

BROOKLINE BANCORP INC  
Form 10-Q  
May 09, 2016  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

Commission file number 0-23695

Brookline Bancorp, Inc.  
(Exact name of registrant as specified in its charter)

Delaware 04-3402944  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

131 Clarendon Street, Boston, MA 02116  
(Address of principal executive offices) (Zip Code)

(617) 425-4600  
(Registrant's telephone number, including area code)

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

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

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

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

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

At May 9, 2016, the number of shares of common stock, par value \$0.01 per share, outstanding was 70,398,186.



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## PART I — FINANCIAL INFORMATION

## Item 1. Unaudited Consolidated Financial Statements

## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Unaudited Consolidated Balance Sheets

	At March 31, 2016	At December 31, 2015
(In Thousands Except Share Data)		
<b>ASSETS</b>		
Cash and due from banks	\$ 31,127	\$ 28,753
Short-term investments	42,795	46,736
Total cash and cash equivalents	73,922	75,489
Investment securities available-for-sale	536,182	513,201
Investment securities held-to-maturity (fair value of \$84,290 and \$93,695)	83,409	93,757
Total investment securities	619,591	606,958
Loans and leases held-for-sale	3,190	13,383
Loans and leases:		
Commercial real estate loans	2,766,398	2,664,394
Commercial loans and leases	1,398,639	1,374,296
Indirect automobile loans	11,220	13,678
Consumer loans	954,188	943,172
Total loans and leases	5,130,445	4,995,540
Allowance for loan and lease losses	(58,606)	(56,739)
Net loans and leases	5,071,839	4,938,801
Restricted equity securities	65,438	66,117
Premises and equipment, net of accumulated depreciation of \$53,505 and \$51,722, respectively	77,128	78,156
Deferred tax asset	24,181	26,817
Goodwill	137,890	137,890
Identified intangible assets, net of accumulated amortization of \$29,784 and \$29,149, respectively	9,998	10,633
Other real estate owned ("OREO") and repossessed assets, net	565	1,343
Other assets	97,288	86,751
Total assets	\$ 6,181,030	\$ 6,042,338
<b>LIABILITIES AND EQUITY</b>		
Deposits:		
Non-interest-bearing deposits:		
Demand checking accounts	\$ 793,195	\$ 799,117
Interest-bearing deposits:		
NOW accounts	286,920	283,972
Savings accounts	555,843	540,788
Money market accounts	1,649,348	1,594,269
Certificate of deposit accounts	1,108,150	1,087,872
Total interest-bearing deposits	3,600,261	3,506,901
Total deposits	4,393,456	4,306,018
Borrowed funds:		
Advances from the Federal Home Loan Bank of Boston ("FHLBB")	905,953	861,866
Subordinated debentures and notes	82,978	82,936
Other borrowed funds	39,378	38,227

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Total borrowed funds	1,028,309	983,029
Mortgagors' escrow accounts	7,905	7,516
Accrued expenses and other liabilities	64,566	72,289
Total liabilities	5,494,236	5,368,852

Commitments and contingencies (Note 12)

Stockholders' Equity:

Brookline Bancorp, Inc. stockholders' equity:

Common stock, \$0.01 par value; 200,000,000 shares authorized; 75,744,445 shares issued	757	757
Additional paid-in capital	617,477	616,899
Retained earnings, partially restricted	116,151	109,675
Accumulated other comprehensive income/(loss)	3,352	(2,476 )
Treasury stock, at cost; 4,861,554 shares and 4,861,554 shares, respectively	(56,208 )	(56,208 )
Unallocated common stock held by the Employee Stock Ownership Plan ("ESOP"); 203,973 shares and 213,066 shares, respectively	(1,112 )	(1,162 )
Total Brookline Bancorp, Inc. stockholders' equity	680,417	667,485
Noncontrolling interest in subsidiary	6,377	6,001
Total stockholders' equity	686,794	673,486
Total liabilities and stockholders' equity	\$ 6,181,030	\$ 6,042,338

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 March 31,	
	2016	2015
	(In Thousands Except Share Data)	
Interest and dividend income:		
Loans and leases	\$ 54,247	\$ 53,381
Debt securities	2,932	2,683
Marketable and restricted equity securities	680	524
Short-term investments	39	21
Total interest and dividend income	57,898	56,609
Interest expense:		
Deposits	4,745	4,304
Borrowed funds	3,950	3,777
Total interest expense	8,695	8,081
Net interest income	49,203	48,528
Provision for credit losses	2,378	2,263
Net interest income after provision for credit losses	46,825	46,265
Non-interest income:		
Deposit fees	2,145	2,066
Loan fees	330	342
Loan level derivative income, net	1,629	—
Gain on sales of loans and leases held-for-sale	905	869
Other	1,460	1,193
Total non-interest income	6,469	4,470
Non-interest expense:		
Compensation and employee benefits	18,727	17,524
Occupancy	3,526	3,472
Equipment and data processing	3,714	4,020
Professional services	966	1,094
FDIC insurance	878	867
Advertising and marketing	861	748
Amortization of identified intangible assets	635	738
Other	2,746	2,863
Total non-interest expense	32,053	31,326
Income before provision for income taxes	21,241	19,409
Provision for income taxes	7,599	7,104
Net income before noncontrolling interest in subsidiary	13,642	12,305
Less net income attributable to noncontrolling interest in subsidiary	830	602
Net income attributable to Brookline Bancorp, Inc.	\$ 12,812	\$ 11,703
Earnings per common share:		

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Basic	\$ 0.18	\$ 0.17
Diluted	0.18	0.17
Weighted average common shares outstanding during the period:		
Basic	70,186,921	70,036,090
Diluted	70,343,408	70,164,105
Dividends declared per common share	\$ 0.090	\$ 0.085

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 March 31,	
	2016	2015
	(In Thousands)	
Net income before noncontrolling interest in subsidiary	\$13,642	\$12,305
Other comprehensive income, net of taxes:		
Investment securities available-for-sale:		
Unrealized securities holding gains	9,074	5,371
Income tax expense	(3,246 )	(2,002 )
Net unrealized securities holding gains	5,828	3,369
Postretirement benefits:		
Adjustment of accumulated obligation for postretirement benefits	—	—
Income tax expense	—	—
Net adjustment of accumulated obligation for postretirement benefits	—	—
Other comprehensive income, net of taxes	5,828	3,369
Comprehensive income	19,470	15,674
Net income attributable to noncontrolling interest in subsidiary	830	602
Comprehensive income attributable to Brookline Bancorp, Inc.	\$18,640	\$15,072

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

Three Months Ended March 31, 2016 and 2015

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Unallocated Common Stock Held by ESOP	Total Brookline Bancorp, Inc. Stockholders' Equity	Noncontrolling Interest in Subsidiary	Total Equity
(In Thousands Except Share Data)									
Balance at December 31, 2015	\$757	\$616,899	\$109,675	\$(2,476)	\$(56,208)	\$(1,162)	\$667,485	\$6,001	\$673,486
Net income attributable to Brookline Bancorp, Inc.	—	—	12,812	—	—	—	12,812	—	12,812
Net income attributable to noncontrolling interest in subsidiary	—	—	—	—	—	—	—	830	830
Issuance of noncontrolling units	—	—	—	—	—	—	—	76	76
Other comprehensive income	—	—	—	5,828	—	—	5,828	—	5,828
Common stock dividends of \$0.09 per share	—	—	(6,336)	—	—	—	(6,336)	—	(6,336)
Dividend to owners of noncontrolling interest in subsidiary	—	—	—	—	—	—	—	(530)	(530)
Compensation under recognition and retention plans	—	529	—	—	—	—	529	—	529
Common stock held by ESOP committed to be	—	49	—	—	—	50	99	—	99

released (9,093  
shares)

Balance at March 31, 2016	\$757	\$617,477	\$116,151	\$3,352	\$(56,208)	\$(1,112)	) \$680,417	\$6,377	\$686,794
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## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

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

Three Months Ended March 31, 2016 and 2015

	Common Stock	Additional Paid-in Capital	Retained Earnings*	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Unallocated Common Stock Held by ESOP	Total Brookline Bancorp, Inc. Stockholders' Equity*	Noncontrolling Interest in Subsidiary	Total Equity*
(In Thousands Except Share Data)									
Balance at December 31, 2014	\$757	\$617,475	\$84,860	\$ (1,622 )	\$(58,282)	\$ (1,370 )	\$ 641,818	\$ 4,787	\$ 646,605
Net income attributable to Brookline Bancorp, Inc.	—	—	11,703	—	—	—	11,703	—	11,703
Net income attributable to noncontrolling interest in subsidiary	—	—	—	—	—	—	—	602	602
Issuance of noncontrolling units	—	—	—	—	—	—	—	—	—
Other comprehensive income	—	—	—	3,369	—	—	3,369	—	3,369
Common stock dividends of \$0.085 per share	—	—	(5,974 )	—	—	—	(5,974 )	—	(5,974 )
Dividend to owners of noncontrolling interest in subsidiary	—	—	—	—	—	—	—	(742 )	(742 )
Compensation under recognition and retention plans	—	329	—	—	(19 )	—	310	—	310
Common stock held by ESOP committed to be	—	41	—	—	—	52	93	—	93

released (9,579  
shares)

Balance at March 31, 2015	\$757	\$617,845	\$90,589	\$ 1,747	\$(58,301)	\$(1,318 )	\$651,319	\$ 4,647	\$655,966
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(\* ) 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

	Three Months Ended March 31,	
	2016	2015
	(In Thousands)	
Cash flows from operating activities:		
Net income attributable to Brookline Bancorp, Inc.	\$12,812	\$ 11,703
Adjustments to reconcile net income to net cash provided from operating activities:		
Net income attributable to noncontrolling interest in subsidiary	830	602
Provision for credit losses	2,378	2,263
Origination of loans and leases held-for-sale	(11,949 )	(5,185 )
Proceeds from loans and leases held-for-sale, net <sup>(1)</sup>	12,323	6,283
Deferred income tax expense	(611 )	(149 )
Depreciation of premises and equipment	1,783	1,792
Amortization of investment securities premiums and discounts, net	500	509
Amortization of deferred loan and lease origination costs, net	1,453	1,860
Amortization of identified intangible assets	635	738
Amortization of debt issuance costs	25	25
Accretion of acquisition fair value adjustments, net	(789 )	(1,875 )
Gain on sales of loans and leases held-for-sale	(905 )	(869 )
Loss on sales of OREO and repossessed assets, net	(7 )	—
Write-down of OREO and repossessed assets	45	38
Compensation under recognition and retention plans	570	366
ESOP shares committed to be released	99	93
Net change in:		
Cash surrender value of bank-owned life insurance	(259 )	(263 )
Other assets	(10,278 )	1,216
Accrued expenses and other liabilities	(8,332 )	(10,525 )
Net cash provided from operating activities <sup>(1)</sup>	323	8,622
Cash flows from investing activities:		
Proceeds from maturities, calls and principal repayments of investment securities available-for-sale	27,639	19,974
Purchases of investment securities available-for-sale	(41,985 )	(29,466 )
Proceeds from maturities, calls, and principal repayments of investment securities held-to-maturity	13,784	—
Purchases of investment securities held-to-maturity	(3,496 )	—
Proceeds from redemption of restricted equity securities	679	—
Proceeds from sales of loans and leases held-for-investment, net <sup>(1)</sup>	23,116	267,164
Net increase in loans and leases <sup>(1)</sup>	(149,323)	(83,176 )
Proceeds from sales of OREO and repossessed assets <sup>(1)</sup>	1,547	2,647
Purchase of premises and equipment, net	(796 )	(466 )
Net cash (used for) provided from investing activities <sup>(1)</sup>	(128,835)	176,677

(Continued)

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Unaudited Consolidated Statements of Cash Flows (Continued)

	Three Months Ended March 31,	
	2016	2015
	(In Thousands)	
Cash flows from financing activities:		
Increase in demand checking, NOW, savings and money market accounts	67,160	51,817
Increase in certificates of deposit	20,302	104,915
Proceeds from FHLBB advances	2,244,237	1,587,500
Repayment of FHLBB advances	(2,199,504)	(1,784,343)
Increase/(decrease) in other borrowed funds, net	1,151	(3,987)
Increase/(decrease) in mortgagors' escrow accounts, net	389	(87)
Payment of dividends on common stock	(6,336)	(5,974)
Proceeds from issuance of noncontrolling units	76	—
Payment of dividends to owners of noncontrolling interest in subsidiary	(530)	(742)
Net cash provided from (used for) financing activities	126,945	(50,901)
Net (increase)/decrease in cash and cash equivalents	(1,567)	134,398
Cash and cash equivalents at beginning of period	75,489	62,723
Cash and cash equivalents at end of period	\$73,922	\$197,121
Supplemental disclosures of cash flows information:		
Cash paid during the period for:		
Interest on deposits, borrowed funds and subordinated debt	\$10,447	\$9,996
Income taxes	8,286	3,216
Non-cash investing activities:		
Transfer from loans and leases held-for-sale to loans and leases	\$10,000	\$—
Transfer from loans to other real estate owned	\$807	\$3,252

(1) 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 has been revised to cash flows from investing activities in the first 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 three months ended March 31, 2015.

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 Three Months Ended March 31, 2016 and 2015

(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. The Company’s primary business is to provide commercial, business and retail banking services to its corporate, municipal, and individual customers through the Banks and its non-bank subsidiaries.

Brookline Bank, which includes its wholly-owned subsidiaries BBS Investment Corp., Longwood Securities Corp. and its 84.4%-owned subsidiary, Eastern Funding LLC (“Eastern Funding”), operates 25 full-service banking offices in the greater Boston metropolitan area. BankRI, which includes its wholly-owned subsidiaries, Acorn Insurance Agency, BRI Realty Corp., Macrolease Corporation (“Macrolease”), BRI Investment Corp. and its wholly-owned subsidiary, BRI MSC Corp., operates 19 full-service banking offices in the greater Providence area. First Ipswich, which includes its wholly-owned subsidiaries, First Ipswich Insurance Agency and First Ipswich Securities II Corp., operates five 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, New York, and Macrolease, which is based in Plainview, New York.

The Company and the Banks are supervised, examined and regulated by the Board of Governors of the Federal Reserve System (“FRB”). As 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, 2015.

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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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Three Months Ended March 31, 2016 and 2015

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.

(2) Recent Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU was issued as part of the FASB Simplification Initiative which intends to reduce the complexity of GAAP while improving usefulness to users. There are eight main items in this ASU that contribute to the simplification of share-based accounting. For public entities, this ASU is effective for the fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. Management is currently assessing the applicability of ASU 2016-09 and has not determined the impact of the deferral, if any, as of March 31, 2016.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). This ASU was issued to clarify how to recognize revenue depending on an entities position, in relation to another entity involved, on contracts with customers. The entity can either be a principal party or an agent, and must record revenue accordingly. This ASU is not yet effective. Since this ASU affects ASU 2014-09, and that effective date was deferred, this ASU remains suspended too. Management is currently assessing the applicability of ASU 2016-08 and has not determined the impact of the deferral, if any, as of March 31, 2016.

In March 2016, the FASB issued ASU 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. This ASU was issued as part of the FASB Simplification Initiative which intends to reduce the complexity of GAAP while improving usefulness to users. This ASU no longer requires that the equity method be retroactively implemented. Only when an investment qualifies for the equity method is it necessary to switch accounting methods, assuming equity method is not already in place. For public entities, this ASU is effective for the fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. This ASU must be applied prospectively on the effective date. Early adoption is permitted. Management is currently assessing the applicability of ASU 2016-07 and has not determined the impact of the deferral, if any, as of March 31, 2016.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. This ASU was issued to identify a consistent approach on identifying whether or not call (put) options embedded in derivatives meet certain criteria which would then require that they be accounted for separately. GAAP has established rules in order to go about evaluating options within derivatives however questions

arose. The Derivatives Implementation Group then created four steps to aid in this evaluation process. This ASU requires that this four step process be the only assessment process in place for this issue. For public entities, this ASU is effective for the fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. This ASU must be applied prospectively on the effective date. Early adoption is permitted. Management is currently assessing the applicability of ASU 2016-06 and has not determined the impact of the deferral, if any, as of March 31, 2016.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases. This ASU requires lessees to put most leases on their balance sheet but recognize expenses on their income statements in a manner similar to current accounting. This ASU also eliminates current real estate-specific provisions for all companies. For lessors, this ASU modifies the classification criteria and the accounting for sales-type and direct financing leases. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods therein. Early

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## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Three Months Ended March 31, 2016 and 2015

adoption is permitted. The Company is currently assessing the applicability of this ASU and has not determined the impact, if any, as of March 31, 2016.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments. This ASU significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods therein. The Company is currently assessing the applicability of this ASU and has not determined the impact, if any, as of March 31, 2016.

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 effect, 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 March 31, 2016.

## (3) Investment Securities

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

	At March 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In Thousands)			
Investment securities available-for-sale:				
Debt securities:				
GSEs	\$56,108	\$ 1,151	\$ —	\$ 57,259
GSE CMOs	189,529	700	1,049	189,180
GSE MBSs	240,138	3,282	206	243,214
SBA commercial loan asset-backed securities	134	—	1	133
Corporate debt obligations	43,173	1,065	—	44,238
Trust preferred securities	1,467	—	302	1,165
Total debt securities	530,549	6,198	1,558	535,189
Marketable equity securities	959	34	—	993
Total investment securities available-for-sale	\$531,508	\$ 6,232	\$ 1,558	\$ 536,182
Investment securities held-to-maturity:				
GSEs	\$25,420	\$ 111	\$ —	\$ 25,531
GSEs MBSs	18,539	17	48	18,508
Municipal obligations	38,950	817	—	39,767
Foreign government securities	500	—	16	484
Total investment securities held-to-maturity	\$83,409	\$ 945	\$ 64	\$ 84,290



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## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

At and for the Three Months Ended March 31, 2016 and 2015

	At December 31, 2015			
	Amortized	Gross	Gross	Estimated
	Cost	Unrealized	Unrealized	Fair Value
		Gains	Losses	
	(In Thousands)			
Investment securities available-for-sale:				
Debt securities:				
GSEs	\$40,658	\$ 141	\$ 172	\$40,627
GSE CMOs	198,000	45	4,229	193,816
GSE MBSs	230,213	1,098	1,430	229,881
SBA commercial loan asset-backed securities	148	—	1	147
Corporate debt obligations	46,160	344	18	46,486
Trust preferred securities	1,466	—	199	1,267
Total debt securities	516,645	1,628	6,049	512,224
Marketable equity securities	956	21	—	977
Total investment securities available-for-sale	\$517,601	\$ 1,649	\$ 6,049	\$ 513,201
Investment securities held-to-maturity:				
GSEs	\$34,915	\$ 9	\$ 105	\$34,819
GSEs MBSs	19,291	—	305	18,986
Municipal obligations	39,051	364	25	39,390
Foreign government securities	500	—	—	500
Total investment securities held-to-maturity	\$93,757	\$ 373	\$ 435	\$93,695

At March 31, 2016, the fair value of all investment securities available-for-sale was \$536.2 million, with net unrealized gains of \$4.7 million, compared to a fair value of \$513.2 million and net unrealized losses of \$4.4 million at December 31, 2015. At March 31, 2016, \$122.0 million, or 22.8% of the portfolio, had gross unrealized losses of \$1.6 million, compared to \$368.1 million, or 71.7%, with gross unrealized losses of \$6.0 million at December 31, 2015.

At March 31, 2016, the fair value of all investment securities held-to-maturity was \$84.3 million, with net unrealized gains of \$0.9 million, compared to a fair value of \$93.7 million with net unrealized losses of \$62.0 thousand at December 31, 2015. At March 31, 2016, \$11.2 million, or 13.2% of the portfolio, had gross unrealized losses of \$64.0 thousand, compared to \$52.3 million, or 55.8% with gross unrealized losses of \$0.4 million at December 31, 2015.

## Investment Securities as Collateral

At March 31, 2016 and December 31, 2015, respectively, \$462.6 million and \$486.4 million of investment securities were pledged as collateral for repurchase agreements; municipal deposits; treasury, tax and loan deposits; swap agreements; and FHLBB borrowings.

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## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

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## Other-Than-Temporary Impairment (“OTTI”)

Investment securities at March 31, 2016 and December 31, 2015 that have been in a continuous unrealized loss position for less than twelve months or twelve months or longer are as follows:

	At March 31, 2016					
	Less than Twelve Months		Twelve Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(In Thousands)					
Investment securities available-for-sale:						
GSEs	\$—	\$ —	\$ —	\$ —	\$—	\$ —
GSE CMOs	7,098	45	91,002	1,004	98,100	1,049
GSE MBSs	—	—	22,654	206	22,654	206
SBA commercial loan asset-backed securities	—	—	125	1	125	1
Corporate debt obligations	—	—	—	—	—	—
Trust preferred securities	—	—	1,165	302	1,165	302
Temporarily impaired debt securities available-for-sale	7,098	45	114,946	1,513	122,044	1,558
Investment securities held-to-maturity:						
GSEs	—	—	—	—	—	—
GSEs MBSs	10,670	48	—	—	10,670	48
Municipal obligations	—	—	—	—	—	—
Foreign government securities	484	16	—	—	484	16
Temporarily impaired debt securities held-to-maturity	11,154	64	—	—	11,154	64
Total temporarily impaired investment securities	\$18,252	\$ 109	\$ 114,946	\$ 1,513	\$133,198	\$ 1,622

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## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

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	At December 31, 2015					
	Less than Twelve Months		Twelve Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(In Thousands)					
Investment securities available-for-sale:						
GSEs	\$ 19,633	\$ 172	\$ —	\$ —	\$ 19,633	\$ 172
GSE CMOs	89,680	1,294	100,473	2,935	190,153	4,229
GSE MBSs	133,779	845	16,968	585	150,747	1,430
Private-label CMOs	—	—	—	—	—	—
SBA commercial loan asset-backed securities	—	—	139	1	139	1
Auction-rate municipal obligations	—	—	—	—	—	—
Corporate debt obligations	6,181	18	—	—	6,181	18
Trust preferred securities	—	—	1,267	199	1,267	199
Temporarily impaired debt securities available-for-sale	\$ 249,273	\$ 2,329	\$ 118,847	\$ 3,720	\$ 368,120	\$ 6,049
Investment securities held-to-maturity:						
GSEs	\$ 25,837	\$ 105	\$ —	\$ —	\$ 25,837	\$ 105
GSEs MBSs	18,834	305	—	—	18,834	305
Municipal obligations	7,629	25	—	—	7,629	25
Foreign government securities	—	—	\$ —	—	—	—
Temporarily impaired debt securities held-to-maturity	\$ 52,300	\$ 435	\$ —	\$ —	\$ 52,300	\$ 435
Total temporarily impaired investment securities	\$ 301,573	\$ 2,764	\$ 118,847	\$ 3,720	\$ 420,420	\$ 6,484

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 March 31, 2016. 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 March 31, 2016. If market conditions for investment securities

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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 March 31, 2016, only GNMA MBSs and CMOs, and Small Business Administration (“SBA”) commercial loan asset-backed securities with an estimated fair value of \$24.0 million were backed explicitly by the full faith and credit of the U.S. Government, compared to \$21.8 million at December 31, 2015.

At March 31, 2016, the Company held GSE debentures with a total fair value of \$57.3 million with a net unrealized gain of \$1.2 million. At December 31, 2015, the Company held GSE debentures with a total fair value of \$40.6 million, which approximated amortized cost. At March 31, 2016, none of the eighteen securities in this portfolio were in an unrealized loss position. At December 31, 2015, seven of the thirteen 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 three months ended March 31, 2016, the Company purchased \$21.5 million of GSE debentures. There were no purchases of GSE debentures during the same period in 2015.

At March 31, 2016, the Company held GSE mortgage-related securities with a total fair value of \$432.4 million with a net unrealized gain of \$2.7 million. This compares to a total fair value of \$423.7 million with a net unrealized loss of \$4.5 million at December 31, 2015. At March 31, 2016, 38 of the 254 securities in this portfolio were in unrealized loss positions, compared to 101 of the 249 securities at December 31, 2015. All securities are performing and backed by the implicit (FHLB / FNMA / FHLMC) or explicit (GNMA) guarantee of the U.S. Government. During the three months ended March 31, 2016, the Company purchased \$20.5 million in GSE CMOs and GSE MBSs. This compares to a total of \$29.5 million purchased during the same period in 2015.

SBA Commercial Loan Asset-Backed Securities

At March 31, 2016, the Company held six SBA securities with a total fair value of \$0.1 million which approximated cost as compared to December 31, 2015, where the Company held seven SBA securities with a total fair value of \$0.1 million, which approximated amortized cost. At March 31, 2016, five of the six securities in this portfolio were in unrealized loss positions and at December 31, 2015, six of the seven securities in this portfolio were in unrealized loss positions. All securities are performing and are backed by the explicit (SBA) guarantee of the U.S. Government.

Corporate Obligations

From time to time, the Company may invest in high-quality corporate obligations to provide portfolio diversification and improve the overall yield on the portfolio. At March 31, 2016, the Company held fifteen corporate obligation securities with a total fair value of \$44.2 million and a net unrealized gain of \$1.1 million as compared to fifteen corporate obligation securities with a total fair value of \$46.5 million and a net unrealized gain of \$0.3 million at December 31, 2015. At March 31, 2016, none of the fifteen securities in this portfolio was in an unrealized loss

position. At December 31, 2015, two of the fifteen securities in this portfolio were in an unrealized loss position. Full collection of the obligations is expected because the financial condition of the issuer is sound, and the issuer 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 three months ended March 31, 2016 and 2015, the Company did not purchase any corporate obligations.

#### Trust Preferred Securities

Trust preferred securities represent subordinated debt issued by financial institutions. At March 31, 2016, the Company owned two trust preferred securities with a total fair value of \$1.2 million and a net unrealized loss of \$0.3 million. This compares to two trust preferred securities with a total fair value of \$1.3 million and a net unrealized loss of \$0.2 million at December 31, 2015. At March 31, 2016 and December 31, 2015, both of the securities in this portfolio were in unrealized loss

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positions. Full collection of the obligations is expected because the financial condition of the issuers is sound, neither of the issuers have 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 March 31, 2016 and December 31, 2015, the Company owned two marketable equity securities with a fair value of \$1.0 million, which approximated amortized cost. At March 31, 2016 and December 31, 2015, neither of the securities in this portfolio was in an unrealized loss position.

Investment Securities Held-to-Maturity Impairment Analysis

As of March 31, 2016, the Company owned 93 held-to-maturity investment securities with a total fair value of \$84.3 million and a net unrealized gain of \$0.9 million. This compares to a fair value of \$93.7 million at December 31, 2015. As of March 31, 2016, five of the securities were in an unrealized loss position compared to none of the securities in an unrealized loss position at December 31, 2015. Management does not intend to sell these securities prior to maturity. As such, Management has determined that the investment securities are not OTTI at March 31, 2016. During the three months ended March 31, 2016, the Company purchased \$3.5 million of held-to-maturity investment securities. The Company did not purchase any held-to-maturity investment securities during the same period in 2015.

U.S. Government-Sponsored Enterprises

The Company invests in securities issued by GSEs including GSE debt securities, MBSs, and CMOs. GSE securities include obligations issued by FNMA, FHLMC, GNMA, FHLB, and the Federal Farm Credit Bank. As of March 31, 2016, the Company owned GSE debentures and GSE MBS with a total fair value of \$25.5 million and \$18.5 million, respectively.

As of March 31, 2016, the Company owned GSE mortgage-related securities with a total amortized cost of \$18.5 million as compared to December 31, 2015, where the amortized cost was \$19.3 million. During the period ended March 31, 2016, the Company purchased a total of \$3.0 million in GSEs and no GSE MBSs and did not make any purchases in the same period in 2015. As of March 31, 2016, four of the 20 securities were in unrealized loss positions as compared to December 31, 2015, where 16 of the 22 securities in this portfolio were in unrealized loss positions. All securities are performing and backed by the implicit (FHLB/FNMA/FHLMC) or explicit (GNMA) guarantee of the U.S Government.

Municipal Obligations

As of March 31, 2016, the Company owned 72 municipal obligation securities with a total fair value and total amortized cost of \$39.8 million and \$39.0 million, respectively, as compared to December 31, 2015 where the 72 municipal obligations had a total fair value and total amortized cost of \$39.4 million and \$39.1 million, respectively. During the periods ended March 31, 2016 and March 31, 2015, the Company did not purchase any municipal obligations. As of March 31, 2016, none of the 72 securities in this portfolio was in an unrealized loss position as compared to December 31, 2015, where 15 of the 72 securities in this portfolio were in unrealized loss positions.

Foreign Government Obligations

As of March 31, 2016 and December 31, 2015, the Company owned one foreign government obligation security with a fair value and amortized cost of \$0.5 million. As of March 31, 2016, the foreign government obligation security was in an unrealized loss position as compared to December 31, 2015, where the security was not in an unrealized loss position. During the period ended March 31, 2016, the Company repurchased the same \$0.5 million foreign government obligation securities that had matured in the same period. The Company did not purchase any foreign

government obligation securities during the same period in 2015.

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## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

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## Portfolio Maturities

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

	At March 31, 2016			At December 31, 2015		
	Amortized Cost	Estimated Fair Value	Weighted Average Rate	Amortized Cost	Estimated Fair Value	Weighted Average Rate
	(Dollars in Thousands)					
Investment securities available-for-sale:						
Within 1 year	\$55	\$55	2.00 %	\$2,999	\$3,003	2.09 %
After 1 year through 5 years	56,364	57,680	2.30 %	59,729	60,249	2.32 %
After 5 years through 10 years	114,774	116,956	2.03 %	100,658	100,833	2.05 %
Over 10 years	359,356	360,498	1.95 %	353,259	348,139	1.97 %
	\$530,549	\$535,189	2.00 %	\$516,645	\$512,224	2.03 %
Investment securities held-to-maturity:						
Within 1 year	\$135	\$135	1.80 %	\$651	\$651	1.00 %
After 1 year through 5 years	18,502	18,625	1.36 %	23,888	23,866	1.52 %
After 5 years through 10 years	46,368	47,157	2.02 %	50,078	50,344	2.00 %
Over 10 years	18,404	18,373	1.69 %	19,140	18,834	1.82 %
	\$83,409	\$84,290	1.80 %	\$93,757	\$93,695	1.83 %

Actual maturities of debt securities may differ from those presented above since certain obligations, particularly MBS and CMOs, amortize and provide the issuer the right to call or prepay the obligation prior to the scheduled final stated maturity without penalty.

At March 31, 2016, issuers of debt securities, excluding MBS and CMOs, with an estimated fair value of \$34.4 million had the right to call or prepay the obligations. Of the \$34.4 million, \$6.1 million matures in 1 - 5 years, \$27.2 million matures in 6 - 10 years, and \$1.2 million matures after 10 years. At December 31, 2015, issuers of debt securities with an estimated fair value of \$48.5 million had the right to call or prepay the obligations. Of the \$48.5 million, \$15.5 million matures in 1 - 5 years, \$31.8 million matures in 6 - 10 years, and \$1.3 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 periods ended March 31, 2016 and 2015.

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## BROOKLINE BANCORP, INC. AND SUBSIDIARIES

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## (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 March 31, 2016		Acquired	Total		Weighted
	Originated	Weighted		Balance	Weighted	
	Balance	Average	Balance	Average	Balance	Average
		Coupon		Coupon		Coupon
	(Dollars in Thousands)					
Commercial real estate loans:						
Commercial real estate	\$1,776,031	3.97 %	\$182,026	4.15 %	\$1,958,057	3.99 %
Multi-family mortgage	650,600	3.89 %	31,717	4.52 %	682,317	3.91 %
Construction	125,798	3.79 %	226	3.67 %	126,024	3.79 %
Total commercial real estate loans	2,552,429	3.94 %	213,969	4.20 %	2,766,398	3.96 %
Commercial loans and leases:						
Commercial	601,727	3.91 %	14,563	5.82 %	616,290	3.96 %
Equipment financing	713,902	7.08 %	7,719	6.06 %	721,621	7.07 %
Condominium association	60,728	4.47 %	—	— %	60,728	4.47 %
Total commercial loans and leases	1,376,357	5.58 %	22,282	5.90 %	1,398,639	5.59 %
Indirect automobile loans	11,220	5.47 %	—	— %	11,220	5.47 %
Consumer loans:						
Residential mortgage	533,155	3.65 %	84,346	3.93 %	617,501	3.69 %
Home equity	243,795	3.47 %	75,064	4.01 %	318,859	3.60 %
Other consumer	17,707	3.81 %	121	17.66 %	17,828	3.90 %
Total consumer loans	794,657	3.60 %	159,531	3.98 %	954,188	3.66 %
Total loans and leases	\$4,734,663	4.36 %	\$395,782	4.21 %	\$5,130,445	4.35 %

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At December 31, 2015

Originated	Acquired	Total
Weighted Average Coupon	Balance Average Coupon	Weighted Average Coupon

(Dollars in Thousands)

Commercial real estate loans: