $6.0 \%$ interest semiannually between September 2014 and September 2024. Subsequently, the Company is obligated to pay 3-month LIBOR plus 3.315\% quarterly until the notes mature in September 2029.

The following table summarizes the Company's subordinated debentures and notes at the dates indicated.

| Issue Date Rate | Maturity Date | Next Call Date |
| :--- | :--- | :--- | | at September 30, at December 31, |
| :--- |
| 2015 |

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| June 26, 2003 | Variable; 3-month LIBOR + 3.10\% | June 26, 2033 | $\begin{aligned} & \text { December 26, } \\ & 2015 \end{aligned}$ | \$4,717 | \$4,696 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| March 17, 2004 | $\begin{aligned} & \text { Variable; 3-month LIBOR + } \\ & 2.79 \% \end{aligned}$ | March 17, 203 | $\begin{aligned} & \text { December 17, } \\ & 2015 \end{aligned}$ | \$4,577 | \$4,543 |
| $\begin{aligned} & \text { September } 15 \text {, } \end{aligned}$ | 6.0\% Fixed-to-Variable; <br> 3-month LIBOR + 3.315\% | $\begin{aligned} & \text { September } 15 \text {, } \\ & 2029 \end{aligned}$ | $\begin{aligned} & \text { September } 15 \text {, } \\ & 2024 \end{aligned}$ | \$73,579 | \$73,52 |

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The above carrying amounts of the acquired subordinated debentures included $\$ 0.7$ million of accretion adjustments and $\$ 1.4$ million of capitalized debt issuance costs as of September 30, 2015. This compares to $\$ 0.8$ million of accretion adjustments and $\$ 1.5$ million of capitalized debt issuance costs as of December 31, 2014.

## Derivative Financial Instruments

The Company has entered into interest-rate swaps with certain of its commercial customers and concurrently enters into offsetting swaps with third-party financial institutions. The Company did not have derivative fair value hedges or derivative cash flow hedges at September 30, 2015 or December 31, 2014. The following table summarizes certain information concerning the Company's interest-rate swaps at September 30, 2015 and at December 31, 2014:

Notional principal amounts
Fixed weighted average interest rate from the Company to counterparty
Floating weighted average interest rate from counterparty to the Company
Weighted average remaining term to maturity (in months)
Fair value:
Recognized as an asset
Recognized as a liability

Interest-Rate Swaps

| At September 30,  At December 31, <br> 2015 2014  |  |  |
| :--- | :--- | :--- |
| (Dollars in Thousands)   <br> $\$ 293,926$ $\$ 109,362$  <br> 4.40 $\%$ 4.72 <br> 3.64 $\%$ 3.83 <br> 108  100 | $\%$ |  |
|  |  |  |

## Stockholders' Equity and Dividends

The Company's total stockholders' equity was $\$ 663.5$ million at September 30, 2015, a $\$ 21.7$ million increase compared to $\$ 641.8$ million at December 31, 2014. The increase primarily reflects net income attributable to the Company of $\$ 36.5$ million for the nine months ended September 30, 2015, an unrealized gain on securities available-for-sale of $\$ 2.8$ million (after-tax), an increase of $\$ 0.8$ million related to stock-based compensation, offset by common stock dividends of $\$ 18.6$ million paid in that same period.

Stockholders' equity represented $11.36 \%$ of total assets at September 30, 2015, as compared to $11.06 \%$ at December 31, 2014. Tangible stockholders' equity (total stockholders' equity less goodwill and identified intangible assets, net) represented $9.04 \%$ of tangible assets (total assets less goodwill and identified intangible assets, net) at September 30, 2015, as compared to $8.68 \%$ at December 31, 2014.

Dividend payout ratios were $49.13 \%$ and $51.11 \%$ for the three and nine months ended September 30, 2015, respectively. This compared to $50.89 \%$ and $55.23 \%$ for the three and nine months ended September 30, 2014, respectively.

Results of Operations - Comparison of the Three and Nine-Month Periods Ended September 30, 2015 and September 30, 2014

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.

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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.

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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.

## Net Interest Income

Net interest income of $\$ 48.6$ million for the quarter ended September 30, 2015 increased $\$ 1.3$ million, or $2.7 \%$, as compared to the third quarter of 2014. This overall increase was the result of an increase in total interest income of $\$ 2.1$ million, or $3.8 \%$, to $\$ 56.7$ million for the quarter ended September 30, 2015, offset by an increase in interest expense of $\$ 0.8$ million, or $11.1 \%$, to $\$ 8.1$ million for the quarter ended September 30, 2015.

Net interest income of $\$ 144.3$ million for the nine months ended September 30, 2015 increased $\$ 2.8$ million, or 2.0\%, as compared to the nine months ended September 30, 2014. This overall increase was a result of an increase in total interest income of $\$ 5.8$ million, or $3.6 \%$, to $\$ 168.5$ million for the nine months ended September 30, 2015, offset by an increase in interest expense of $\$ 3.0$ million, or $14.2 \%$, to $\$ 24.2$ million for the nine months ended September 30, 2015. Refer to "Results of Operations - Comparison of the Three-Month and Nine-Month Periods Ended September 30, 2015 and September 30, 2014 - Interest Income" and "Results of Operations - Comparison of the Three-Month and Nine-Month Periods Ended September 30, 2015 and September 30, 2014 - Interest Expense Deposit and Borrowed Funds" below for more details.

Net interest margin increased to $3.54 \%$ in the third quarter of 2015 from $3.53 \%$ in the third quarter of 2014. Net interest margin decreased to $3.53 \%$ for the nine months ended September 30, 2015 from $3.67 \%$ for the nine months ended September 30, 2014. The decrease in the net interest margin 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 increased to $4.16 \%$ in the third quarter of 2015 from $4.11 \%$ during the third quarter of 2014. The increase is primarily due to an increase in dividends from restricted equity securities and a change in investment mix. The increase in yield on investment securities, as well as an increase in prepayment penalties on loans and leases during the third quarter of 2015, offset the continued pricing pressure in most loan categories and a decrease in accretion on acquired loans and leases. During the third quarter of 2015, the Company benefited from a $\$ 0.8$ million accretion on acquired loans and leases, which contributed 6 basis points to yields on interest-earning assets, compared to $\$ 1.3$ million, or 10 basis points, in the third quarter of 2014. In addition, the Company recorded $\$ 0.9$ million in prepayment penalties, which contributed 7 basis points to yields on interest-earning assets, in the third quarter of 2015 , compared to $\$ 0.7$ million, or 5 basis points, in the third quarter of 2014.

The yield on interest-earning assets decreased to $4.11 \%$ for the nine months ended September 30, 2015 from $4.21 \%$ for the nine months ended September 30, 2014. While the Company benefited from increased dividends from restricted equity securities, the increase in yield on investment securities was completely offset by pricing pressure

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due to the low interest rate environment and the intense competition in most loan categories, as well as a decrease in accretion on acquired loans and leases, offset by an increase in prepayment penalties. During the nine months ended September 30, 2015, the Company benefited from a $\$ 2.8$ million accretion on acquired loans and leases, which contributed 7 basis points to yields on interest-earning assets, compared to $\$ 7.0$ million, or 18 basis points, in the nine months ended September 30, 2014. In addition, the Company recorded $\$ 2.4$ million in prepayment penalties, which contributed 6 basis points to yields on interest-earning assets, in the nine months ended September 30, 2015, compared to $\$ 1.5$ million, or 4 basis points, in the nine months ended September 30, 2014.

The overall cost of funds (including non-interest-bearing demand checking accounts) increased 4 basis points to $0.63 \%$ for the three months ended September 30, 2015 from $0.59 \%$ for the three months ended September 30, 2014. The overall cost of funds increased 4 basis points to $0.63 \%$ for the nine months ended September 30, 2015 from $0.59 \%$ for the nine months ended

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September 30, 2014. The increase was driven by the issuance of the $\$ 75.0$ million subordinated notes in September 2014. Refer to "Financial Condition - Borrowed Funds" above for more details.

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 nine months ended September 30, 2015 and September 30, 2014. 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.

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Three Months Ended
September 30, 2015

| Average | Interest | Average | Yield | Average | Interest |
| :--- | :---: | :--- | :--- | :--- | :--- | | Average |
| :--- |
| Yield/ |
| Balance |
| (1) |

Assets:
Interest-earning assets:
Debt securities
Marketable and restricted equity
securities
Short-term investments
Total investments
Commercial real estate loans (2)
Commercial loans and leases (2)

Equipment financing (2)
Indirect automobile loans (2)
Residential mortgage loans (2)
Other consumer loans (2)
Total loans and leases
Total interest-earning assets
Allowance for loan and lease losses
Non-interest-earning assets*
Total assets*

| \$587,804 | \$2,904 | 1.98 | \% | \$522,911 | \$2,312 | 1.77 | \% |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 76,530 | 1,111 | 5.81 | \% | 74,977 | 521 | 2.78 | \% |
| 36,163 | 17 | 0.19 | \% | 42,421 | 15 | 0.14 | \% |
| 700,497 | 4,032 | 2.30 | \% | 640,309 | 2,848 | 1.78 | \% |
| 2,531,729 | 26,739 | 4.22 | \% | 2,357,921 | 25,984 | 4.37 | \% |
| 636,756 | 6,570 | 4.05 | \% | 544,440 | 5,458 | 3.94 | \% |
| 664,010 | 11,300 | 6.81 | \% | 563,918 | 9,664 | 6.84 | \% |
| 17,872 | 182 | 4.05 | \% | 371,123 | 2,929 | 3.13 | \% |
| 613,678 | 5,437 | 3.54 | \% | 570,505 | 5,087 | 3.54 | \% |
| 315,402 | 2,707 | 3.40 | \% | 284,206 | 2,818 | 3.93 | \% |
| 4,779,447 | 52,935 | 4.43 | \% | 4,692,113 | 51,940 | 4.43 | \% |
| 5,479,944 | 56,967 | 4.16 | \% | 5,332,422 | 54,788 | 4.11 | \% |
| (56,833 ) |  |  |  | (52,423 |  |  |  |
| 367,358 |  |  |  | 374,793 |  |  |  |
| \$5,790,469 |  |  |  | \$5,654,792 |  |  |  |

Liabilities and Stockholders' Equity:
Interest-bearing liabilities:
Interest-bearing deposits:
NOW accounts
Savings accounts
Money market accounts
Certificates of deposit
Total interest-bearing deposits (3)
Advances from the FHLBB
Subordinated debentures and notes
Other borrowed funds
Total borrowed funds
Total interest-bearing liabilities
Non-interest-bearing liabilities:
Demand checking accounts (3)
Other non-interest-bearing liabilities
Total liabilities
Brookline Bancorp, Inc. stockholders’
equity*
Noncontrolling interest in subsidiary
Total liabilities and equity*
Net interest income (tax-equivalent basis)
/ Interest-rate spread (4)

| \$246,163 | 44 | 0.07 | \% | \$219,811 | 43 | 0.08 | \% |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 516,877 | 257 | 0.20 | \% | 513,912 | 299 | 0.23 | \% |
| 1,550,477 | 1,664 | 0.43 | \% | 1,534,552 | 1,957 | 0.51 | \% |
| 1,043,418 | 2,361 | 0.90 | \% | 900,751 | 1,949 | 0.86 | \% |
| 3,356,935 | 4,326 | 0.51 | \% | 3,169,026 | 4,248 | 0.53 | \% |
| 801,379 | 2,495 | 1.22 | \% | 1,036,190 | 2,740 | 1.03 | \% |
| 82,866 | 1,251 | 6.04 | \% | 21,257 | 292 | 5.49 | \% |
| 32,134 | 28 | 0.34 | \% | 25,385 | 12 | 0.18 | \% |
| 916,379 | 3,774 | 1.61 | \% | 1,082,832 | 3,044 | 1.10 | \% |
| 4,273,314 | 8,100 | 0.75 | \% | 4,251,858 | 7,292 | 0.68 | \% |
| 793,785 |  |  |  | 717,239 |  |  |  |
| 58,414 |  |  |  | 48,236 |  |  |  |
| 5,125,513 |  |  |  | 5,017,333 |  |  |  |
| 659,761 |  |  |  | 633,406 |  |  |  |
| 5,195 |  |  |  | 4,053 |  |  |  |
| \$5,790,469 |  |  |  | \$5,654,792 |  |  |  |
|  | 48,867 | 3.41 | \% |  | 47,496 | 3.43 | \% |

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## Less adjustment of tax-exempt income <br> $280 \quad 172$

Net interest income
\$48,587
\$47,324
Net interest margin (5)
(1) Tax-exempt income on debt securities, equity securities and revenue bonds included in commercial real estate and 1) commercial loans is included on a tax-equivalent basis.
(2)Loans on nonaccrual status are included in the average balances.

Including non-interest-bearing checking accounts, the average interest rate on total deposits was $0.41 \%$ and $0.43 \%$
${ }^{(3)}$ in the three months ended September 30, 2015 and September 30, 2014, respectively.
(4) Interest-rate spread represents the difference between the yield on interest-earning assets and the cost of ${ }^{(4)}$ interest-bearing liabilities.
(5)Net interest margin represents net interest income (tax equivalent basis) divided by average interest-earning assets. Previously reported amounts prior to January 1, 2015 have been restated to reflect a retrospective change in ${ }^{(*)}$ accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01.

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Assets:
Interest-earning assets:

| Debt securities | $\$ 577,967$ | $\$ 8,529$ | 1.97 | $\%$ | $\$ 517,091$ | $\$ 6,935$ | 1.79 | $\%$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Marketable and restricted equity | 76,218 | 2,126 | 3.72 | $\%$ | 70,809 | 1,515 | 2.85 | $\%$ |
| securities | 57,197 | 98 | 0.23 | $\%$ | 41,689 | 73 | 0.23 | $\%$ |
| Short-term investments | 711,382 | 10,753 | 2.02 | $\%$ | 629,589 | 8,523 | 1.80 | $\%$ |
| Total investments | $2,504,739$ | 79,375 | 4.23 | $\%$ | $2,291,952$ | 77,081 | 4.46 | $\%$ |
| Commercial real estate loans (2) | 629,115 | 19,471 | 4.09 | $\%$ | 507,612 | 15,397 | 4.01 | $\%$ |
| Commercial loans (2) | 634,310 | 32,637 | 6.86 | $\%$ | 543,691 | 29,856 | 7.33 | $\%$ |
| Equipment financing (2) | 106,210 | 2,542 | 3.20 | $\%$ | 376,765 | 9,225 | 3.27 | $\%$ |
| Indirect automobile loans (2) | 593,371 | 16,005 | 3.60 | $\%$ | 545,275 | 14,814 | 3.63 | $\%$ |
| Residential mortgage loans (2) | 307,878 | 8,373 | 3.63 | $\%$ | 276,466 | 8,230 | 3.98 | $\%$ |
| Other consumer loans (2) | $4,775,623$ | 158,403 | 4.42 | $\%$ | $4,541,761$ | 154,603 | 4.54 | $\%$ |
| Total loans and leases | $5,487,005$ | 169,156 | 4.11 | $\%$ | $5,171,350$ | 163,126 | 4.21 | $\%$ |
| Total interest-earning assets | 55,536 |  |  |  | $(50,785$ | $)$ |  |  |
| Allowance for loan and lease losses | ) |  |  |  | 367,824 |  |  |  |
| Non-interest-earning assets* | 370,038 | $\$ 5,801,507$ |  |  |  | $\$ 5,488,389$ |  |  |
| Total assets* |  |  |  |  |  |  |  |  |

Liabilities and Stockholders' Equity:
Interest-bearing liabilities:
Interest-bearing deposits:

| NOW accounts | \$244,253 | 132 | 0.07 | \% | \$217,168 | 126 | 0.08 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Savings accounts | 537,606 | 793 | 0.20 | \% | 515,433 | 905 | 0.23 |
| Money market accounts | 1,544,085 | 5,173 | 0.45 | \% | 1,523,269 | 5,852 | 0.51 |
| Certificates of deposit | 1,042,111 | 6,828 | 0.88 | \% | 909,647 | 5,857 | 0.86 |
| Total interest-bearing deposits (3) | 3,368,055 | 12,926 | 0.51 | \% | 3,165,517 | 12,740 | 0.54 |
| Advances from the FHLBB | 841,196 | 7,414 | 1.16 | \% | 911,748 | 7,873 | 1.14 |
| Subordinated debentures and notes | 82,826 | 3,749 | 6.03 | \% | 13,249 | 490 | 4.93 |
| Other borrowed funds | 34,808 | 86 | 0.33 | \% | 26,849 | 61 | 0.30 |
| Total borrowed funds | 958,830 | 11,249 | 1.55 | \% | 951,846 | 8,424 | 1.17 |
| Total interest-bearing liabilities | 4,326,885 | 24,175 | 0.75 | \% | 4,117,363 | 21,164 | 0.69 |
| Non-interest-bearing liabilities: |  |  |  |  |  |  |  |
| Demand checking accounts (3) | 757,811 |  |  |  | 694,272 |  |  |
| Other non-interest-bearing liabilities | 57,328 |  |  |  | 44,858 |  |  |
| Total liabilities | 5,142,024 |  |  |  | 4,856,493 |  |  |
| Brookline Bancorp, Inc. stockholders' equity* | 654,596 |  |  |  | 627,750 |  |  |
| Noncontrolling interest in subsidiary | 4,887 |  |  |  | 4,146 |  |  |
| Total liabilities and equity* | \$5,801,507 |  |  |  | \$5,488,389 |  |  |
| Net interest income (tax-equivalent basis) |  | 144,981 | 3.36 | \% |  | 141,962 | 3.52 |
| Less adjustment of tax-exempt income |  | 694 |  |  |  | 470 |  |


| Net interest income | $\$ 144,287$ |  |  | $\$ 141,492$ |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Net interest margin (5) |  | 3.53 | $\%$ |  | 3.67 | $\%$ |

(1) Tax-exempt income on debt securities, equity securities and revenue bonds included in commercial real estate and ${ }^{1)}$ commercial loans is included on a tax-equivalent basis.
(2)Loans on nonaccrual status are included in the average balances.

Including non-interest-bearing checking accounts, the average interest rate on total deposits was $0.42 \%$ and $0.44 \%$
${ }^{(3)}$ in the nine months ended September 30, 2015 and September 30, 2014, 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. Previously reported amounts prior to January 1, 2015 have been restated to reflect a retrospective change in
${ }^{*}$ ) accounting principle for investments in qualified affordable housing projects, in accordance with ASU 2014-01.

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## Rate/Volume Analysis

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

Interest and dividend income
Debt securities
Marketable and restricted equity securities
Short-term investments
Total investments
Three Months Ended September
30, 2015 as Compared to the
Three Months Ended September
30, 2014
Increase
(Decrease) Due To
Volume Rate Net
(In Thousands)

Nine Months Ended September 30, 2015 as Compared to the Nine Months Ended September 30, 2014
Increase
(Decrease) Due To
Volume Rate Net
Volume Rate
Net
$\left.\begin{array}{llllll}\$ 303 & \$ 289 & \$ 592 & \$ 860 & \$ 734 & \$ 1,594 \\ 11 & 579 & 590 & 122 & 489 & 611 \\ (3 & ) & 5 & 2 & 25 & - \\ 311 & 873 & 1,184 & 1,007 & 1,223 & 25 \\ & & & & & \\ 1,732 & (977 & ) & 755 & 6,544 & (4,250 \\ \hline\end{array}\right) 2,294$

Interest expense
Deposits:


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Interest Income
Loans and Leases

| Three Months <br> Ended September | Dollar | Percent | Nine Months Ended <br> September 30, | Dollar | Percent |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| 30, |  |  | 2015 | 2014 | Change | Change |
| 2015 2014 <br> (Dollars in Thousands) |  |  |  |  |  |  |

Interest income - loans and leases:

| Commercial real estate loans $\$ 26,739$ | $\$ 25,842$ | $\$ 897$ | 3.5 | $\%$ | $\$ 79,374$ | $\$ 76,678$ | $\$ 2,696$ | 3.5 | $\%$ |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Commercial loans | 6,360 | 5,431 | 929 | 17.1 | $\%$ | 18,859 | 15,342 | 3,517 | 22.9 | $\%$ |
| Equipment financing | 11,300 | 9,663 | 1,637 | 16.9 | $\%$ | 32,637 | 29,856 | 2,781 | 9.3 | $\%$ |
| Indirect automobile loans | 182 | 2,929 | $(2,747$ | $)-93.8$ | $\%$ | 2,542 | 9,225 | $(6,683$ | $)-72.4$ | $\%$ |
| Residential mortgage loans | 5,437 | 5,087 | 350 | 6.9 | $\%$ | 16,005 | 14,814 | 1,191 | 8.0 | $\%$ |
| Other consumer loans | 2,707 | 2,817 | $(110$ | $)$ | -3.9 | $\%$ | 8,373 | 8,229 | 144 | 1.7 |
| Total interest income - loan $\$ 52,725$ | $\$ 51,769$ | $\$ 956$ | 1.8 | $\%$ | $\$ 157,790$ | $\$ 154,144$ | $\$ 3,646$ | 2.4 | $\%$ |  |
| and leases |  |  |  |  |  |  |  |  |  |  |

Interest income from loans and leases was $\$ 52.7$ million for the three months ended September 30, 2015, resulting in a yield on total loans and leases of $4.43 \%$. This compares to $\$ 51.8$ million of interest on loans and leases and a yield of $4.43 \%$ for the three months ended September 30, 2014. The year-over-year $\$ 0.9$ million increase in interest income from loans and leases was due to an increase of $\$ 1.5$ million due to increased origination volume, offset by a decrease of $\$ 0.6$ million due to changes in rate. Accretion on acquired loans and leases of $\$ 0.8$ million contributed 6 basis points to net interest margin during the third quarter of 2015 , compared to $\$ 1.3$ million and 10 basis points in the third quarter of 2014.

Interest income from loans and leases was $\$ 157.8$ million for the nine months ended September 30, 2015, resulting in a yield on total loans and leases of $4.42 \%$. This compares to $\$ 154.1$ million of interest on loans and leases and a yield of $4.54 \%$ for the nine months ended September 30, 2014. The year-over-year increase in interest income from loans and leases was due to an increase of $\$ 10.7$ million due to increased origination volume, offset by a decrease of $\$ 7.0$ million due to changes in rate. Accretion on acquired loans and leases of $\$ 2.8$ million contributed 7 basis points to net interest margin for the nine months ended September 30, 2015, compared to $\$ 7.0$ million and 18 basis points in the nine months ended September 30, 2014.

Investments


Total interest income investments

$$
\begin{array}{lllllllll}
\$ 3,962 & \$ 2,847 & \$ 1,115 & 39.2 & \% & \$ 10,672 & \$ 8,512 & \$ 2,160 & 25.4
\end{array} \%
$$

Total investment income was $\$ 4.0$ million for the three months ended September 30, 2015, compared to $\$ 2.8$ million for the three months ended September 30, 2014. The yield on investments increased to $2.30 \%$ for the quarter ended September 30, 2015 from $1.78 \%$ for the quarter ended September 30, 2014. The over $\$ 1.1$ million year-over-year increase in quarterly interest income on investments was driven by a $\$ 0.3$ million increase due to volume and a $\$ 0.9$ million increase due to rates.

Total investment income was $\$ 10.7$ million for the nine months ended September 30, 2015, compared to $\$ 8.5$ million for the nine months ended September 30, 2014. The yield on investments increased to $2.02 \%$ for the nine months ended

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September 30, 2015 from $1.80 \%$ for the nine months ended September 30, 2014. The $\$ 2.2$ million year-over-year increase in interest income on investments was driven by a $\$ 1.0$ million increase due to volume and a $\$ 1.2$ million increase due to rates.

Interest Expense - Deposits and Borrowed Funds

| Three Months Ended | Dollar | Percent | Nine Months Ended <br> September 30, | September 30, | Dollar | Percent |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| 2015     <br> (Dollars in Thousands)     |  |  |  |  | Change | Change |

Interest expense:

| Deposits: |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| NOW accounts | \$44 | \$43 | \$1 | 2.3 | \% \$132 | \$ 126 | \$6 | 4.8 | \% |
| Savings accounts | 257 | 299 | (42 | ) -14.0 | \% 793 | 905 | (112 | ) -12.4 | \% |
| Money market accounts | 1,664 | 1,957 | (293 | ) -15.0 | \% 5,173 | 5,852 | (679 | ) -11.6 | \% |
| Certificates of deposit | 2,361 | 1,949 | 412 | 21.1 | \% 6,828 | 5,857 | 971 | 16.6 | \% |
| Total interest expense deposits | 4,326 | 4,248 | 78 | 1.8 | \% 12,926 | 12,740 | 186 | 1.5 | \% |
| Borrowed funds: Advances from the FHLBB | 2,495 | 2,740 | (245 | ) -8.9 | \% 7,414 | 7,873 | (459 | ) -5.8 | \% |
| Subordinated debentures and notes | 1,251 | 292 | 959 | 328.4 | \% 3,749 | 490 | 3,259 | 665.1 | \% |
| Other borrowed funds | 28 | 12 | 16 | 133.3 | \% 86 | 61 | 25 | 41.0 | \% |
| Total interest expense borrowed funds | 3,774 | 3,044 | 730 | 24.0 | \% 11,249 | 8,424 | 2,825 | 33.5 | \% |
| Total interest expense | \$8,100 | \$7,292 | \$808 | 11.1 | \% \$24,175 | \$21,164 | \$3,011 | 14.2 | \% |

## Deposits

Interest expense on deposits increased $\$ 0.1$ million to $\$ 4.3$ million for the three months ended September 30, 2015 from $\$ 4.2$ million for the three months ended September 30, 2014. Purchase accounting accretion on acquired deposits was minimal for the three months ended September 30, 2015 and September 30, 2014. Accretion had no impact on the Company's net interest margin for the three months ended September 30, 2015 and September 30, 2014.

Interest expense on deposits increased $\$ 0.2$ million to $\$ 12.9$ million for the nine months ended September 30, 2015 from $\$ 12.7$ million for the nine months ended September 30, 2014. Purchase accounting accretion on acquired deposits was minimal for the nine months ended September 30, 2015 compared to $\$ 0.1$ million for the nine months ended September 30, 2014. Accretion had no impact on the Company's net interest margin for the nine months ended September 30, 2015 and September 30, 2014.

While interest-bearing deposit balances increased during these periods, the increases in interest expense on deposits due to volume were mostly offset by decreases in interest expense due to deposit offering rates. The cost of total interest-bearing deposits decreased to $0.51 \%$ in the three months ended September 30, 2015 from $0.53 \%$ during the three months ended September 30, 2014. The cost of total interest-bearing deposits decreased to $0.51 \%$ in the nine months ended September 30, 2015 from 0.54\% during the nine months ended September 30, 2014.

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Borrowed Funds
Interest paid on borrowed funds increased by approximately $\$ 0.8$ million, or $24.0 \%$, to $\$ 3.8$ million for the three months ended September 30, 2015 from $\$ 3.0$ million for the three months ended September 30, 2014. The increase was primarily due to the new subordinated notes issued in September 2014. The cost of borrowed funds increased to $1.61 \%$ for the quarter ended September 30, 2015 from $1.10 \%$ during the quarter ended September 30, 2014. The increase in interest expense was due to a $\$ 0.5$ million increase due to higher borrowing rates and an increase in interest expense of $\$ 0.2$ million due to higher volume. Accretion on acquired borrowed funds of $\$ 0.7$ million improved the Company's net interest margin by 5 basis points for the three months ended September 30, 2015. This compared to $\$ 0.7$ million and 5 basis points for the three months ended September 30, 2014.

Interest paid on borrowed funds increased by $\$ 2.8$ million, or $33.5 \%$, to $\$ 11.2$ million for the nine months ended September 30, 2015 from $\$ 8.4$ million for the nine months ended September 30, 2014. The increase was primarily due to the new subordinated notes issued in September 2014. The overall cost of borrowed funds increased to $1.55 \%$ for the nine months ended September 30, 2015 from $1.17 \%$ for the nine months ended September 30, 2014. The increase in interest expense was due to a $\$ 0.3$ million increase due to higher borrowing rates and an increase in interest expense of $\$ 2.5$ million due to higher volume. Accretion on acquired borrowed funds of $\$ 2.1$ million improved the Company's net interest margin by 5 basis points for the nine months ended September 30, 2015. This compared to $\$ 2.1$ million and 5 basis points for the nine months ended September 30, 2014.

## Provision for Credit Losses

The provisions for credit losses are set forth below:

| Three Months <br> Ended September | Dollar | Percent | Nine Months Ended <br> September 30, |  |  | Dollar |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | Percent

Provision (credit) for loan and lease losses:

| Commercial real estate | $\$ 1,845$ | $\$ 2,769$ | $\$(924$ | $)$ | -33.4 | $\%$ | $\$ 2,017$ | $\$ 6,462$ | $\$(4,445)$ | -68.8 | $\%$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Commercial | 2,009 | $(1,573$ | $)$ | 3,582 | -227.7 | $\%$ | 6,670 | $(49$ | $)$ | 6,719 | N $/ \mathrm{A}$ |

N/A - percent change not meaningful
The provision for credit losses decreased over $\$ 0.2$ million, or $13.7 \%$, to $\$ 1.8$ million for the three months ended September 30, 2015 from $\$ 2.0$ million for the three months ended September 30, 2014. The decrease in the provision quarter over quarter was due to an increase in specific reserves for one commercial loan relationship and net charge-offs offset by the decrease in the provision due to improved credit characteristics and continued strong credit quality of the portfolio.

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The provision for credit losses decreased $\$ 0.8$ million, or $12.2 \%$, to $\$ 5.9$ million for the nine months ended September 30, 2015 from $\$ 6.7$ million for the nine months ended September 30, 2014. The decrease in the provision for credit losses for the nine months ended September 30, 2015 was primarily due to an increase in specific reserves for one commercial loan relationship and net charge-offs offset by the decrease in the provision due to improved credit characteristics and continued strong credit quality of the portfolio, as well as decreased provision for the indirect automobile portfolio as a result of the sale of over $90 \%$ of the indirect automobile portfolio in the first quarter of 2015.

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


Total non-interest income decreased $\$ 1.4$ million, or $22.7 \%$, to $\$ 4.8$ million for the three months ended September 30, 2015, from $\$ 6.2$ million for the three months ended September 30, 2014. The decrease is largely due to a net $\$ 1.4$ million other income recorded during the third quarter of 2014 in relation to an insurance claim for a legal settlement.

Total non-interest income decreased $\$ 1.5$ million, or $9.7 \%$, to $\$ 14.1$ million for the nine months ended September 30, 2015 , from $\$ 15.6$ million for the nine months ended September 30, 2014. The decreased is largely due to a net $\$ 1.4$ million other income recorded during the third quarter of 2014 in relation to an insurance claim for a legal settlement. The increase of $\$ 1.5$ million in loan level derivative income was completely offset by a $\$ 1.5$ million decrease in gain on sale/disposals of premises and equipment related to the sale of a building in 2014.

The increase in loan level derivative income in the three months and nine months ended September 30, 2015 is due to the execution of several loan level interest-rate swap agreements in 2015.

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

|  | Three Mo <br> Septembe 2015 <br> (Dollars i | hs Ended 30, 2014 <br> Thousands) | Dollar <br> Change |  | Percent <br> Change |  | Nine Mon September 2015 | hs Ended 30, <br> 2014 | Dollar <br> Change | Percent <br> Change |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Compensation and employee benefits | \$17,875 | \$18,258 | \$(383 | ) | -2.1 | \% | \$52,484 | \$53,585 | \$(1,101) | -2.1 | \% |
| Occupancy | 3,535 | 3,334 | 201 |  | 6.0 | \% | 10,444 | 10,893 | (449 | -4.1 | \% |
| Equipment and data processing | 3,600 | 4,193 | (593 | ) | -14.1 | \% | 11,300 | 12,918 | (1,618 | -12.5 | \% |
| Professional services | 984 | 991 | (7 | ) | -0.7 | \% | 3,241 | 4,198 | (957 | -22.8 | \% |
| FDIC insurance | 929 | 873 | 56 |  | 6.4 | \% | 2,627 | 2,580 | 47 | 1.8 | \% |
| Advertising and marketing | 878 | 745 | 133 |  | 17.9 | \% | 2,449 | 2,186 | 263 | 12.0 | \% |
| Amortization of identified intangible assets | 725 | 828 | (103 | ) | -12.4 | \% | 2,187 | 2,516 | (329 | -13.1 | \% |
| Other | 2,744 | 2,692 | 52 |  | 1.9 | \% | 8,316 | 7,829 | 487 | 6.2 | \% |
| Total non-interest expense | \$31,270 | \$31,914 | \$(644 |  | -2.0 | \% | \$93,048 | \$96,705 | \$(3,657) | -3.8 | \% |

Non-interest expense for the three months ended September 30, 2015 decreased $\$ 0.6$ million compared to the same period in 2014. The decrease was primarily due to a $\$ 0.6$ million decrease in equipment and data processing expense.

Non-interest expense for the nine months ended September 30, 2015 decreased $\$ 3.7$ million compared to the same period in 2014. The decrease was primarily due to a $\$ 1.6$ million decrease in equipment and data processing expense, a $\$ 1.1$ million decrease in compensation and employee benefits expense, and a $\$ 1.0$ million decrease in professional services expense.

The efficiency ratio decreased to $58.59 \%$ for the three months ended September 30, 2015 from $59.64 \%$ for the three months ended September 30, 2014. This compared to a decrease in the efficiency ratio to $58.74 \%$ for the nine months ended September 30, 2015 from $61.54 \%$ for the nine months ended September 30, 2014. The efficiency ratio improved in 2015 due to a decrease in non-interest expense and an increase in net interest income as a result of continued efforts to drive revenue growth while controlling expenses.

Equipment and data processing expense for the three months ended September 30, 2015 decreased $\$ 0.6$ million, or $14.1 \%$, as compared to the same period in 2014 , and decreased $\$ 1.6$ million, or $12.5 \%$, for the nine months ended September 30, 2015 as compared to the same period in 2014. The decrease was primarily driven by the decrease of core processing system expenses resulting from the sale of the indirect automobile loan portfolio.

Compensation and employee benefit expense for the nine months ended September 30, 2015 decreased $\$ 1.1$ million, or $2.1 \%$, as compared to the same period in 2014. The decrease was primarily driven by a decrease in employee headcount and a decrease in a liability related to the supplemental executive retirement plan in 2015.

Professional services expense for the nine months ended September 30, 2015 decreased $\$ 1.0$ million, or $22.8 \%$, as compared to the same period in 2014. The decrease was largely due to lower audit, tax and legal fees incurred in 2015.

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Provision for Income Taxes


The Company recorded income tax expense of $\$ 6.9$ million for the three months ended September 30, 2015, compared to $\$ 7.2$ million for the three months ended September 30, 2014, representing effective tax rates of $33.9 \%$ and $36.6 \%$, respectively. On a year-to-date basis, the Company recorded income tax expense of $\$ 21.1$ million for the nine months ended September 30, 2015, compared to $\$ 19.7$ million for the same period of 2014, representing effective tax rates of $35.5 \%$ and $36.7 \%$, respectively. The decrease in the effective tax rate in 2015 is primarily attributable to the recent changes in New York State and New York City tax laws, the Company's investments in municipal bonds, the adoption of ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, and the sale of the indirect automobile loans which resulted in higher state tax apportionment in 2014.

## 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 $\$ 4.1$ billion at September 30, 2015, and represented $81.2 \%$ of total funding (the sum of total deposits and total borrowings), compared to deposits of $\$ 4.0$ billion, or $77.8 \%$ of total funding, at December 31, 2014. Core deposits, which consist of demand checking, NOW, savings and money market accounts, totaled $\$ 3.1$ billion at September 30, 2015 and represented $74.3 \%$ of total deposits, compared to core deposits of $\$ 3.0$ billion, or $76.1 \%$ of total deposits, at December 31, 2014. Additionally, the Company acquired $\$ 213.0$ million of brokered deposits at September 30, 2015, which represented $5.1 \%$ of total deposits compared to $\$ 62.0$ million or $1.6 \%$ of total deposits at December 31, 2014. The Company offers attractive interest rates based on market conditions to increase deposits balances, while managing cost of funds.

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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 fund the balance sheet. Borrowings totaled $\$ 960.2$ million at September 30, 2015, representing $18.8 \%$ of total funding, compared to $\$ 1.1$ billion, or $22.2 \%$ of total funding, at December 31, 2014. The decrease was due to decreased FHLBB borrowings of $\$ 155.1$ million using the excess liquidity generated by the sale of the indirect automobile portfolio.

As members of the FHLBB, the Banks have access to both short- and long-term borrowings. At September 30, 2015, the
Company had a $\$ 12.0$ million committed line of credit with the FHLBB for contingent liquidity. 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

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supplement its liquidity. At September 30, 2015 and December 31, 2014, the Company's total borrowing limit from the FHLBB for advances and repurchase agreements was $\$ 1.4$ billion and $\$ 1.5$ billion, respectively, 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 with balances between $10 \%$ and $30 \%$ of total assets. At September 30, 2015, cash, cash equivalents and investment securities available-for-sale totaled $\$ 573.8$ million, or $9.8 \%$ of total assets. This compares to $\$ 613.5$ million, or $10.6 \%$ of total assets, at December 31, 2014.

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

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

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

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

| At September 30, | At December 31, |
| :--- | :--- |
| 2015 | 2014 |
| (In Thousands) |  |

Financial instruments whose contract amounts represent credit risk:
Commitments to originate loans and leases:
Commercial real estate
Commercial
Residential mortgage
Unadvanced portion of loans and leases
\$ 108,274 \$ 107,179

Unused lines of credit:
Home equity
71,064
102,353
8,650
20,520
564,323
629,351

Other consumer
271,016
239,240
Other commercial
12,715
10,876
Unused letters of credit:
Financial standby letters of credit
630
728

Performance standby letters of credit
11,553 16,762
Commercial and similar letters of credit
402
3,126
Back-to-back interest-rate swaps
227
50
293,926
109,362

## Capital Resources

At September 30, 2015, the Company and the Banks are each 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" under prompt corrective action provisions.

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

|  | Minimum Required for <br> Capital Adequacy <br> Purposes | Minimum Required To <br> Be Considered <br> "Well-Capitalized" Under <br> Prompt Corrective <br> Actual Provisions |
| :--- | :--- | :--- |
| Amount Ratio <br> (Dollars in Thousands) | Amount Ratio | Amount Ratio |

At September 30, 2015:
Brookline Bancorp, Inc.

| Common equity tier 1 capital | (1) | 522,565 | 10.61 | $\%$ | 221,635 | 4.50 | $\%$ | N/A |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | N/A

Brookline Bank

| Common equity tier 1 capital | (1) | $\$ 365,153$ | 11.76 | $\%$ | $\$ 139,727$ | 4.50 | $\%$ | $\$ 187,737$ | 6.50 | $\%$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| ratio | (2) | 370,425 | 10.83 | $\%$ | 136,814 | 4.00 | $\%$ | 171,018 | 5.00 | $\%$ |
| Tier 1 leverage capital ratio | (3) | 370,425 | 11.93 | $\%$ | 186,299 | 6.00 | $\%$ | 248,399 | 8.00 | $\%$ |
| Tier 1 risk-based capital ratio | (4) | 406,029 | 13.08 | $\%$ | 248,336 | 8.00 | $\%$ | 310,420 | 10.00 | $\%$ |

## BankRI

| Common equity tier 1 capital | (1) | $\$ 167,159$ | 10.57 | $\%$ | $\$ 71,165$ | 4.50 | $\%$ | $\$ 98,557$ | 6.50 | $\%$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| ratio | (2) | 167,159 | 8.69 | $\%$ | 76,943 | 4.00 | $\%$ | 96,179 | 5.00 | $\%$ |
| Tier 1 leverage capital ratio | (3) | 167,159 | 10.57 | $\%$ | 94,887 | 6.00 | $\%$ | 126,516 | 8.00 | $\%$ |
| Tier 1 risk-based capital ratio | (4) | 186,799 | 11.81 | $\%$ | 126,536 | 8.00 | $\%$ | 158,170 | 10.00 | $\%$ |

First Ipswich

| Common equity tier 1 capital | (1) | $\$ 32,193$ | 13.30 | $\%$ | $\$ 10,892$ | 4.50 | $\%$ | $\$ 15,380$ | 6.50 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| ratio | (2) | 32,193 | 9.28 | $\%$ | 13,876 | 4.00 | $\%$ | 17,345 | 5.00 |
| Tier 1 leverage capital ratio | \% |  |  |  |  |  |  |  |  |
| Tier 1 risk-based capital ratio | (3) | 32,193 | 13.30 | $\%$ | 14,523 | 6.00 | $\%$ | 19,364 | 8.00 |
| Total risk-based capital ratio | (4) | 34,870 | 14.40 | $\%$ | 19,372 | 8.00 | $\%$ | 24,215 | 10.00 |

At December 31, 2014:
Brookline Bancorp, Inc.

| Tier 1 leverage capital ratio | (2) | $\$ 504,964$ | 9.01 | $\%$ | $\$ 224,179$ | 4.00 | $\%$ | N/A | N/A |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Tier 1 risk-based capital ratio | (3) | 504,964 | 10.55 | $\%$ | 191,456 | 4.00 | $\%$ | N/A | N/A |  |
| Total risk-based capital ratio | (4) | 633,421 | 13.24 | $\%$ | 382,732 | 8.00 | $\%$ | N/A | N/A |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Brookline Bank |  |  |  |  |  |  |  |  |  |  |
| Tier 1 leverage capital ratio | (2) | $\$ 336,513$ | 9.60 | $\%$ | $\$ 140,214$ | 4.00 | $\%$ | $\$ 175,267$ | 5.00 | $\%$ |
| Tier 1 risk-based capital ratio | (3) | 336,513 | 10.72 | $\%$ | 125,565 | 4.00 | $\%$ | 188,347 | 6.00 | $\%$ |
| Total risk-based capital ratio | (4) | 373,312 | 11.90 | $\%$ | 250,966 | 8.00 | $\%$ | 313,708 | 10.00 | $\%$ |

## BankRI

Tier 1 leverage capital ratio
Tier 1 risk-based capital ratio

| (2) | $\$ 150,403$ | 8.43 | $\%$ | $\$ 71,366$ | 4.00 | $\%$ | $\$ 89,207$ | 5.00 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| (3) | 150,403 | 10.70 | $\%$ | 56,225 | 4.00 | $\%$ | 84,338 | 6.00 |
| (4) | 166,135 | 11.82 | $\%$ | 112,443 | 8.00 | $\%$ | 140,554 | 10.00 |
| $\%$ |  |  |  |  |  |  |  |  |

First Ipswich

| Tier 1 leverage capital ratio | (2) | $\$ 29,962$ | 9.27 | $\%$ | $\$ 12,929$ | 4.00 | $\%$ | $\$ 16,161$ | 5.00 | $\%$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Tier 1 risk-based capital ratio | (3) | 29,962 | 12.40 | $\%$ | 9,665 | 4.00 | $\%$ | 14,498 | 6.00 | $\%$ |
| Total risk-based capital ratio | (4) | 32,375 | 13.40 | $\%$ | 19,328 | 8.00 | $\%$ | 24,160 | 10.00 | $\%$ |

Common equity tier 1 capital ratio is calculated by dividing common equity Tier 1 capital by risk-weighted assets.
${ }^{1 \text {. }}$ The ratio was established as part of the implementation of Basel III, effective January 1, 2015.
2. Tier 1 leverage capital ratio is calculated by dividing Tier 1 capital by average assets.
3. Tier 1 risk-based capital ratio is calculated by dividing Tier 1 capital by risk-weighted assets.
4. Total risk-based capital ratio is calculated by dividing total capital by risk-weighted assets.

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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 are 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, limiting fixed-rate deposits with terms of more than five years and adjusting maturities of FHLBB advances. The Company limits this risk by restricting the types of MBSs it invests in to those with limited average life changes under certain interest-rate-shock scenarios, or securities with embedded prepayment penalties. The Company also places limits on holdings of fixed-rate mortgage loans with maturities greater than five years. The Company also may use derivative instruments, principally interest-rate swaps, to manage its interest-rate risk; however, the Company had no derivative fair value hedges or derivative cash flows at September 30, 2015 or December 31, 2014. See Note 10, "Derivatives and Hedging Activities," to the unaudited consolidated financial statements.

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

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within established tolerance levels over a twelve-month horizon, and develops appropriate strategies to manage this exposure. The Company's interest-rate risk analysis remains modestly asset-sensitive at September 30, 2015.

As of September 30, 2015, net interest income simulation indicated that the Company's exposure to changing interest rates was within tolerance. 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:


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 positive $2.3 \%$ at September 30, 2015 compared to a positive $1.0 \%$ at December 31, 2014. The increase in asset sensitivity was due to the sale of the indirect auto portfolio which was used to paydown maturing FHLBB borrowings.

The Company also uses interest-rate sensitivity "gap" analysis to provide a more general overview of its interest-rate risk profile. The interest-rate sensitivity gap is defined as the difference between interest-earning assets and interest-bearing
liabilities maturing or repricing within a given time period. At September 30, 2015, the Company's one-year cumulative gap was a negative $\$ 263.7$ million, or $4.9 \%$ of total interest-earning assets, compared with a negative $\$ 371.2$ million, or $6.9 \%$ of total interest-earning assets, at December 31, 2014.

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" of the Company's 2014 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.

EVE at Risk Simulation 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 Simulation, assuming
various shifts in interest rates. Given the interest rate environment at September 30, 2015, simulations for interest rate declines of more than 100 basis points were not deemed to be meaningful.

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Parallel Shock in Interest Rate Levels
Up 300\%
Up 200\%
Up 100\%
Down 100\%

Estimated Percent Change in EVE at Risk At September 30, 2015 At December 31, 2014

| 3.9 | $\%(2.6$ | $) \%$ |
| :--- | ---: | :--- |
| 2.1 | $\%(2.5$ | $) \%$ |
| 1.1 | $\%(1.0$ | $) \%$ |
| $(5.1$ | $) \%(5.4$ | $) \%$ |

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, 2014 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, 2014.

## 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 have 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, 2014.

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 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
The following materials from Brookline Bancorp, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014; (ii) Unaudited Consolidated Statements of Income for the three months and nine months ended Exhibit 101 September 30, 2015 and 2014; (iii) Unaudited Consolidated Statements of Comprehensive Income for the three months and nine months ended September 30, 2015 and 2014; (iv) Unaudited Consolidated Statements of Changes in Equity for the nine months ended September 30, 2015 and 2014; (v) Unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014; and (vi) Notes to Unaudited Consolidated Financial Statements at and for the nine months ended September 30, 2015 and 2014.

| $*$ | Filed herewith. |
| :--- | :--- |
| $* *$ | Furnished herewith. |

## SIGNATURES

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

BROOKLINE BANCORP, INC.

Date: November 9, 2015

Date: November 9, 2015

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

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


[^0]:    Interest-Rate Swaps

