BROOKLINE BANCORP INC
Form 10-Q
August 09, 2013
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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 June 30, 2013

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	**02117-9179**
(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 x NO o

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

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

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 August 9, 2013, the number of shares of common stock, par value $0.01 per share, outstanding was 70,161,645.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

FORM 10-Q

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PART I FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Financial Statements

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Unaudited Consolidated Balance Sheets

	At June 30, 2013	At December 31, 2012
	(In Thousands Except Share Data)	
ASSETS		
Cash and due from banks	$ 33,008	$ 78,441
Short-term investments	66,787	38,656
Total cash and cash equivalents	99,795	117,097
Investment securities available-for-sale (amortized cost of $486,590 and $475,946, respectively)	479,177	481,323
Investment securities held-to-maturity (fair value of $500 and $502, respectively)	500	500
Total investment securities	479,677	481,823
Loans held-for-sale	4,221	3,233
Loans and leases:		
Commercial real estate loans	2,056,674	2,005,963
Commercial loans and leases	895,090	847,455
Indirect automobile loans	479,782	542,344
Consumer loans	773,469	779,950
Total loans and leases	4,205,015	4,175,712
Allowance for loan and lease losses	(44,281)	(41,152)
Net loans and leases	4,160,734	4,134,560
Restricted equity securities	66,627	68,661
Premises and equipment, net of accumulated depreciation and amortization of $41,514 and $38,985, respectively	76,867	70,791
Deferred tax asset	32,739	27,197
Goodwill, net	137,890	137,890
Identified intangible assets, net of accumulated amortization of $20,615 and $18,272, respectively	19,168	21,510
Other real estate owned and repossessed assets, net	1,493	1,491
Other assets	71,269	83,281
Total assets	$ 5,150,480	$ 5,147,534
LIABILITIES AND EQUITY		
Deposits:		
Non-interest-bearing deposits:		
Demand checking accounts	$ 644,507	$ 623,274
Interest-bearing deposits:		
NOW accounts	196,778	212,858
Savings accounts	503,170	515,367
Money market accounts	1,340,024	1,253,819
Certificate of deposit accounts	972,502	1,010,941
Total interest-bearing deposits	3,012,474	2,992,985
Total deposits	3,656,981	3,616,259
Borrowed funds:		
Advances from the FHLBB	785,565	790,865

Other borrowed funds		44,501		63,104
Total borrowed funds		830,066		853,969
Mortgagors escrow accounts		7,465		6,946
Accrued expenses and other liabilities		41,097		54,551
Total liabilities		4,535,609		4,531,725
Equity:				
Brookline Bancorp, Inc. stockholders equity:				
Common stock, $0.01 par value; 200,000,000 shares authorized; 75,744,445 shares and 75,749,825 shares issued, respectively		754		754
Additional paid-in capital		619,036		618,429
Retained earnings, partially restricted		59,747		53,358
Accumulated other comprehensive (loss) income		(4,441)		3,483
Treasury stock, at cost; 5,373,733 shares		(62,107)		(62,107)
Unallocated common stock held by ESOP; 312,792 shares and 333,918 shares, respectively		(1,705)		(1,820)
Total Brookline Bancorp, Inc. stockholders equity		611,284		612,097
Noncontrolling interest in subsidiary		3,587		3,712
Total equity		614,871		615,809
Total liabilities and equity	$	5,150,480	$	5,147,534

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In Thousands Except Share Data)			
Interest and dividend income:				
Loans and leases	$ 50,644	$ 50,135	$ 100,063	$ 99,778
Debt securities	1,934	1,541	3,786	4,770
Short-term investments	19	68	50	95
Marketable and restricted equity securities	303	95	612	187
Total interest and dividend income	52,900	51,839	104,511	104,830
Interest expense:				
Deposits	4,743	5,463	9,578	10,980
Borrowed funds and subordinated debt	2,794	3,617	5,903	7,458
Total interest expense	7,537	9,080	15,481	18,438
Net interest income	45,363	42,759	89,030	86,392
Provision for credit losses	2,439	6,678	4,294	9,925
Net interest income after provision for credit losses	42,924	36,081	84,736	76,467
Non-interest income:				
Fees, charges and other income	3,762	4,168	7,402	7,901
Loss from investments in affordable housing projects	(624)	(244)	(936)	(383)
Gain on sales of securities		797		797
Total non-interest income	3,138	4,721	6,466	8,315
Non-interest expense:				
Compensation and employee benefits	16,697	14,238	32,993	28,926
Occupancy	2,865	2,503	5,948	5,179
Equipment and data processing	4,150	3,632	8,163	7,275
Professional services	1,513	2,554	3,014	9,008
FDIC insurance	936	1,230	1,870	2,150
Advertising and marketing	768	774	1,438	1,476
Amortization of identified intangible assets	1,177	1,271	2,343	2,554
Other	2,709	2,419	5,816	4,501
Total non-interest expense	30,815	28,621	61,585	61,069
Income before provison for income taxes	15,247	12,181	29,617	23,713
Provision for income taxes	5,382	4,398	10,511	9,296
Net income before noncontrolling interest in subsidiary	9,865	7,783	19,106	14,417
Less net income attributable to noncontrolling interest in subsidiary	375	254	802	539
Net income attributable to Brookline Bancorp, Inc.	$ 9,490	$ 7,529	$ 18,304	$ 13,878
Earnings per common share:				
Basic	$ 0.14	$ 0.11	$ 0.26	$ 0.20

Diluted	0.14	0.11	0.26	0.20
Weighted average common shares outstanding during the period:				
Basic	69,774,703	69,677,656	69,768,777	69,671,130
Diluted	69,833,541	69,715,890	69,823,615	69,706,694
Dividends declared per common share	$ 0.085	$ 0.085	$ 0.170	$ 0.170

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In Thousands)			
Net income before noncontrolling interest in subsidiary	$ 9,865	$ 7,783	$ 19,106	$ 14,417
Other comprehensive income (loss), net of taxes:				
Investment securities available-for-sale:				
Unrealized securities holding (losses) gains excluding non-credit gain on impairment of securities	(10,773)	40	(12,791)	802
Non-credit gain on impairment of securities		32		34
Net unrealized securities holding (losses) gains before income taxes	(10,773)	72	(12,791)	836
Income tax benefit (expense)	4,093	(42)	4,861	(311)
Net unrealized securities holding (losses) gains	(6,680)	30	(7,930)	525
Less reclassification adjustment for securities gains included in net income:				
Gain on sales of securities, net		797		797
Income tax expense		(282)		(282)
Net reclassification adjustments for securities gains included in net income		515		515
Net unrealized securities holding (losses) gains	(6,680)	(485)	(7,930)	10
Postretirement benefits:				
Adjustment of accumulated obligation for postretirement benefits	8	(5)	8	(10)
Income tax benefit	(2)	2	(2)	6
Net adjustment of accumulated obligation for postretirement benefits	6	(3)	6	(4)
Net other comprehensive (loss) income	(6,674)	(488)	(7,924)	6
Comprehensive income	3,191	7,295	11,182	14,423
Net income attributable to noncontrolling interest in subsidiary	375	254	802	539
Comprehensive income attributable to Brookline Bancorp, Inc.	$ 2,816	$ 7,041	$ 10,380	$ 13,884

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

Six Months Ended June 30, 2013 and 2012

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Unallocated Common Stock Held by ESOP	Total Brookline Bancorp, Inc. Stockholders Equity	Noncontrolling Interest in Subsidiary	Total Equity
	(In Thousands Except Share Data)								
Balance at December 31, 2012	$ 754	$ 618,429	$ 53,358	$ 3,483	$ (62,107)	$ (1,820)	$ 612,097	$ 3,712	$ 615,809
Net income attributable to Brookline Bancorp, Inc.			18,304				18,304		18,304
Net income attributable to noncontrolling interest in subsidiary								802	802
Other comprehensive loss				(7,924)			(7,924)		(7,924)
Common stock dividends of $0.17 per share			(11,915)				(11,915)		(11,915)
Dividend to owners of noncontrolling interest in subsidiary								(927)	(927)
Compensation under recognition and retention plan		536					536		536
Common stock held by ESOP committed to be released (21,126 shares)		71				115	186		186
Balance at June 30, 2013	$ 754	$ 619,036	$ 59,747	$ (4,441)	$ (62,107)	$ (1,705)	$ 611,284	$ 3,587	$ 614,871

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Changes in Equity (Continued)

Six Months Ended June 30, 2013 and 2012

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Unallocated Common Stock Held by ESOP	Total Brookline Bancorp, Inc. Stockholders Equity	Noncontrolling Interest in Subsidiary	Total Equity
	(In Thousands Except Share Data)								
Balance at December 31, 2011	$ 644	$ 525,171	$ 39,993	$ 1,963	$ (62,107)	$ (2,062)	$ 503,602	$ 3,400	$ 507,002
Net income attributable to Brookline Bancorp, Inc.			13,878				13,878		13,878
Net income attributable to noncontrolling interest in subsidiary								539	539
Issuance of shares of common stock (10,997,840 shares)	110	92,712					92,822		92,822
Other comprehensive income				6			6		6
Common stock dividends of $0.17 per share			(11,865)				(11,865)		(11,865)
Compensation under recognition and retention plan		301					301		301
Common stock held by ESOP committed to be released (22,146 shares)						121	121		121
Balance at June 30, 2012	$ 754	$ 618,184	$ 42,006	$ 1,969	$ (62,107)	$ (1,941)	$ 598,865	$ 3,939	$ 602,804

See accompanying notes to the unaudited consolidated financial statements.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Cash Flows

	Six Months Ended June 30,	
	2013	2012
	(In Thousands)	
Cash flows from operating activities:		
Net income attributable to Brookline Bancorp, Inc.	$ 18,304	$ 13,878
Adjustments to reconcile net income to net cash provided from operating activities:		
Net income attributable to noncontrolling interest in subsidiary	802	539
Provision for credit losses	4,294	9,925
Origination of loans and leases to be sold	(23,378)	(52,044)
Proceeds from loans and leases sold	22,888	57,068
Deferred income tax expense	(676)	(199)
Depreciation of premises and equipment	2,822	1,696
Amortization of securities premiums and discounts, net	1,809	2,702
Amortization of deferred loan and lease origination costs, net	5,160	5,171
Amortization of identified intangible assets	2,343	2,554
Accretion of acquisition fair value adjustments, net	(4,008)	(5,820)
Gain on sale of investment securities		(797)
Gains on sale of loans held for sale	(498)	(350)
Gains on sales of other real estate owned and repossessed assets	(25)	43
Write-down of other real estate owned and repossessed assets	178	101
Compensation under recognition and retention plans	536	301
Loss on investments in affordable housing projects	936	383
ESOP shares committed to be released	186	121
Net change in:		
Cash surrender value of bank-owned life insurance	(551)	(590)
Other assets	11,627	(8,683)
Accrued expenses and other liabilities	(13,559)	(4,365)
Net cash provided from operating activities	29,190	21,634
Cash flows from investing activities:		
Proceeds from sales of investment securities available-for-sale		157,225
Proceeds from maturities, calls and principal repayments of investment securities available-for-sale	69,826	116,908
Purchases of investment securities available-for-sale	(82,283)	(130,230)
Proceeds from redemption of restricted equity securities	2,108	
Purchases of restricted equity securities	(74)	(7,990)
Purchases of investment securities held-to-maturity		(500)
Net increase in loans and leases	(38,673)	(163,023)
Acquisitions, net of cash and cash equivalents acquired		(89,258)
Monies in escrow Bancorp Rhode Island, Inc. acquisition		112,983
Purchase of premises and equipment	(9,072)	(12,881)
Sale of premises and equipment	102	32
Redemption of restricted-equity securities		2,003
Proceeds from sales of other real estate owned and repossessed assets	5,495	153
Net cash used for investing activities	(52,571)	(14,578)

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Cash Flows (Continued)

	Six Months Ended June 30,	
	2013	2012
	(In Thousands)	
Cash flows from financing activities:		
Increase in demand checking, NOW, savings and money market accounts	79,161	180,081
Decrease in certificates of deposit	(38,717)	(43,862)
Proceeds from FHLBB advances	1,767,800	1,493,274
Repayment of FHLBB advances	(1,771,275)	(1,536,840)
Repayment of subordinated debt	(18,567)	
Increase in other borrowed funds		22,519
Increase in mortgagors escrow accounts	519	429
Payment of dividends on common stock	(11,915)	(11,865)
Payment of dividends to owners of noncontrolling interest in subsidiary	(927)	
Net cash provided from financing activities	6,079	103,736
Net increase (decrease) in cash and cash equivalents	(17,302)	110,792
Cash and cash equivalents at beginning of period	117,097	106,296
Cash and cash equivalents at end of period	$ 99,795	$ 217,088
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest on deposits, borrowed funds and subordinated debt	$ 17,884	$ 21,111
Income taxes	11,301	9,275
Non-cash investing activities:		
Transfer from loans to other real estate owned	$ 5,650	$ 5
Acquisition of Bancorp Rhode Island, Inc.:		
Assets acquired (excluding cash and cash equivalents)	$	$ 1,571,817
Liabilities assumed		1,481,535

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 Six Months Ended June 30, 2013 and 2012

(1) Basis of Presentation

Overview

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

Brookline Bank, which includes its wholly-owned subsidiaries BBS Investment Corp. and Longwood Securities Corp., and its 84.8%-owned subsidiary, Eastern Funding LLC (Eastern Funding), operates 23 full-service banking offices in Brookline, Massachusetts, and the greater Boston metropolitan area. BankRI, which includes its wholly-owned subsidiaries BRI Investment Corp., Macrolease Corporation (Macrolease), Acorn Insurance Agency and BRI Realty Corp., operates 18 full-service banking offices in Providence County, Kent County and Washington County, Rhode Island. First Ipswich, which includes its wholly-owned subsidiaries First Ipswich Securities II Corp., First Ipswich Insurance Agency and FNBI Realty, operates six full-service banking offices on the north shore of eastern Massachusetts and in the Boston metropolitan area.

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

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

The Federal Deposit Insurance Corporation (FDIC) offers insurance coverage on all deposits up to $250,000 per depositor for all three Banks. As FDIC-insured depository institutions, all three Banks are also secondarily subject to supervision, examination and regulation by the FDIC. Additionally, as a Massachusetts-chartered savings bank, Brookline Bank is also insured by the Depositors Insurance Fund (DIF), a private

industry-sponsored insurance company. The DIF insures savings bank deposits in excess of the FDIC insurance limits. As such, Brookline Bank offers 100% insurance on all deposits as a result of a combination of insurance from the FDIC and the DIF. Brookline Bank is required to file reports with the DIF.

Basis of Financial Statement Presentation

The unaudited consolidated financial statements of the Company presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC) for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by U.S. generally accepted accounting principles (GAAP). In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures considered necessary for the fair presentation of the accompanying consolidated financial statements have been included. Interim results are not necessarily reflective of the results of the entire year. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2013 and 2012

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.

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, the review of goodwill and intangibles for impairment, income tax accounting and status of contingencies.

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.

(2) Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued ASU No. 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities.* This ASU clarifies the scope of offsetting disclosure requirements in ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. Under ASU 2013-01, the disclosure requirements would apply to derivative instruments accounted for in accordance with ASC 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending arrangements that are either offset on the balance sheet or subject to an enforceable master netting arrangement or similar agreement. Entities with other types of financial assets and financial liabilities subject to a master netting arrangement or similar agreement also are affected because these amendments make them no longer subject to the disclosure requirements in ASU No. 2011-11. Effective January 1, 2013, companies are required to disclose (a) gross amounts of recognized assets and liabilities; (b) gross amounts offset in the statement of financial position; (c) net amounts of assets and liabilities presented in the statement of financial position; (d) gross amount subject to enforceable master netting agreement not offset in the statements of financial position; and (e) net amounts after deducting (d) from (c). The disclosure should be presented in tabular format (unless another format is more appropriate) separately for assets and liabilities. The intent of the new disclosure is to enable users of financial statements to understand the effect of those arrangements on its

financial position and to allow investors to better compare financial statements prepared under GAAP with financial statements prepared under International Financial Reporting Standards. As required, the Company added relevant disclosure in Note 8, Derivatives and Hedging Activities.

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*. This ASU states that the amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. The amendments do, however, require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income under U.S. GAAP, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. In response to this ASU, the Company added a new footnote to disclose the amounts reclassified out of

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2013 and 2012

accumulated other comprehensive income and the effects on the line items of net income. See Note 7, Comprehensive Income.

(3) Investment Securities

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

	At June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In Thousands)			
Debt securities:				
GSEs	$ 39,233	$ 103	$	$ 39,336
GSE CMOs	259,795	66	6,149	253,712
GSE MBSs	165,292	1,692	3,440	163,544
Private-label CMOs	4,740	122	18	4,844
SBA commercial loan asset-backed securities	270		1	269
Auction-rate municipal obligations	1,900		104	1,796
Municipal obligations	1,063	30		1,093
Corporate debt obligations	10,387	247		10,634
Trust preferred securities and pools	2,656	313	340	2,629
Total debt securities	485,336	2,573	10,052	477,857
Marketable equity securities	1,254	66		1,320
Total investment securities available-for-sale	$ 486,590	$ 2,639	$ 10,052	$ 479,177
Investment securities held-to-maturity	$ 500	$	$	$ 500

	At December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In Thousands)			
Debt securities:				
GSEs	$ 69,504	$ 305	$	$ 69,809
GSE CMOs	215,670	1,386	55	217,001
GSE MBSs	165,996	3,704	52	169,648
Private-label CMOs	6,719	147		6,866
SBA commercial loan asset-backed securities	383		2	381
Auction-rate municipal obligations	2,100		124	1,976
Municipal obligations	1,058	43		1,101

Corporate debt obligations		10,481		204			10,685
Trust preferred securities and pools		2,786		136		403	2,519
Total debt securities		474,697		5,925		636	479,986
Marketable equity securities		1,249		88			1,337
Total investment securities available-for-sale	$	475,946	$	6,013	$	636	$ 481,323
Investment securities held-to-maturity	$	500	$	2	$		$ 502

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Investment Securities as Collateral

At June 30, 2013 and December 31, 2012, respectively, $336.7 million and $309.7 million of investment securities available-for-sale were pledged as collateral for repurchase agreements; municipal deposits; treasury, tax and loan deposits; swap agreements; FRB borrowings; and Federal Home Loan Bank of Boston (FHLBB) borrowings.

Other-Than-Temporary Impairment (OTTI)

Investment securities at June 30, 2013 and December 31, 2012 that have been in a continuous unrealized loss position for less than twelve months or twelve months or longer are as follows:

	At June 30, 2013					
	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)					
Debt securities:						
GSE CMOs	$ 251,491	$ 6,149	$	$	$ 251,491	$ 6,149
GSE MBS	110,656	3,434	361	6	111,017	3,440
Private-label CMOs	1,542	18			1,542	18
SBA commercial loan asset-backed securities	188		19	1	207	1
Auction-rate municipal obligations			1,796	104	1,796	104
Trust preferred securities:						
Without OTTI loss			1,939	340	1,939	340
Total temporarily impaired securities	$ 363,877	$ 9,601	$ 4,115	$ 451	$ 367,992	$ 10,052

	At December 31, 2012					
	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)					
Debt securities:						
GSE CMOs	$ 23,910	$ 55	$	$	$ 23,910	$ 55
GSE MBSs	19,186	47	235	5	19,421	52

Private-label CMOs	25						25	
SBA commercial loan asset-backed securities	310	2					310	2
Auction-rate municipal obligations			1,976	124			1,976	124
Trust preferred securities and pools:								
Without OTTI loss			1,931	403			1,931	403
Total temporarily impaired securities	$ 43,431	$ 104	$ 4,142	$ 532	$ 47,573	$ 636		

The Company performs regular analysis on the available-for-sale investment securities portfolio to determine whether a decline in fair value indicates that an investment is other-than-temporarily-impaired (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.

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

Debt Securities

The Company expects to recover its amortized cost basis on all debt securities in its available-for-sale and held-to-maturity portfolios. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities in an unrealized loss position at June 30, 2013, prior to the recovery of their amortized cost basis. The Company s ability and intent to hold these securities until recovery is supported by the Company s strong capital and liquidity positions as well as its historically low portfolio turnover.

U.S. Government-Sponsored Enterprises

The Company invests in securities issued by of 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 (Freddie Mac), the Government National Mortgage Association (GNMA), the Federal Home Loan Banks and the Federal Farm Credit Bank. At June 30, 2013, none of those obligations is backed by the full faith and credit of the U.S. Government, except for GNMA MBSs and CMOs, and Small Business Administration (SBA) commercial loan asset-backed securities with an estimated fair value of $13.9 million.

At June 30, 2013, the Company held GSE debentures with a total fair value of $39.3 million and a net unrealized gain of $0.1 million. At December 31, 2012, the Company held GSE debentures with a total fair value of $69.8 million and a net unrealized gain of $0.3 million.

At June 30, 2013, the Company held GSE mortgage-related securities with a total fair value of $417.3 million and a net unrealized loss of $7.8 million. This compares to a total fair value of $386.6 million and a net unrealized gain of $5.0 million at December 31, 2012. During the six months ended June 30, 2013, the Company purchased a total of $82.3 million in GSE CMOs and GSE MBSs to reinvest matured cash flow. This compares to $130.2 million during the same period in 2012.

Private-Label CMOs

At June 30, 2013, the Company held private-issuer CMO-related securities with a total fair value of $4.8 million and a net unrealized gain of $0.1 million. At December 31, 2012, the Company held private-issuer CMO-related securities with a total fair value of $6.9 million and a net unrealized gain of $0.1 million.

Auction-Rate Municipal Obligations and Municipal Obligations

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

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Based on an evaluation of market factors, the estimated fair value of the auction-rate municipal obligations owned by the Company at June 30, 2013 was $1.8 million, with a corresponding net unrealized loss of $0.1 million. This compares to $2.0 million with a corresponding net unrealized loss of $0.1 million at December 31, 2012. 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 unrealized losses.

The Company owns municipal obligations with an estimated fair value of $1.1 million which approximated amortized cost at June 30, 2013. This compares to a total fair value of $1.1 million and a corresponding net unrealized gain of $43,000 at December 31, 2012. 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 unrealized losses.

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 five corporate obligation securities with a total fair value of $10.6 million and total net unrealized gains of $0.2 million at June 30, 2013. This compares to eight corporate obligation securities with a total fair value of $10.7 million and total net unrealized gains of $0.2 million at December 31, 2012. All but one of the securities are investment grade. This non-investment-grade security is currently in an unrealized gain position.

Trust Preferred Securities and Trust Preferred Pools

Trust preferred securities represent subordinated debt issued by financial institutions. These securities are sometimes pooled and sold to investors through structured vehicles known as trust preferred pools (PreTSLs). When issued, PreTSLs are divided into tranches or segments that establish priority rights to cash flows from the underlying trust preferred securities. At June 30, 2013, the Company owned three trust preferred securities and two PreTSL pools with a total fair value of $2.6 million and a total net unrealized loss of $27,000. This compares to three trust preferred securities and two PreTSL pools with a total fair value of $2.5 million and a total net unrealized loss of $0.3 million at December 31, 2012. The Company monitors these pools closely for impairment due to a history of defaults experienced on the part of the banks underlying the trust preferred securities.

The Company s portfolio of trust preferred securities at June 30, 2013 includes two PreTSLs, one of which has been paid down significantly to be *de minimis;* the other which the Company has designated PreTSL B. The Company monitors this pool closely for impairment due to a history of defaults experienced on the part of the banks underlying the trust preferred security. The following tables summarize the pertinent information

at June 30, 2013 that was considered in determining whether OTTI existed on this PreTSL.

		At June 30, 2013				
	Class	Deferrals/ Defaults/ Losses to Date (1)	Estimated Total Remaining Projected Defaults (2)	Estimated Excess Subordination (3)	Lowest Credit Rating to Date (4)	Current Credit Rating (5)
PreTSL B	A-1	26%	16%	43%	CCC	B

(1) As a percentage of original collateral.

(2) As a percentage of performing collateral.

(3) Excess subordination represents the additional defaults/losses in excess of both current and projected defaults/losses that the security can absorb before the security is exposed to a loss in principal, after taking into account the best estimate of future deferrals/defaults/losses.

(4) Lower of S&P and Moody s.

(5) The Company reviewed credit ratings provided by S&P and Moody s in 2013 in its evaluation of issuers.

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	At June 30, 2013					
	Current Par	Amortized Cost (1)	Gross Unrealized Gain/(Loss)	Fair Value	Total Cumulative OTTI Credit-Related	Total Cumulative OTTI Credit and Non-Credit
			(In Thousands)			
PreTSL B	$ 823	$ 819	$ (89)	$ 730	$	$

(1) The amortized cost reflects previously recorded credit-related OTTI charges recognized in earnings for the applicable securities.

In performing the analysis for OTTI impairment on the PreTSLs, expected future cash flow scenarios for each pool were considered under varying levels of severity for assumptions including future delinquencies, recoveries and prepayments. The Company also considered its relative seniority within the pools and any excess subordination. The Company s OTTI assessment for the three months ended June 30, 2013 was as follows:

PreTSL B has experienced $91.0 million in deferrals/defaults, or 26.3% of the security s underlying collateral, to date. During the second quarter of 2013, there was no change in the deferral or default schedules and no further rating actions. Based on the security s future expected cash flows and after factoring in projected defaults of 15.5% over its remaining life, the security s current amortized cost (99.5% of current par), $110.0 million in excess subordination (42.9% of outstanding performing collateral) and the Company s intent and ability to hold the security until recovery, Management believes that no OTTI charges are warranted at this time.

At June 30, 2013 there is no OTTI recognized in other comprehensive income on these securities.

Portfolio Maturities

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

	At June 30, 2013			At December 31, 2012		
	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	$ 32,069	$ 32,156	1.26%	$ 59,396	$ 59,736	1.20%	
After 1 year through 5 years	27,915	28,509	2.24%	25,249	25,579	1.61%	
After 5 years through 10 years	32,046	33,012	3.20%	50,283	52,557	3.29%	
Over 10 years	393,306	384,180	1.91%	339,769	342,114	1.93%	
	$ 485,336	$ 477,857	1.97%	$ 474,697	$ 479,986	1.97%	
Investment securities held-to-maturity:							
Within 1 year	$ 500	$ 500	1.99%	$	$	0.00%	
After 1 year through 5 years			0.00%	500	502	1.99%	
After 5 years through 10 years			0.00%			0.00%	
Over 10 years			0.00%			0.00%	
	$ 500	$ 500	1.99%	$ 500	$ 502	1.99%	

Actual maturities of GSE debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty. At June 30, 2013,

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there were no remaining callable GSE securities in the investment portfolio. MBSs and CMOs are included above based on their contractual maturities; the remaining lives, however, are expected to be shorter due to anticipated prepayments.

Security Sales

	Six Months Ended June 30, 2012 (In Thousands)
Sales of debt securities	$ 157,225
Gross gains from sales	964
Gross losses from sales	167

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

(4) Loans and Leases

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

	At June 30, 2013					
	Originated		Acquired		Total	
	Balance	Weighted Average Coupon	Balance	Weighted Average Coupon	Balance	Weighted Average Coupon
	(Dollars in Thousands)					
Commercial real estate loans:						
Commercial real estate mortgage	$ 964,151	4.39%	$ 384,900	4.56%	$ 1,349,051	4.44%
Multi-family mortgage	503,770	4.42%	91,169	4.67%	594,939	4.46%
Construction	101,240	4.08%	11,444	4.42%	112,684	4.12%
Total commercial real estate loans	1,569,161	4.38%	487,513	4.58%	2,056,674	4.43%

Commercial loans and leases:								
Commercial		244,854	3.76%		131,653	4.61%	376,507	4.06%
Equipment financing		435,629	7.35%		41,095	6.74%	476,724	7.30%
Condominium association		41,859	4.80%			0.00%	41,859	4.80%
Total commercial loans and leases		722,342	5.99%		172,748	5.11%	895,090	5.82%
Indirect automobile loans		479,782	5.14%			0.00%	479,782	5.14%
Consumer loans:								
Residential mortgage		375,028	3.71%		132,071	4.06%	507,099	3.81%
Home equity		112,486	3.41%		145,353	3.96%	257,839	3.72%
Other consumer		7,401	4.48%		1,130	13.83%	8,531	5.72%
Total consumer loans		494,915	3.66%		278,554	4.05%	773,469	3.80%
Total loans and leases	$	3,266,200	4.74%	$	938,815	4.51%	$ 4,205,015	4.68%

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	At December 31, 2012					
	Originated		Acquired		Total	
	Balance	Weighted Average Coupon	Balance	Weighted Average Coupon	Balance	Weighted Average Coupon
	(Dollars in Thousands)					
Commercial real estate loans:						
Commercial real estate mortgage	$ 871,552	4.62%	$ 429,681	4.69%	$ 1,301,233	4.64%
Multi-family mortgage	506,017	4.50%	100,516	4.99%	606,533	4.58%
Construction	80,913	4.20%	17,284	4.73%	98,197	4.29%
Total commercial real estate loans	1,458,482	4.56%	547,481	4.75%	2,005,963	4.61%
Commercial loans and leases:						
Commercial	230,892	3.89%	151,385	4.72%	382,277	4.22%
Equipment financing	366,297	7.69%	54,694	6.91%	420,991	7.59%
Condominium association	44,187	5.02%			44,187	5.02%
Total commercial loans and leases	641,376	6.14%	206,079	5.30%	847,455	5.93%
Indirect automobile loans	542,344	5.31%			542,344	5.31%
Consumer loans:						
Residential mortgage	368,095	3.87%	143,014	4.18%	511,109	3.93%
Home equity	99,683	3.45%	161,879	4.07%	261,562	3.83%
Other consumer	6,122	5.35%	1,157	12.97%	7,279	6.56%
Total consumer loans	473,900	3.78%	306,050	4.15%	779,950	3.92%
Total loans and leases	$ 3,116,102	4.89%	$ 1,059,610	4.67%	$ 4,175,712	4.83%

The Company s lending is primarily in the eastern half of Massachusetts, southern New Hampshire and Rhode Island, with the exception of equipment financing, 41.7% of which is in the greater New York/New Jersey metropolitan area and 58.3% of which is in other areas in the United States of America.

Residential mortgage loans held-for-sale were $4.2 million and $3.2 million at June 30, 2013 and December 31, 2012, respectively.

Accretable Yield for the Acquired Loan Portfolio

The following tables summarize activity in the accretable yield for the acquired loan portfolio for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In Thousands)			
Balance at beginning of period	$ 53,815	$ 73,921	$ 57,812	$ (1,369)
Acquisitions				81,503
Reclassification from nonaccretable difference for loans with improved cash flows	3,180		5,376	
Accretion	(4,813)	(5,265)	(11,006)	(11,478)
Balance at end of period	$ 52,182	$ 68,656	$ 52,182	$ 68,656

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Subsequent to acquisition, management periodically reforecasts the expected cash flows for acquired ASC 310-30 loans, taking into account prepayment speeds, probability of default and loss given defaults. Management then compares this reforecast to the original estimates to evaluate the need for a loan loss provision and/or prospective yield adjustments. During the six months ended June 30, 2013, accretable yield adjustments totaling $5.4 million were made for certain loan pools. These accretable yield adjustments, which are subject to continued re-assessment, will be recognized over the remaining lives of those pools. No accretable yield adjustments were made in the acquired loan portfolio during the six months ended June 30, 2012.

The aggregate remaining nonaccretable difference (representing both principal and interest) applicable to acquired loans totaled $9.2 and $14.6 million at June 30, 2013 and December 31, 2012, respectively.

Related Party Loans

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

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

	Six Months Ended June 30,	
	2013	2012
	(In Thousands)	
Balance at beginning of period	$ 4,083	$ 16,428
Acquired loans		2,848
New loans granted during the period	100	131
Advances on lines of credit	91	4
Repayments	(349)	(13,917)
Loans no longer classified as insider loans	545	
Balance at end of period	$ 4,470	$ 5,494

Unfunded commitments on extensions of credit to insiders totaled $7.1 million and $6.9 million at June 30, 2013 and December 31, 2012, respectively.

Recourse Obligations

As a result of the acquisition of BankRI, the Company has a recourse obligation under a lease sale agreement for up to 8.0% of the original sold balance of approximately $9.8 million relating to the lease portfolio of BankRI s subsidiary Macrolease. Historically, delinquency rates for this lease portfolio have been significantly less than 8.0%; the rate at June 30, 2013 was 0.26%. At June 30, 2013, a liability for the recourse obligation was included in the Company s unaudited consolidated financial statements.

Loans and Leases Pledged as Collateral

At June 30, 2013 and December 31, 2012, respectively, $1.3 billion and $1.5 billion of loans and leases were pledged as collateral for repurchase agreements; municipal deposits; treasury, tax and loan deposits; swap agreements; FRB borrowings; and FHLBB borrowings.

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Loans Serviced for Others

Loans serviced for others are not included in the accompanying unaudited consolidated balance sheets. The portion of unpaid principal balance of mortgage and other loans serviced for others were $110.9 million and $164.5 million at June 30, 2013 and December 31, 2012, respectively.

(5) Allowance for Loan and Lease Losses

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

	Three Months Ended June 30, 2013					
	Commercial Real Estate	Commercial	Indirect Automobile	Consumer	Unallocated	Total
	(In Thousands)					
Balance at March 31, 2013	$ 20,588	$ 11,652	$ 5,000	$ 2,596	$ 2,696	$ 42,532
Charge-offs	(81)	(477)	(318)	(154)		(1,030)
Recoveries		182	149	60		391
Provision (credit) for loan and lease losses	1,512	434	(136)	497	81	2,388
Balance at June 30, 2013	$ 22,019	$ 11,791	$ 4,695	$ 2,999	$ 2,777	$ 44,281

	Three Months Ended June 30, 2012					
	Commercial Real Estate	Commercial	Indirect Automobile	Consumer	Unallocated	Total
	(In Thousands)					
Balance at March 31, 2012	$ 16,836	$ 7,078	$ 5,656	$ 1,825	$ 3,033	$ 34,428
Charge-offs		(3,416)	(344)	(210)		(3,970)
Recoveries	40	124	119	12		295
Provision (credit) for loan and lease losses	1,062	5,176	249	486	(295)	6,678
Balance at June 30, 2012	$ 17,938	$ 8,962	$ 5,680	$ 2,113	$ 2,738	$ 37,431

	Six Months Ended June 30, 2013					
	Commercial Real Estate	Commercial	Indirect Automobile	Consumer	Unallocated	Total

	(In Thousands)					
Balance at December 31, 2012	$ 20,018	$ 10,655	$ 5,304	$ 2,545	$ 2,630	$ 41,152
Charge-offs	(81)	(724)	(680)	(206)		(1,691)
Recoveries	4	264	279	86		633
Provision (credit) for loan and lease losses	2,078	1,596	(208)	574	147	4,187
Balance at June 30, 2013	$ 22,019	$ 11,791	$ 4,695	$ 2,999	$ 2,777	$ 44,281

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	Six Months Ended June 30, 2012					
	Commercial Real Estate	Commercial	Indirect Automobile	Consumer	Unallocated	Total
	(In Thousands)					
Balance at December 31, 2011	$ 15,477	$ 5,997	$ 5,604	$ 1,577	$ 3,048	$ 31,703
Charge-offs		(3,757)	(783)	(218)		(4,758)
Recoveries	80	202	266	13		561
Provision (credit) for loan and lease losses	2,381	6,520	593	741	(310)	9,925
Balance at June 30, 2012	$ 17,938	$ 8,962	$ 5,680	$ 2,113	$ 2,738	$ 37,431

The liability for unfunded credit commitments, which is included in other liabilities, was $0.9 million and $0.7 million at June 30, 2013 and December 31, 2012, respectively. During the six-month period ended June 30, 2013, the liability for unfunded credit commitments increased by $0.2 million to reflect changes in the estimate of loss exposure associated with credit commitments. No credit commitments were charged off against the liability account in the six-month periods ended June 30, 2013 or 2012.

Provision for Credit Losses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In Thousands)			
Provisions for loan and lease losses:				
Commercial real estate	$ 1,512	$ 1,062	$ 2,078	$ 2,381
Commercial	434	5,176	1,596	6,520
Indirect automobile	(136)	249	(208)	593
Consumer	497	486	574	741
Unallocated	81	(295)	147	(310)
Total provision for loan and lease losses	2,388	6,678	4,187	9,925
Unfunded credit commitments	51		107	
Total provision for credit losses	$ 2,439	$ 6,678	$ 4,294	$ 9,925

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 performance has been achieved.

Allowance for Loan and Lease Losses Methodology

Management has established a methodology to determine the adequacy of the allowance for loan and lease losses that assesses the risks and losses inherent in the loan and lease portfolio. For purposes of determining the allowance for loan and lease losses, the Company has segmented certain loans and leases in the portfolio by product type into the following pools: (1) commercial real estate loans, (2) commercial loans and leases, (3) indirect

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automobile loans and (4) consumer loans. Portfolio segments are further disaggregated into classes based on the associated risks within the segments. Commercial real estate loans are divided into three classes: commercial real estate mortgage loans, multi-family mortgage loans and construction loans. Commercial loans and leases are divided into three classes: commercial loans, equipment financing, and loans to condominium associations. The indirect automobile loan segment is not divided into classes. Consumer loans are divided into three classes: residential mortgage loans, home equity loans and other consumer loans. For each class of loan, management makes significant judgments in selecting the estimation method that fits the credit characteristics of its class and portfolio segment as set forth below.

General Allowance

The general allowance for loan and lease losses was $39.8 million at June 30, 2013, compared to $36.8 million at December 31, 2012. The general portion of the allowance for loan and lease losses increased by $3.0 million during the six months ended June 30, 2013, in part as a result of growth in commercial real estate and equipment financing portfolios.

Specific Allowance

The specific allowance for loan and lease losses was $1.1 million at June 30, 2013, compared to $1.7 million at December 31, 2012. The specific allowance decreased by $0.6 million during the six months ended June 30, 2013, largely as a result of a large commercial real estate loan payoff, offset by specific reserves on the equipment financing portfolio.

Unallocated Allowance

The unallocated allowance for loan and lease losses was $3.4 million at June 30, 2013, compared to $2.6 million at December 31, 2012. The unallocated portion of the allowance for loan and lease losses increased by $0.8 million during the six months ended June 30, 2013, largely as a result of a change in the mix of the loan portfolio and organic loan growth.

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 the indirect automobile portfolio, the Company primarily uses borrower FICO scores for monitoring credit risk while for residential mortgage and home equity portfolios loan-to-value ratios are used as the primary credit quality indicator.

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

1- 4 Rating Pass

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

5 Rating Other Asset Especially Mentioned (OAEM)

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

6 Rating Substandard

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

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 uncollectible 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.

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Credit Quality Information

The following tables present the recorded investment in total loans in each class (unpaid balance of loans and leases outstanding excluding deferred loan origination costs) at June 30, 2013 by credit quality indicator.

	At June 30, 2013						
	Commercial Real Estate Mortgage	Multi-Family Mortgage	Construction	Commercial	Equipment Financing	Condominium Association	Other Consumer
				(In Thousands)			
Originated:							
Loan rating:							
Pass	$ 955,570	$ 503,226	$ 101,240	$ 241,947	$ 429,584	$ 41,855	$ 7,401
OAEM	7,652			1,058	1,741		
Substandard	929	544		135	4,076	4	
Doubtful				1,714	228		
	$ 964,151	$ 503,770	$ 101,240	$ 244,854	$ 435,629	$ 41,859	$ 7,401
Acquired:							
Loan rating:							
Pass	$ 365,597	$ 87,541	$ 10,695	$ 120,827	$ 40,209	$	$ 1,110
OAEM	5,138	2,048	655	3,241	224		
Substandard	13,423	1,580	94	7,395	662		20
Doubtful	742			190			
	$ 384,900	$ 91,169	$ 11,444	$ 131,653	$ 41,095	$	$ 1,130

	Indirect Automobile
	(In Thousands)
Originated:	
Credit score:	
Over 700	$ 398,562
661-700	63,713
660 and below	15,591
Data not available	1,916
	$ 479,782

	Residential Mortgage	Home Equity
	(In Thousands)	
Originated:		

Loan-to-value ratio:				
Less than 50%	$	95,326	$	67,567
50% - 69%		142,177		24,946
70% - 79%		117,090		15,015
80% and over		19,949		3,977
Data not available		486		981
Total	$	375,028	$	112,486
Acquired:				
Loan-to-value ratio:				
Less than 50%	$	24,128	$	94,572
50% - 69%		43,662		26,173
70% - 79%		36,682		15,948
80% and over		21,790		2,648
Data not available		5,809		6,012
Total	$	132,071	$	145,353

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The following tables present the recorded investment in loans in each class (unpaid balance of loans and leases outstanding excluding deferred loan origination costs) at December 31, 2012 by credit quality indicator.

	At December 31, 2012						
	Commercial Real Estate Mortgage	Multi-Family Mortgage	Construction	Commercial	Equipment Financing	Condominium Association	Other Consumer
				(In Thousands)			
Originated:							
Loan rating:							
Pass	$ 863,901	$ 504,883	$ 80,913	$ 227,201	$ 359,064	$ 44,179	$ 6,093
OAEM	5,686	146		1,196	2,979		
Substandard	1,965	988		502	4,213	8	29
Doubtful				1,993	41		
Total	$ 871,552	$ 506,017	$ 80,913	$ 230,892	$ 366,297	$ 44,187	$ 6,122
Acquired:							
Loan rating:							
Pass	$ 409,725	$ 93,058	$ 17,186	$ 140,589	$ 54,175	$	$ 1,157
OAEM	2,740	2,439		1,344	286		
Substandard	17,216	5,019	98	8,635	233		
Doubtful				817			
Total	$ 429,681	$ 100,516	$ 17,284	$ 151,385	$ 54,694	$	$ 1,157

	Indirect Automobile
	(In Thousands)
Originated:	
Credit score:	
Over 700	$ 454,056
661-700	69,319
660 and below	16,934
Data not available	2,035
	$ 542,344

	Residential Mortgage	Home Equity
	(In Thousands)	
Originated:		
Loan-to-value ratio:		
Less than 50%	$ 86,659	$ 50,398
50% - 69%	142,172	25,284

70% - 79%		111,234		16,523
80% and over		27,858		6,042
Data not available		172		1,436
Total	$	368,095	$	99,683
Acquired:				
Loan-to-value ratio:				
Less than 50%	$	23,398	$	28,401
50% - 69%		42,214		39,385
70% - 79%		42,748		33,044
80% and over		31,614		34,267
Data not available		3,040		26,782
Total	$	143,014	$	161,879

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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 (unpaid balance of loans and leases outstanding excluding deferred loan origination costs) at June 30, 2013 and December 31, 2012.

	At June 30, 2013							
	Past Due						Loans and Leases Past	
	31-60 Days	61-90 Days	Greater Than 90 Days	Total	Current	Total Loans and Leases	Due Greater Than 90 Days and Accruing	Nonaccrual Loans and Leases
	(In Thousands)							
Originated:								
Commercial real estate mortgage	$ 886	$ 929	$	$ 1,815	$ 962,336	$ 964,151	$	$ 496
Multi-family mortgage	1,270			1,270	502,500	503,770		1,459
Construction					101,240	101,240		
Commercial	1,047	22	865	1,934	242,920	244,854		1,749
Equipment financing	3,018	659	1,807	5,484	430,145	435,629	15	3,942
Condominium association					41,859	41,859		4
Indirect automobile	5,427	719	165	6,311	473,471	479,782	9	156
Residential mortgage	424	564	510	1,498	373,530	375,028		1,693
Home equity	200			200	112,286	112,486		75
Other consumer	5			5	7,396	7,401		1
	$ 12,277	$ 2,893	$ 3,347	$ 18,517	$ 3,247,683	$ 3,266,200	$ 24	$ 9,575

	At June 30, 2013							
	Past Due						Loans and Leases Past	
	31-60 Days	61-90 Days	Greater Than 90 Days	Total	Current	Total Loans and Leases	Due Greater Than 90 Days and Accruing	Nonaccrual Loans and Leases
	(In Thousands)							
Acquired:								
Commercial real estate mortgage	$ 1,288	$ 914	$ 4,647	$ 6,849	$ 378,051	$ 384,900	$ 3,860	$ 2,186
Multi-family mortgage	295		398	693	90,476	91,169	398	134
Construction					11,444	11,444		
Commercial	496	423	2,397	3,316	128,337	131,653	1,728	2,931
Equipment financing	58	72	106	236	40,859	41,095	90	72

Residential mortgage	760	192	4,044	4,996	127,075	132,071	3,267	1,093
Home equity	1,244	545	884	2,673	142,680	145,353	273	1,482
Other consumer	7	20		27	1,103	1,130		20
	$ 4,148	$ 2,166	$ 12,476	$ 18,790	$ 920,025	$ 938,815	$ 9,616	$ 7,918

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	At December 31, 2012							
	Past Due						Loans and Leases Past	
	31-60 Days	61-90 Days	Greater Than 90 Days	Total	Current	Total Loans and Leases	Due Greater Than 90 Days and Accruing	Nonaccrual Loans and Leases
	(In Thousands)							
Originated:								
Commercial real estate mortgage	$ 1,530	$	$ 435	$ 1,965	$ 869,587	$ 871,552	$ 434	$ 1,539
Multi-family mortgage	2,410	60	988	3,458	502,559	506,017		1,932
Construction	2,354	816		3,170	77,743	80,913		
Commercial	26	75	26	127	230,765	230,892	26	1,993
Equipment financing	2,595	1,439	1,618	5,652	360,645	366,297		3,817
Condominium association					44,187	44,187		8
Indirect automobile	5,592	923	99	6,614	535,730	542,344	1	99
Residential mortgage			1,059	1,059	367,036	368,095	27	2,008
Home equity			33	33	99,650	99,683		58
Other consumer		2	5	7	6,115	6,122	5	29
	$ 14,507	$ 3,315	$ 4,263	$ 22,085	$ 3,094,017	$ 3,116,102	$ 493	$ 11,483

	At December 31, 2012							
	Past Due						Loans and Leases Past	
	31-60 Days	61-90 Days	Greater Than 90 Days	Total	Current	Total Loans and Leases	Due Greater Than 90 Days and Accruing	Nonaccrual Loans and Leases
	(In Thousands)							
Acquired:								
Commercial real estate mortgage	$ 2,911	$	$ 7,289	$ 10,200	$ 419,481	$ 429,681	$ 6,616	$ 2,475
Multi-family mortgage	2,738	395	2,178	5,311	95,205	100,516	1,857	2,301
Construction					17,284	17,284		
Commercial	866	177	4,353	5,396	145,989	151,385	3,503	3,461
Equipment financing	133	21	194	348	54,346	54,694	197	56
Residential mortgage	247	121	5,266	5,634	137,380	143,014	3,650	1,796
Home equity	1,582	507	607	2,696	159,183	161,879	321	658
Other consumer	7			7	1,150	1,157		16
	$ 8,484	$ 1,221	$ 19,887	$ 29,592	$ 1,030,018	$ 1,059,610	$ 16,144	$ 10,763

Commercial Real Estate Loans At June 30, 2013, loans outstanding in the three classes within this category expressed as a percentage of total loans and leases outstanding (including deferred loan origination costs) were as follows: commercial real estate mortgage loans 32.1%; multi-family mortgage loans 14.1%; and construction loans 2.7%.

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 from the past five years. Management has accumulated information on actual loan charge-offs and recoveries by class covering, depending on loan/lease category, up to 28 years of loss history. The Company has a long history of low frequency of loss in this loan class. As a result, determination of loss factors is based on considerable judgment by management, including evaluation of the risk characteristics related to current internal and external factors. Notable risk characteristics related to the commercial real estate mortgage and multi-family mortgage portfolios are

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the concentration in those classes of outstanding loans within the greater Boston and Providence metropolitan areas and the effect the local economies could have on the collectability of those loans. While unemployment in the greater Boston metropolitan area is not as high as in other parts of the United States, it is nonetheless elevated in relation to historic trends. Unemployment in Rhode Island remains high relative to other parts of the United States. Should unemployment in the greater Boston and/or Providence metropolitan areas remain elevated, the resulting negative consequences could affect occupancy rates in the properties financed by the Company and cause certain borrowers to be unable to service their debt obligations.

Other factors taken into consideration in establishing the allowance for loan and lease losses for this class were the rate of growth of originated loans, the decrease in originated loans delinquent over 30 days from $8.6 million at December 31, 2012 to $3.1 million at June 30, 2013 and the increase in originated criticized loans from $8.8 million at December 31, 2012 to $9.1 million at June 30, 2013. The Company also takes into consideration the impact that the economy, and in particular the housing market, has on the rents and values associated with its apartment and multi-family mortgage loans. The increase in renters versus homeowners has increased multi-family rents. This trend, coupled with historically low capitalization rates, has increased apartment and multi-family property valuations, which, in turn, has increased the number of multi-family properties under development. These increases in multi-family rents and valuations could drop if the demand for rentable housing declines or interest rates rise. For further discussion of criticized loans, see *Credit Quality Assessment* section above.

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

Commercial Loans and Leases At June 30, 2013, loans and leases outstanding in the three classes within this portfolio expressed as a percent of total loans and leases outstanding (including deferred loan origination costs), were as follows: commercial loans and leases 9.0%; equipment financing loans 11.3%; and loans to condominium associations 1.0%.

Loans and leases in this portfolio that are on nonaccrual status and/or risk-rated substandard or worse are evaluated on an individual basis for impairment. For non-impaired commercial loans and leases, loss factors are applied to outstanding loans by risk rating for each of the three classes in the portfolio. The factors applied are based on historic loan and lease loss experience and on an assessment of internal and external factors. Management has accumulated information on actual loan and lease charge-offs and recoveries by class covering 19 years for commercial loans and leases, six years for equipment financing loans and leases, and twelve years for loans to condominium associations. Commercial loan and lease losses generally have been infrequent and modest while no losses have been experienced from loans to condominium associations since the Company started originating such loans. The risk characteristics described in *Commercial Real Estate Loans* above regarding concentration of outstanding loans within the greater Boston and Providence metropolitan areas and the status of the local economies are also applicable to the commercial and condominium association loan classes. Until the economy improves sufficiently, some commercial loan borrowers may have difficulty generating sufficient profitability and liquidity to service their debt obligations.

The Company s equipment financing loans and leases are concentrated in the financing of coin-operated laundry, dry cleaning, fitness and convenience store equipment, and, most recently, tow trucks. A significant share (40.5%) of the Company s equipment financing business is conducted in the states of New York and New Jersey, with the balance in other locations throughout the United States. The loans and leases are considered to be of higher risk because the borrowers are typically small-business owners who operate with limited financial resources and are more likely to experience difficulties in meeting their debt obligations when the economy is weak or unforeseen adverse events arise.

The factors taken into consideration in establishing the allowance for loan and lease losses for all commercial loan and lease categories included the rate of growth of originated loans and leases outstanding, the entrée into tow-truck lending, the increase in originated loans and leases delinquent over 30 days from $5.8 million

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at December 31, 2012 to $7.4 million at June 30, 2013, and the decrease in total criticized originated loans and leases from $10.9 million at December 31, 2012 to $9.0 million at June 30, 2013.

Regarding loans to condominium associations, loan proceeds are generally used for capital improvements and loan payments are generally derived from ongoing association dues or special assessments. While the loans are unsecured, associations are permitted statutory liens on condominium units when owners do not pay their dues or special assessments. Proceeds from the subsequent sale of an owner unit can sometimes be a source for payment of delinquent dues and assessments. These factors have been considered in determining the amount of allowance for loan and lease losses established for this loan class.

Indirect Automobile Loans At June 30, 2013, indirect automobile loans represented 11.4% of the Company s total loan and lease portfolio (including deferred loan origination costs). Determination of the allowance for loan and lease losses for this portfolio is based primarily on borrowers credit scores (generally considered to be a good indicator of capacity to pay a loan, with the risk of loan loss increasing as credit scores decrease), and on an assessment of trends in loan underwriting, loan loss experience, and the economy and industry conditions. Data are gathered on loan originations by year broken down into the following ranges of borrower credit scores: over 700, between 661 and 700, and 660 and below. The Company s loan policy specifies underwriting guidelines based in part on the score of the borrower and includes ceilings on the percent of loans originated that can be to borrowers with credit scores of 660 and below. The breakdown of the amounts shown in *Credit Quality Information* above is based on borrower credit scores at the time of loan origination. Due to the weakened economy, it is possible that the credit scores of certain borrowers may have deteriorated since the time the loan was originated. Additionally, migrations of loan charge-offs and recoveries are analyzed by year of origination. Based on that data and taking into consideration other factors such as loan delinquencies and economic conditions, projections are made as to the amount of expected losses inherent in the portfolio. The percentage of loans made to borrowers with credit scores of 660 and below was 3.3% and 3.1% at June 30, 2013 and December 31, 2012, respectively.

Consumer Loans At June 30, 2013, loans outstanding within the three classes within this portfolio expressed as a percent of total loans and leases outstanding (including deferred loan origination costs) were as follows: residential mortgage loans 12.1%; home equity loans 6.1%; and other consumer loans 0.2%.

Significant risk characteristics related to the residential mortgage and home equity loan portfolios are the geographic concentration of the properties financed within selected communities in the greater Boston and Providence metropolitan areas and the economic conditions in those areas as previously commented upon in the *Commercial Real Estate Loans* subsection above. The loan-to-value ratio is the primary credit quality indicator used for residential mortgage loans and home equity loans. Generally, loans are not made when the loan-to-value ratio exceeds 80% unless private mortgage insurance is obtained and/or there is a financially strong guarantor. The loan-to-value ratios for residential mortgage loans are based on loan balances outstanding at June 30, 2013 and December 31, 2012 expressed as a percent of appraised real estate values at the time of loan origination. The loan-to-value ratios for home equity loans outstanding at June 30, 2013 and December 31, 2012 are based on the maximum amount of credit available to a borrower plus the balance of other loans secured by the same real estate serving as collateral for the home equity loan at the time the line of credit was established expressed as a percent of the appraised value of the real estate at the time the line of credit was established. 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. For non-impaired loans, loss factors are applied to loans outstanding for each class. The factors applied are based

primarily on historic loan loss experience, the value of underlying collateral, underwriting standards, and trends in loan-to-value ratios, credit scores of borrowers, sales activity, selling prices, geographic concentrations and employment conditions.

The risk of loss on a home equity loan is higher since the property securing the loan has often been previously pledged as collateral for a first mortgage loan. The Company gathers and analyzes delinquency data, to the extent that data are available on these first liens, for purposes of assessing the collectability of the second liens held for the Company even if these home equity loans are not delinquent. These data are further analyzed for performance differences between amortizing and non-amortizing home equity loans, the percentage borrowed to total loan

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commitment, and by the amount of payments made by the borrowers. The exposure to loss is not considered to be high due to the combination of current property values, the low level of losses experienced in the past few years and the low level of loan delinquencies at June 30, 2013. If the local economy weakens, however, a rise in losses in those loan classes could occur. Historically, losses in these classes have been low.

Impaired Loans and Leases

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

The following tables include the recorded investment and unpaid principal balances of impaired loans and leases with the related allowance amount, if applicable, for the originated and acquired loan and lease portfolios at the dates and for the periods 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.

	At June 30, 2013			Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
				(In Thousands)			
Originated:							
With no related allowance recorded:							
Commercial real estate	$ 1,970	$ 1,969	$	$ 1,939	$ 30	$ 2,695	$ 30
Commercial	3,868	3,846		3,139	29	4,030	60
Consumer	1,315	1,311		1,323	18	1,328	18
	7,153	7,126		6,401	77	8,053	108
With an allowance recorded:							
Commercial real estate	1,448	1,447	175	1,256	10	1,469	17
Commercial	1,755	1,749	561	1,682	6	1,686	7
Consumer	3,274	3,263	418	2,681	35	3,475	39
	6,477	6,459	1,154	5,619	51	6,630	63
Total	$ 13,630	$ 13,585	$ 1,154	$ 12,020	$ 128	$ 14,683	$ 171

At June 30, 2013

				Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
				(In Thousands)			
Acquired:							
With no related allowance recorded:							
Commercial real estate	$ 7,698	$ 7,786	$	$ 3,217	$ 88	$ 11,291	$ 99
Commercial	3,858	4,079		1,548	26	4,369	66
Consumer	537	587		317	8	1,489	8
	12,093	12,452		5,082	122	17,149	173
With an allowance recorded:							
Commercial real estate	3,642	4,171	123	3,679		3,700	
Commercial	584	618	144			631	
Consumer							
	4,226	4,789	267	3,679		4,331	
Total	$ 16,319	$ 17,241	$ 267	$ 8,761	$ 122	$ 21,480	$ 173

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	At December 31, 2012			Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
				(In Thousands)			
Originated:							
With no related allowance recorded:							
Commercial real estate	$ 2,051	$ 2,051	$	$ 2,954	$ 71	$ 3,613	$ 148
Commercial	3,032	3,059		4,130	47	4,638	90
Consumer	1,191	1,187		2,702	24	2,957	52
	6,274	6,297		9,786	142	11,208	290
With an allowance recorded:							
Commercial real estate	2,517	2,516	241	213	28	353	39
Commercial	3,422	3,559	703	1,916	66	1,852	108
Consumer	3,648	3,636	596	2,288	32	2,303	61
	9,587	9,711	1,540	4,417	126	4,508	208
Total	$ 15,861	$ 16,008	$ 1,540	$ 14,203	$ 268	$ 15,716	$ 498

	At December 31, 2012			Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
				(In Thousands)			
Acquired:							
With no related allowance recorded:							
Commercial real estate	$ 17,918	$ 19,129	$	$ 5,738	$	$ 3,647	$
Commercial	7,329	7,782		1,481		658	2
Consumer	3,266	3,379		1,430		788	1
	28,513	30,290		8,649		5,093	3
With an allowance recorded:							
Commercial real estate	673	684	75	1,384		692	
Commercial	113	121	75				
Consumer							
	786	805	150	1,384		692	
Total	$ 29,299	$ 31,095	$ 150	$ 10,033	$	$ 5,785	$ 3

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2013 and 2012

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

	At June 30, 2013							
	Loans and Leases Individually Evaluated for Impairment		Loans and Leases Collectively Evaluated for Impairment		Acquired Loans (ASC 310-20 and ASC 310-30)		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
	(In Thousands)							
Commercial real estate	$ 3,418	$ 175	$ 1,565,743	$ 21,769	$ 487,513	$ 75	$ 2,056,674	$ 22,019
Commercial	5,623	561	716,719	11,121	172,748	109	895,090	11,791
Indirect automobile			479,782	4,695			479,782	4,695
Consumer	4,589	418	490,326	2,156	278,554	425	773,469	2,999
Unallocated				2,766		11		2,777
Total	$ 13,630	$ 1,154	$ 3,252,570	$ 42,507	$ 938,815	$ 620	$ 4,205,015	$ 44,281

	At December 31, 2012							
	Loans and Leases Individually Evaluated for Impairment		Loans and Leases Collectively Evaluated for Impairment		Acquired Loans (ASC 310-20 and ASC 310-30)		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
	(In Thousands)							
Commercial real estate	$ 4,568	$ 241	$ 1,453,913	$ 19,702	$ 547,482	$ 75	$ 2,005,963	$ 20,018
Commercial	6,454	703	634,922	9,877	206,079	75	847,455	10,655
Indirect automobile			542,344	5,304			542,344	5,304
Consumer	4,839	596	469,061	1,949	306,050		779,950	2,545
Unallocated				2,630				2,630
Total	$ 15,861	$ 1,540	$ 3,100,240	$ 39,462	$ 1,059,611	$ 150	$ 4,175,712	$ 41,152

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Troubled Debt Restructured Loans and Leases

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

	Three Months Ended June 30, 2013								
	Number of Loans/ Leases	Recorded Investment At Modification	Recorded Investment At End of Period	Specific Allowance for Loan and Lease Losses	Nonaccrual Loans and Leases	Additional Commitment	Defaulted Number of Loans/ Leases	Defaulted Recorded Investment
				(Dollars in Thousands)				
Originated:								
Commercial real estate mortgage		$	$	$	$	$		$
Commercial							2	1,714
Equipment financing	2	488	498	12	372		1	303
Residential mortgage							1	373
Total	2	$ 488	$ 498	$ 12	$ 372	$	4	$ 2,390

	Three Months Ended June 30, 2013							
	Number of Loans/ Leases	Recorded Investment At Modification	Recorded Investment At End of Period	Specific Allowance for Loan and Lease Losses	Nonaccrual Loans and Leases	Additional Commitment	Defaulted Number of Loans/ Leases	Defaulted Recorded Investment
				(Dollars in Thousands)				
Acquired:								
Commercial real estate mortgage		$	$	$	$	$		$
Commercial	1	424	421		421			
Equipment financing								
Residential mortgage								
Total	1	$ 424	$ 421	$	$ 421	$		$

	Three Months Ended June 30, 2012							
	Number of Loans/ Leases	Recorded Investment At Modification	Recorded Investment At End of Period	Specific Allowance for Loan and Lease Losses	Nonaccrual Loans and Leases	Additional Commitment	Defaulted Number of Loans/ Leases	Defaulted Recorded Investment
				(Dollars in Thousands)				
Originated:								
		$	$	$	$	$		$

Commercial real estate mortgage								
Commercial								
Equipment financing	1	280	280	7	280			
Residential mortgage	2	770	770	152	770			
Total	3	$ 1,050	$ 1,050	$ 159	$ 1,050	$		$

For the three months ended June 30, 2012, there were no troubled debt restructurings in the Company s acquired portfolio.

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

	Six Months Ended June 30, 2013						
	Number of Loans/ Leases	Recorded Investment At Modification	Recorded Investment At End of Period	Specific Allowance for Loan and Lease Losses	Nonaccrual Loans and Leases	Additional Commitment	Defaulted Number of Loans/ Leases	Defaulted Recorded Investment
				(Dollars in Thousands)				
Acquired:								
Commercial real estate mortgage		$	$	$	$	$		$
Commercial	1	424	421		421			
Equipment financing								
Residential mortgage								
Total	1	$ 424	$ 421	$	$ 421	$		$

	Six Months Ended June 30, 2012						
	Number of Loans/ Leases	Recorded Investment At Modification	Recorded Investment At End of Period	Specific Allowance for Loan and Lease Losses	Nonaccrual Loans and Leases	Additional Commitment	Defaulted Number of Loans/ Leases	Defaulted Recorded Investment
				(Dollars in Thousands)				
Originated:								
Commercial real estate mortgage	1	$ 355	$ 348	$ 33	$ 33	$		$
Commercial	1	97	94	2	2			
Equipment financing	5	1,181	1,113	57	57			
Residential mortgage	4	1,302	1,302	174	174			
Total	11	$ 2,935	$ 2,857	$ 266	$ 266	$		$

Six Months Ended June 30, 2012

	Number of Loans/ Leases	Recorded Investment At Modification	Recorded Investment At End of Period	Specific Allowance for Loan and Lease Losses	Nonaccrual Loans and Leases	Additional Commitment	Defaulted Number of Loans/ Leases	Defaulted Recorded Investment
			(Dollars in Thousands)					
Acquired:								
Commercial real estate mortgage	1	$ 3,262	$ 3,262	$ 16	$ 3,262	$		$
Commercial								
Equipment financing								
Residential mortgage								
Total	1	$ 3,262	$ 3,262	$ 16	$ 3,262	$		$

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2013 and 2012

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In Thousands)			
Loans with one modification:				
Extended maturity	$	$	$	$ 343
Adjusted principal		770	372	4,564
Adjusted interest rate	793		793	348
Combination maturity, principal, interest rate	126	280	757	864
Total loans with one modification	$ 919	$ 1,050	$ 1,922	$ 6,119
Loans with more than one modification:				
Extended maturity	$	$	$	$ 25
Adjusted principal		295		3,897
Total loans with more than one modification	$	$ 295	$	$ 3,922

The financial impact of the modification of performing or nonperforming loans and leases for the three months ended June 30, 2013 and 2012 was $0.3 million and zero, respectively. The financial impact of the modification of performing or nonperforming loans and leases for the six months ended June 30, 2013 and 2012 was also $0.3 million and zero, respectively.

As of June 30, 2013 and 2012, there were no commitments to lend funds to debtors owing receivables whose terms had been modified in troubled debt restructurings.

(6) Goodwill and Other Intangible Assets

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

	At June 30, 2013	At December 31, 2012
	(In Thousands)	
Goodwill	$ 137,890	$ 137,890
Other intangible assets:		

Core deposits		17,770		19,773
Trade name		1,210		1,333
Trust relationship		188		404
Total other intangible assets		19,168		21,510
Total goodwill and other intangible assets	$	157,058	$	159,400

The estimated aggregate future amortization expense for intangible assets remaining at June 30, 2013 is as follows:

Remainder of 2013	$	2,653
2014		3,339
2015		3,062
2016		2,626
2017		2,004
Thereafter		5,484
	$	19,168

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2013 and 2012

(7) Comprehensive Income

Comprehensive income represents the sum of net income (loss) and other comprehensive income (loss). For the three months and six months ended June 30, 2013 and June 30, 2012, the Company s other comprehensive income include the following two components: (i) unrealized holding gains (losses) on investment securities available-for-sale; and (ii) adjustment of accumulated obligation for postretirement benefits.

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

	Three Months Ended June 30, 2013		
	Investment Securities Available-for-Sale	Postretirement Benefits (In Thousands)	Accumulated Other Comprehensive Income
Balance at March 31, 2013	$ 2,108	$ 125	$ 2,233
Other comprehensive (loss) income	(6,680)	6	(6,674)
Balance at June 30, 2013	$ (4,572)	$ 131	$ (4,441)

	Three Months Ended June 30, 2012		
	Investment Securities Available-for-Sale	Postretirement Benefits (In Thousands)	Accumulated Other Comprehensive Income
Balance at March 31, 2012	$ 2,329	$ 128	$ 2,457
Other comprehensive loss	(485)	(3)	(488)
Balance at June 30, 2012	$ 1,844	$ 125	$ 1,969

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

	Six Months Ended June 30, 2012		
	Investment Securities Available-for-Sale	Postretirement Benefits	Accumulated Other Comprehensive Income
	(In Thousands)		
Balance at December 31, 2011	$ 1,834	$ 129	$ 1,963
Other comprehensive income (loss)	10	(4)	6
Balance at June 30, 2012	$ 1,844	$ 125	$ 1,969

The Company did not reclassify any amounts out of accumulated other comprehensive (loss) income for the three months or six months ended June 30, 2013 or for the three months or six months ended June 30, 2012.

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At and for the Six Months Ended June 30, 2013 and 2012

(8) Derivatives and Hedging Activities

The Company may use interest-rate contracts (swaps, caps and floors) as part of interest-rate risk management strategy. Interest-rate swap, cap and floor agreements are entered into as hedges against future interest-rate fluctuations on specifically identified assets or liabilities. The Company did not have derivative fair value hedges or derivative cash flow hedges at June 30, 2013 or December 31, 2012.

Derivatives not designated as hedges are not speculative but rather, result from a service the Company provides to certain customers for a fee. The Company executes interest-rate swaps with commercial banking customers to aid them in managing their interest-rate risk. The interest-rate swap contracts allow the commercial banking customers to convert floating-rate loan payments to fixed-rate loan payments. The Company concurrently enters into offsetting swaps with a third-party financial institution, effectively minimizing its net risk exposure resulting from such transactions. The third-party financial institution exchanges the customer s fixed-rate loan payments for floating-rate loan payments. As the interest-rate swaps associated with this program do not meet hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. At June 30, 2013, the Company had eight interest-rate swaps with an aggregate notional amount of $23.0 million related to this program, compared to ten interest-rate swaps with an aggregate notional amount of $33.2 million at December 31, 2012.

The table below presents the fair value and classification of the Company s derivative financial instruments on the unaudited consolidated balance sheets at June 30, 2013, and the effect of the Company s derivative financial instruments on the unaudited consolidated income statements for the three months and six months ended June 30, 2013. Asset derivatives and liability derivatives are included in other assets and accrued expenses and other liabilities on the unaudited consolidated balance sheets, respectively. Gains recognized on derivatives are included in fees, charges and other income on the unaudited consolidated income statements.

Total derivatives (interest-rate products) not designated as hedging instruments	$ 948	$ 987	$ (22)	$ (25)

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

By using derivative financial instruments, the Company exposes itself to credit risk. Credit risk is the risk of failure by the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. When the fair value of a derivative is negative, the Company owes the counterparty and, therefore, it does not possess credit risk. The credit risk in derivative instruments is mitigated by entering into transactions with highly-rated counterparties that management believes to be creditworthy and by limiting the amount of exposure to each counterparty. The estimated net credit risk exposure for derivative financial instruments was $39,000 and $64,000 at June 30, 2013 and December 31, 2012, respectively.

Certain of the derivative agreements contain provisions that require the Company to post collateral if the derivative exposure exceeds a threshold amount. The Company has posted collateral of $0.4 million and $0.5 million in the normal course of business at June 30, 2013 and December 31, 2012, respectively.

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Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2013 and 2012

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

	At June 30, 2013					
	Gross Amounts of Recognized Assets / Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Received / Posted	
	(In Thousands)					
Asset Derivatives	$ 948	$	$ 948	$	$	$ 948
Liability Derivatives	$ 987	$	$ 987	$	$ 428	$ 1,415

	At December 31, 2012					
	Gross Amounts of Recognized Assets / Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Received / Posted	
	(In Thousands)					
Asset Derivatives	$ 1,317	$	$ 1,317	$	$	$ 1,317
Liability Derivatives	$ 1,380	$	$ 1,380	$	$ 548	$ 1,928

(9) 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			
	June 30, 2013		June 30, 2012	
	Basic	Fully Diluted	Basic	Fully Diluted
	(In Thousands Except Share Data)			
Numerator:				

Net income	$ 9,490	$ 9,490	$ 7,529	$ 7,529
Denominator:				
Weighted average shares outstanding	69,774,703	69,774,703	69,677,656	69,677,656
Effect of dilutive securities		58,838		38,234
Adjusted weighted average shares outstanding	69,774,703	69,833,541	69,677,656	69,715,890
EPS	$ 0.14	$ 0.14	$ 0.11	$ 0.11

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2013 and 2012

	Six Months Ended			
	June 30, 2013		June 30, 2012	
	Basic	Fully Diluted	Basic	Fully Diluted
	(In Thousands Except Share Data)			
Numerator:				
Net income	$ 18,304	$ 18,304	$ 13,878	$ 13,878
Denominator:				
Weighted average shares outstanding	69,768,777	69,768,777	69,671,130	69,671,130
Effect of dilutive securities		54,838		35,564
Adjusted weighted average shares outstanding	69,768,777	69,823,615	69,671,130	69,706,694
EPS	$ 0.26	$ 0.26	$ 0.20	$ 0.20

(10) 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 2013.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

	Carrying Value at June 30, 2013			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Assets:				
Securities available-for-sale:				
GSEs	$	$ 39,336	$	$ 39,336
GSE CMOs		253,712		253,712
GSE MBSs		163,544		163,544
Private-label CMOs		4,844		4,844
SBA commercial loan asset-backed securities		269		269
Auction-rate municipal obligations			1,796	1,796
Municipal obligations		1,093		1,093

Corporate debt obligations				10,634				10,634
Trust preferred securities and pools				1,590		1,039		2,629
Marketable equity securities		1,320						1,320
Total securities available-for-sale	$	1,320	$	475,022	$	2,835	$	479,177
Interest-rate swaps	$		$	948	$		$	948
Liabilities:								
Interest-rate swaps	$		$	987	$		$	987

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At and for the Six Months Ended June 30, 2013 and 2012

	Carrying Value at December 31, 2012			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Assets:				
Securities available-for-sale:				
GSEs	$	$ 69,809	$	$ 69,809
GSE CMOs		217,001		217,001
GSE MBSs		169,648		169,648
Private-label CMOs		6,866		6,866
SBA commercial loan asset-backed securities		381		381
Auction-rate municipal obligations			1,976	1,976
Municipal obligations		1,101		1,101
Corporate debt obligations		10,685		10,685
Trust preferred securities and pools		1,578	941	2,519
Marketable equity securities	1,337			1,337
Total securities available-for-sale	$ 1,337	$ 477,069	$ 2,917	$ 481,323
Interest-rate swaps	$	$ 1,317	$	$ 1,317
Liabilities:				
Interest-rate swaps	$	$ 1,380	$	$ 1,380

Investment Securities Available-for-Sale

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

Interest-Rate Swaps

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

assets and liabilities attributable to credit risk was not significant during the reported periods. See also Note 8, Derivatives and Hedging Activities.

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Notes to Unaudited Consolidated Financial Statements

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The table below presents quantitative information about significant unobservable inputs (Level 3) for assets measured at fair value on a recurring basis at June 30, 2013.

	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average Yields
			(Dollars in Thousands)		
Auction-rate municipals	$ 1,796	Discounted cash flow	Discount rate	0-5%	4.5%
Trust preferred pools	$ 1,039	Discounted cash flow	Cumulative default	0-100%	11.3%
			Cure given deferral/ default	0-15%	
			Discount rate	5-30%	

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In Thousands)		(In Thousands)	
Investment securities available-for-sale, beginning of period	$ 2,852	$ 3,436	$ 2,917	$ 3,208
Acquired, BankRI				184
Principal paydowns and other	(207)	(380)	(330)	(384)
Total unrealized gains included in other comprehensive income	190	262	248	310
Investment securities available-for-sale, end of period	$ 2,835	$ 3,318	$ 2,835	$ 3,318

There were no transfers between levels for assets and liabilities recorded at fair value on a recurring basis during the three months and six months ended June 30, 2013 or June 30, 2012.

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

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

	Carrying Value at June 30, 2013			
	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	$	$	$ 882	$ 882
Other real estate owned			791	791
Repossessed vehicles and equipment		491		491
	$	$ 491	$ 1,673	$ 2,164

	Carrying Value at December 31, 2012			
	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	$	$ 36,749	$	$ 36,749
Other real estate owned		903		903
Repossessed vehicles and equipment		588		588
	$	$ 38,240	$	$ 38,240

Collateral-Dependent Impaired Loans and Leases

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

Other Real Estate Owned

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

Repossessed Assets

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

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At and for the Six Months Ended June 30, 2013 and 2012

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.

			Fair Value Measurements		
	Carrying Value	Estimated Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
			(In Thousands)		
At June 30, 2013					
Financial assets:					
Securities held-to-maturity	$ 500	$ 500	$	$	$ 500
Loans and leases, net	4,160,734	4,127,795			4,127,795
Loans held-for-sale	4,221	4,221		4,221	
Financial liabilities:					
Certificates of deposit	972,502	977,643		977,643	
Borrowed funds	830,066	838,721		838,721	
At December 31, 2012					
Financial assets:					
Securities held-to-maturity	$ 500	$ 502	$	$	$ 502
Loans and leases, net	4,134,560	4,193,678			4,193,678
Loans held-for-sale	3,233	3,233			3,233
Financial liabilities:					
Certificates of deposit	1,010,941	1,019,916		1,019,916	
Borrowed funds	853,969	872,046		872,046	

Investment Securities Held-to-Maturity

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

Loans and Leases

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

Loans Held for Sale

Residential mortgage loans held for sale are recorded at the lower of cost or fair value and are therefore measured at fair value on a non-recurring basis. When available, observable inputs, including pricing on recent closed market transactions for loans with similar characteristics, are used as secondary market data, and such loans are classified as Level 2 measurements. When not available, loans are classified as Level 3 measurements.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2013 and 2012

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.

(11) Income Taxes

The Company recorded income tax expense of $5.4 million for the three months ended June 30, 2013, compared to $4.4 million for the three months ended June 30, 2012, representing total effective tax rates of 35.3% and 36.1%, respectively. On a year-to-date basis, the Company recorded income tax expense of $10.5 million for the first six months of 2013, compared to $9.3 million for the first six months of 2012, representing total effective tax rates of 35.5% and 39.2%, respectively.

The decrease in the effective state and federal tax rate for the three months and six months ended June 30, 2013 is primarily due to the non-deductibility of $1.4 million of the $5.4 million in professional fees incurred related to the BankRI acquisition in 2012.

(12) 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 credits, 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.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2013 and 2012

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

	At June 30, 2013	At December 31, 2012
	(In Thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to originate loans and leases:		
Commercial real estate	$ 58,665	$ 85,726
Commercial	76,949	67,857
Residential mortgage	6,174	8,726
Unadvanced portion of loans and leases	519,808	421,143
Unused lines of credit:		
Home equity	187,754	165,936
Other consumer	5,804	4,017
Other commercial	972	965
Unused letters of credit:		
Financial standby letters of credit	19,730	19,887
Performance standby letters of credit	2,916	2,916
Commercial and similar letters of credit	158	112
Back-to-back interest-rate swaps	23,021	33,221

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 credits 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, included in other liabilities, was $0.9 million at June 30, 2013 and $0.7 million at December 31, 2012.

From time to time the Company enters into back-to-back interest-rate swaps with commercial customers and third-party financial institutions. These swaps allow the Company to offer long-term fixed-rate commercial loans while mitigating the interest-rate risk of holding those loans. In a back-to-back interest-rate swap transaction, the Company lends to a commercial customer on a floating-rate basis and then enters into an

interest-rate swap with that customer. Concurrently, the Company enters into offsetting swaps with a third-party financial institution, effectively minimizing its net interest-rate risk exposure resulting from such transactions.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Six Months Ended June 30, 2013 and 2012

Lease Commitments

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

Year Ending December 31,		Minimum Rental Payments (In Thousands)
Remainder of 2013	$	2,276
2014		3,977
2015		3,614
2016		3,391
2017		2,973
Thereafter		8,153
Total	$	24,384

The leases contain escalator clauses for real estate taxes and other expenditures. Total rental expense was $2.6 million during the six months ended June 30, 2013, compared to $2.1 million during the six months ended June 30, 2012.

Legal Proceedings

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

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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, potential, estimate, project, believe, intend, anticipate, expect, target and similar expressions. These statements include, among othe regarding the Company s intent, belief or expectations with respect to economic conditions, trends affecting the Company s financial condition or results of operations, and the Company s exposure to market, liquidity, interest-rate and credit risk.

Forward-looking statements are based on the current assumptions underlying the statements and other information with respect to the beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions of management and the financial condition, results of operations, future performance and business are only expectations of future results. Although the Company believes that the expectations reflected in the Company s forward-looking statements are reasonable, the Company s actual results could differ materially from those projected in the forward-looking statements as a result of, among other factors, adverse conditions in the capital and debt markets; changes in interest rates; competitive pressures from other financial institutions; the effects of continuing weakness in general economic conditions on a national basis or in the local markets in which the Company operates, including changes which adversely affect borrowers ability to service and repay their loans and leases; changes in the value of securities and other assets in the Company s investment portfolio; changes in loan and lease default and charge-off rates; the adequacy of allowances for loan and lease losses; deposit levels necessitating increased borrowing to fund loans and investments; changes in government regulation; the risk that goodwill and intangibles recorded in the Company s financial statements will become impaired; and changes in assumptions used in making such forward-looking statements, as well as the other risks and uncertainties detailed in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 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

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

As a commercially-focused financial institution with 47 full-service banking offices throughout Greater Boston, the North Shore of Massachusetts and Rhode Island, the Company, through Brookline Bank, BankRI and First Ipswich (the Banks), offers a wide range of commercial, business and retail banking services, including a full complement of cash management products, on-line banking services, consumer and residential loans and investment services, designed to meet the financial needs of small- to mid-sized businesses and individuals throughout Central New England. Specialty lending activities include indirect automobile loans as well as equipment financing in the New York/New Jersey metropolitan area and elsewhere.

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

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The Company is subject to competition from other financial and non-financial institutions and is supervised, examined and regulated by the Board of Governors of the Federal Reserve System (FRB). As Massachusetts-chartered member banks, Brookline Bank and First Ipswich are also subject to regulation under the laws of the Commonwealth of Massachusetts and the jurisdiction of the Massachusetts Division of Banks. As Rhode Island-chartered member bank, BankRI is also subject to regulation under the laws of the State of Rhode Island and the jurisdiction of the Banking Division of the Rhode Island Department of Business Regulation. The FDIC continues to insure all of the Banks deposits. Additionally, all Massachusetts-chartered savings banks are required to be members of the Depositors Insurance Fund (DIF), a corporation that insures savings bank deposits in excess of the FDIC insurance limits of $250,000 per person. 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 MarketSM under the symbol BRKL.

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 2012 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 ratio of the allowance for loan and lease losses related to originated loans and leases as a percentage of originated loans and leases, the efficiency and tangible equity ratios, tangible book value per share and operating earnings metrics. 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.

Operating earnings exclude acquisition-related and other non-recurring expenses from net income, which allows the Company to measure and assess financial results on a more consistent basis from period to period. These expenses are also excluded when calculating the operating efficiency ratio. In light of diversity in presentation among financial institutions, the methodologies used by the Company for determining the non-GAAP financial measures discussed above may differ from those used by other financial institutions.

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Selected Financial Data

	At and for the Three Months Ended					At and for the Six Months Ended	
	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	June 30, 2013	June 30, 2012
	(Dollars in Thousands, Except Per Share Data)						
FINANCIAL CONDITION DATA							
Total assets	$ 5,150,480	$ 5,110,378	$ 5,147,534	$ 5,061,444	$ 4,972,381	$ 5,150,480	$ 4,972,381
Total loans and leases	4,205,015	4,173,985	4,175,712	4,144,012	4,012,544	4,205,015	4,012,544
Allowance for loan and lease losses	44,281	42,532	41,152	38,913	37,431	44,281	37,431
Net loans and leases	4,160,734	4,131,453	4,134,560	4,105,099	3,975,113	4,160,734	3,975,113
Investment securities available-for-sale	479,177	486,625	481,323	466,822	384,533	479,177	384,533
Investment securities held-to-maturity	500	500	500	500	500	500	500
Goodwill and identified intangible assets	157,058	158,235	159,400	161,197	162,468	157,058	162,468
Total deposits	3,656,981	3,626,033	3,616,259	3,568,016	3,521,206	3,656,981	3,521,206
Core deposits (1)	2,684,479	2,630,826	2,605,318	2,525,487	2,471,744	2,684,479	2,471,744
Certificates of deposit	972,502	995,207	1,010,941	1,042,529	1,049,462	972,502	1,049,462
Total borrowed funds	830,066	820,447	853,969	828,256	794,101	830,066	794,101
Stockholders equity	611,284	614,039	612,097	605,962	598,865	611,284	598,865
Tangible stockholders equity (non-GAAP) (2)	454,226	455,804	452,697	444,765	436,397	454,226	436,397
Nonperforming loans and leases (3)	17,493	21,693	22,246	21,289	21,066	17,493	21,066
Nonperforming assets (4)	18,986	22,941	23,737	23,675	23,831	18,986	23,831
EARNINGS DATA							
Interest and dividend income	$ 52,900	$ 51,612	$ 52,976	$ 55,394	$ 51,839	$ 104,511	$ 104,830
Interest expense	7,537	7,943	8,412	8,983	9,080	15,481	18,438
Net interest income	45,363	43,669	44,564	46,411	42,759	89,030	86,392
Provision for credit losses	2,439	1,855	3,101	2,862	6,678	4,294	9,925
Provision for income taxes	5,382	5,129	6,868	5,176	4,398	10,511	9,296
Non-interest income	3,138	3,327	6,504	3,785	4,721	6,466	8,315
Non-interest expense	30,815	30,772	28,869	30,436	28,621	61,585	61,069
Net income	9,490	8,813	11,863	11,401	7,529	18,304	13,878
Operating earnings	9,490	8,813	11,863	11,401	7,529	18,304	17,850
PER COMMON SHARE DATA							
Net income Basic	$ 0.14	$ 0.13	$ 0.17	$ 0.16	$ 0.11	$ 0.26	$ 0.20
Net income Diluted	0.14	0.13	0.17	0.16	0.11	0.26	0.20
Dividends paid per common share	0.085	0.085	0.085	0.085	0.085	0.17	0.17
Book value per share (end of period)	8.73	8.77	8.74	8.65	8.59	8.73	8.59
Tangible book value per share (end of period) (non-GAAP) (5)	6.48	6.51	6.46	6.35	6.26	6.48	6.26
Stock price (end of period)	8.68	9.14	8.50	8.82	8.85	8.68	8.85
PERFORMANCE RATIOS							

Net interest margin	3.78%	3.70%	3.79%	4.00%	3.81%	3.74%	3.85%
Return on average assets (annualized)	0.74%	0.70%	0.93%	0.90%	0.61%	0.72%	0.57%
Operating return on average assets (non-GAAP) (annualized) (6)	0.74%	0.70%	0.93%	0.90%	0.61%	0.72%	0.73%
Efficiency ratio (non-GAAP) (7)	63.53%	65.48%	56.53%	60.63%	60.28%	64.49%	64.48%
Operating efficiency ratio (non-GAAP) (8)	63.53%	65.48%	56.53%	60.63%	60.28%	64.49%	58.78%
Return on average tangible assets (non-GAAP)	0.76%	0.72%	0.96%	0.93%	0.64%	0.74%	0.59%
Return on average stockholders equity (annualized)	6.16%	5.72%	7.76%	7.53%	5.04%	5.93%	4.64%
Operating return on average stockholders equity (non-GAAP) (annualized)	6.16%	5.72%	7.76%	7.53%	5.04%	5.93%	5.97%
Return on average tangible stockholder s equity (annualized)	8.28%	7.70%	10.53%	10.27%	6.95%	7.98%	6.41%
Operating return on average tangible stockholders equity (non-GAAP) (9)	8.28%	7.70%	10.53%	10.27%	6.95%	7.98%	8.25%
Dividend payout ratio (10)	62.78%	67.60%	50.22%	52.24%	79.08%	65.10%	85.50%

(Continued)

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	At and for the Three Months Ended					At and for the Six Months Ended	
	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	June 30, 2013	June 30, 2012
	(Dollars in Thousands, Except Per Share Data)						
GROWTH RATIOS							
Total loan and lease growth (annualized) (11)	2.97%	-0.17%	3.06%	13.11%	8.06%	1.40%	94.95%
Organic loan and lease growth (annualized) (12)	2.97%	-0.17%	3.06%	13.11%	8.06%	1.40%	11.46%
Total deposit growth (annualized) (11)	3.41%	1.08%	5.41%	5.32%	7.15%	2.25%	152.98%
Organic deposit growth (annualized) (12)	3.41%	1.08%	5.41%	5.32%	7.15%	2.25%	12.03%
ASSET QUALITY RATIOS							
Net loan and lease charge-offs as a percentage of average loans and leases (annualized)	0.06%	0.04%	0.08%	0.15%	0.37%	-1.99%	-1.55%
Nonperforming loans and leases as a percentage of total loans and leases (13)	0.42%	0.52%	0.53%	0.51%	0.52%	0.42%	0.52%
Nonperforming assets as a percentage of total assets (13)	0.37%	0.45%	0.46%	0.47%	0.48%	0.37%	0.48%
Total allowance for loan and lease losses as a percentage of total loans and leases (13)	1.05%	1.02%	0.98%	0.94%	0.93%	1.05%	0.93%
Allowance for loan and lease losses related to originated loans and leases as a percentage of originated loans and leases (non-GAAP) (14)	1.34%	1.34%	1.33%	1.31%	1.33%	1.34%	1.33%
CAPITAL RATIOS							
Stockholders equity to total assets	11.87%	12.02%	11.89%	11.97%	12.04%	11.87%	12.04%
Tangible equity ratio (non-GAAP) (15)	9.10%	9.20%	9.08%	9.08%	9.07%	9.10%	9.07%
Tier 1 leverage capital ratio	9.47%	9.49%	9.44%	9.03%	9.16%	9.47%	9.16%
Tier 1 risk-based capital ratio	11.23%	11.21%	10.85%	10.42%	10.60%	11.23%	10.60%
Total risk-based capital ratio	12.31%	12.26%	11.83%	11.64%	11.82%	12.31%	11.82%

(1) Core deposits consist of demand checking, NOW, money market and savings accounts.

(2) Tangible stockholders equity is calculated by subtracting goodwill and identified intangible assets, net, from total stockholders equity.

(3) Nonperforming loans and leases consist of nonaccrual loans and leases. Amount includes deferred origination costs.

(4) Nonperforming assets consist of nonperforming loans and leases, other real estate owned and other repossessed assets. Amount includes deferred origination costs.

(5) Tangible book value per share is calculated by dividing tangible stockholders equity by common shares (total common shares issued, less common shares classified as treasury shares and unallocated ESOP common shares).

(6) Operating return on average assets is calculated by dividing annualized operating earnings by average assets during the period.

(7) The efficiency ratio is calculated by dividing non-interest expense by the sum of net interest income and non-interest income for the period.

(8) The operating efficiency ratio is calculated by dividing non-interest expense less acquisition-related expenses for the period by the sum of net interest income and non-interest income for the period.

(9) Operating return on average tangible stockholders equity is calculated by dividing annualized operating earnings by average tangible stockholders equity during the period.

(10) The dividend payout ratio is calculated by dividing dividends paid during the period by net income during the period.

(11) Total growth is calculated by dividing the annualized change in the balance during the period by the balance at the beginning of the period.

(12) Organic growth is calculated by dividing the annualized change in the balance during the period less the fair value of acquired loan and deposit balances at the date of acquisition by the balance at the beginning of the period.

(13) Amount includes acquired and originated loans and leases and deferred loan origination costs.

(14) Amount excludes acquired loans and leases and includes deferred loan origination costs associated with originated loans.

(15) The tangible equity ratio is calculated by dividing tangible stockholders equity (total stockholders equity less goodwill and identified intangible assets, net (the numerator)) by tangible assets (total assets less goodwill and identified intangible assets, net (the denominator).

Executive Overview

Growth

Total assets increased slightly from $5.1 billion at December 31, 2012 to $5.2 billion at June 30, 2013. The loan and lease portfolio increased $29.3 million, or 0.7%, from December 31, 2012 to $4.2 billion at June 30, 2013. The Company s commercial loan portfolios, which are comprised of commercial real estate loans and commercial loans and leases, continued to exhibit growth. The Company s commercial loan portfolios, which total $3.0 billion, or 70.2% of total loans and leases at June 30, 2013, increased 6.9% on an annualized basis during the first half of 2013. Loan growth in the Company s commercial loan portfolios was offset by a $62.6 million decrease in the indirect automobile portfolio during the first half of the year, due to fewer loan originations in the auto lending market.

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The ratio of the allowance for loan and lease losses to total loans and leases was 1.05% at June 30, 2013, compared to 0.98% at December 31, 2012. The allowance for loan and lease losses related to originated loans and leases as a percentage of the total originated loans and leases, including deferred loan origination costs, was 1.34% at June 30, 2013 as compared with 1.33% at December 31, 2012. The Company continued to employ its historical underwriting methodology throughout the six-month period ended June 30, 2013 and continued to calculate its allowance for loan and lease losses on a historically consistent basis.

Nonperforming assets at June 30, 2013 totaled $19.0 million or 0.37% of total assets, as compared with $23.7 million, or 0.46% of total assets, at December 31, 2012. Net charge-offs for the three months ended June 30, 2013 were $0.6 million, or 0.06% of average loans and leases, compared to 0.08% for the three months ended December 31, 2012 and 0.37% for the three months ended June 30, 2012.

Deposits were up slightly from December 31, 2012. The Company s core deposits increased as a percentage of total deposits from 72.0% at December 31, 2012 to 73.4% at June 30, 2013.

The Company remains well-capitalized as defined by its regulatory requirements with capital ratios in excess of all minimum regulatory requirements. The Company s Tier 1 leverage ratio was 9.47% at June 30, 2013, compared to 9.44% at December 31, 2012. The Company s tangible equity ratio was 9.10% at June 30, 2013, compared to 9.08% at December 31, 2012.

Net Income

For the three months ended June 30, 2013, the Company reported net income of $9.5 million, or $0.14 per diluted share, up 26.0% from the three months ended June 30, 2012. For the six months ended June 30, 2013, the Company reported net income of $18.3 million, or $0.26 per diluted share, up 31.9% from the six months ended June 30, 2012. The annualized return on average assets was 0.74% and 0.72% for the three months and six months ended June 30, 2013, respectively, compared to 0.61% and 0.57% for the three months and six months ended June 30, 2012, respectively. The annualized return on average stockholders equity was 6.16% and 5.93% for the three months and six months ended June 30, 2013, compared to 5.04% and 4.64% for the three months and six months ended June 30, 2012, respectively.

Net earnings from operations, which exclude acquisition-related expenses, were $9.5 million, or $0.14 per diluted share for the three months ended June 30, 2013. This compared to $7.5 million, or $0.11 per diluted share for the three months ended June 30, 2012. Net earnings from operations were $18.3 million, or $0.26 per diluted share for the six months ended June 30, 2013. This compared to $17.9 million, or $0.26 per diluted share for the six months ended June 30, 2012. Annualized operating returns on average assets were 0.74% and 0.72%, respectively, for the three months and six months ended June 30, 2013, compared to 0.61% and 0.73%, respectively, for the three months and six months ended June 30, 2012. Annualized operating returns on average stockholders equity were 6.16% and 5.93%, respectively, for the three months and six months ended June 30, 2013, compared to 5.04% and 5.97%, respectively, for the three months and six months ended June 30, 2012.

Net interest margin was 3.78% and 3.74%, respectively, for the three months and six months ended June 30, 2013, compared to 3.81% and 3.85%, respectively, for the three months and six months ended June 30, 2012. The yield on interest-earning assets decreased 21 basis points from 4.62% during the second quarter of 2012 to 4.41% during the second quarter in 2013, due to continued rate pressures in the lending market. The decrease in yields on interest-earning assets is offset by a decrease of 19 basis points in the Company s overall cost of funds, from 0.98% for the three months ended June 30, 2012 to 0.79% for the three months ended June 30, 2013. The Company s net interest margin will likely

continue to be under pressure due to competitive pricing pressure in all loan categories and the continuation of a low interest-rate environment, along with the Company s diminishing ability to reduce its cost of funds.

Results for the second quarter of 2013 included a $2.4 million provision for credit losses. The provision has decreased from $6.7 million for the second quarter of 2012. Of the $6.7 million provision recorded in the second quarter of 2012, $4.2 million was related to two short-term commercial loans made by BankRI shortly after the Company s acquisition of BankRI.

Non-interest income totaled $3.1 million and $6.5 million, respectively, for the three months and six months ended June 30, 2013. This compared to $4.7 million and $8.3 million, respectively, for the three months and six months ended June 30, 2012. The decrease is primarily attributable to an increased loss from investments in affordable housing projects of $0.4 million quarter-over-quarter and $0.6 million period-over-period, as well as a net gain on sales of securities of $0.8 million in the second quarter of 2012.

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Non-interest expense increased $2.2 million, or 7.7%, from $28.6 million during the three months ended June 30, 2012 to $30.8 million for the three months ended June 30, 2013. While compensation and employee benefit expense increased due to addition of loan officers and other individuals in key support areas of the Company, professional service expenses decreased substantially in the amount of $1.0 million, or 40.8%, in the second quarter of 2013. Professional service expenses in the second quarter of 2012 were elevated largely due to the acquisition of BankRI.

The following table summarizes the Company s operating earnings, operating earnings per share (EPS) and operating return on average assets for the periods indicated:

	Three Months Ended			Six Months Ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	(Dollars in Thousands, Except Per Share Data)				
Net income, as reported	$ 9,490	$ 8,813	$ 7,529	$ 18,304	$ 13,878
Adjustments to arrive at operating earnings:					
Acquisition-related expenses					5,396
Total pre-tax adjustments					5,396
Tax effect					(1,424)
Total adjustments, net of tax					3,972
Operating earnings	$ 9,490	$ 8,813	$ 7,529	$ 18,304	$ 17,850
Earnings per share, as reported	$ 0.14	$ 0.13	$ 0.11	$ 0.26	$ 0.20
Adjustments to arrive at operating earnings per share:					
Acquisition-related expenses					0.06
Total adjustments per share					0.06
Operating earnings per fully dilutive share	$ 0.14	$ 0.13	$ 0.11	$ 0.26	$ 0.26
Average total assets	$ 5,138,144	$ 5,071,163	$ 4,904,933	$ 5,103,316	$ 4,883,160
Operating return on average assets (annualized)	0.74%	0.70%	0.61%	0.72%	0.73%
Average total stockholders equity	$ 616,327	$ 616,627	$ 597,908	$ 616,868	$ 598,277
Operating return on average stockholders equity (annualized)	6.16%	5.72%	5.04%	5.93%	5.97%

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The following table summarizes the Company s operating return on average tangible stockholders equity:

	Three Months Ended			Six Months Ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	(Dollars in Thousands)				
Operating earnings	$ 9,490	$ 8,813	$ 7,529	$ 18,304	$ 17,850
Average stockholders equity	616,327	616,627	597,908	616,868	598,277
Less: Average goodwill and average identified intangible assets, net	157,799	158,949	164,288	158,371	165,315
Average tangible stockholders equity	$ 458,528	$ 457,678	$ 433,620	$ 458,497	$ 432,962
Operating return on average tangible stockholders equity (annualized)	8.28%	7.70%	6.95%	7.98%	8.25%

The following tables summarize the Company s tangible equity ratio and tangible book value per share derived from amounts reported in the unaudited consolidated balance sheet at the dates indicated.

	At June 30, 2013	At March 31, 2013	At June 30, 2012
	(Dollars in Thousands)		
Total stockholders equity	$ 611,284	$ 614,039	$ 598,865
Less: Goodwill and identified intangible assets, net	157,058	158,235	162,468
Tangible stockholders equity	$ 454,226	$ 455,804	$ 436,397
Total assets	$ 5,150,480	$ 5,110,378	$ 4,972,381
Less: Goodwill and identified intangible assets, net	157,058	158,235	162,468
Tangible assets	$ 4,993,422	$ 4,952,143	$ 4,809,913
Tangible equity ratio	9.10%	9.20%	9.07%

	At June 30, 2013	At March 31, 2013	At June 30, 2012
	(Dollars In Thousands, Except Share Data)		
Tangible stockholders equity	$ 454,226	$ 455,804	$ 436,397
Common shares issued	75,744,445	75,744,445	75,414,713
Less: Common shares classified as treasury shares	5,373,733	5,373,733	5,373,733
Less: Unallocated ESOP shares	312,792	323,355	356,064
Common shares outstanding	70,057,920	70,047,357	69,684,916
Tangible book value per share	$ 6.48	$ 6.51	$ 6.26

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The following table summarizes the Company s dividend payout ratio:

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	(Dollars in Thousands)			
Dividends paid (1)	$ 5,958	$ 5,954	$ 11,915	$ 11,865
Net income, as reported	$ 9,490	$ 7,529	$ 18,304	$ 13,878
Dividend payout ratio	62.78%	79.08%	65.10%	85.50%

(1) Dividends Paid excludes cash payment on the Company s unallocated ESOP shares.

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 June 30, 2013	At December 31, 2012	At June 30, 2012
		(Dollars in Thousands)	
Allowance for loan and lease losses	$ 44,281	$ 41,152	$ 37,431
Less:			
Allowance for acquired loans and leases losses	620		
Allowance for originated loan and lease losses	$ 43,661	$ 41,152	$ 37,431
Total loans and leases	$ 4,205,015	$ 4,175,712	$ 4,012,544
Less:			
Total acquired loans and leases	938,815	1,059,610	1,187,844
Total originated loans and leases	$ 3,266,200	$ 3,116,102	$ 2,824,700
Allowance for loan and lease losses related to originated loans and leases as a percentage of originated loans and leases	1.34%	1.33%	1.33%

Financial Condition

General

Total assets of $5.2 billion increased slightly from $5.1 billion at December 31, 2012, and increased $178.1 million, or 3.6%, from $5.0 billion at June 30, 2012.

The loan and lease portfolio increased $29.3 million, or 0.7%, from December 31, 2012 to $4.2 billion at June 30, 2013. The Company s commercial loan portfolios, which are comprised of commercial real estate loans and commercial loans and leases, grew $98.3 million, or 6.9% on an annualized basis, to $3.0 billion at June 30, 2013 as compared to $2.9 billion at December 31, 2012. At June 30, 2013, the commercial loan and lease and commercial real estate portfolios totaled $3.0 billion, or 70.2% of total loans and leases. Offsetting the growth in the commercial portfolios was a $62.6 million decrease in the indirect automobile portfolio from December 31, 2012 to June 30, 2013, due to management s unwillingness to originate loans at what it considers to be the very low interest rates.

Cash, cash equivalents, and investments securities available-for-sale were $579.0 million at June 30, 2013 as compared to $598.4 million at December 31, 2012. The decrease during the first half of 2013 reflects tighter management of cash with excess used to pay down debts. Total cash, cash equivalents, and investment securities were 11.3% and 11.6% of total assets at June 30, 2013 and December 31, 2012, respectively, and in line with management s liquidity targets.

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Deposits of $3.7 billion at June 30, 2013 increased slightly from December 31, 2012, and increased $135.8 million, or 3.9%, as compared to $3.5 billion at June 30, 2012. Core deposits increased at a 6.1% annualized rate in the first half of 2013, from $2.6 billion at December 31, 2012 to $2.7 billion at June 30, 2013, raising the core deposit ratio from 72.0% at December 31, 2012 to 73.4% at June 30, 2013. Total borrowings decreased approximately $23.9 million from $854.0 million at December 31, 2012 to $830.1 million at June 30, 2013.

The ratio of stockholders equity to total assets was 11.87% and 11.89% at June 30, 2013 and December 31, 2012, respectively. The ratio of tangible stockholders equity to tangible assets was 9.10% and 9.08% at June 30, 2013 and December 31, 2012, respectively.

Loans and Leases

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

	June 30, 2013		December 31, 2012	
	Balance	Percent of Total	Balance	Percent of Total
	(Dollars in Thousands)			
Commercial real estate loans:				
Commercial real estate mortgage	$ 1,349,051	32.1%	$ 1,301,233	31.1%
Multi-family mortgage	594,939	14.1%	606,533	14.5%
Construction	112,684	2.7%	98,197	2.3%
Total commercial real estate loans	2,056,674	48.9%	2,005,963	47.9%
Commercial loans and leases:				
Commercial	376,507	9.0%	382,277	9.1%
Equipment financing	476,724	11.3%	420,991	10.1%
Condominium association	41,859	1.0%	44,187	1.1%
Total commercial loans and leases	895,090	21.3%	847,455	20.3%
Indirect automobile	479,782	11.4%	542,344	13.0%
Consumer loans:				
Residential mortgage	507,099	12.1%	511,109	12.3%
Home equity	257,839	6.1%	261,562	6.3%
Other consumer	8,531	0.2%	7,279	0.2%
Total consumer loans	773,469	18.4%	779,950	18.8%
Total loans and leases	4,205,015	100.0%	4,175,712	100.0%
Allowance for loan and lease losses	(44,281)		(41,152)	
Net loans and leases	$ 4,160,734		$ 4,134,560	

The following table sets forth the growth in the Company s loan and lease portfolios during the six months ended June 30, 2013:

	At June 30, 2013	At December 31, 2012	Dollar Change	Percent Change (Annualized)
	(Dollars in Thousands)			
Commercial real estate	$ 2,056,674	$ 2,005,963	$ 50,711	5.1%

Commercial		895,090		847,455		47,635	11.2%
Indirect automobile		479,782		542,344		(62,562)	-23.1%
Consumer		773,469		779,950		(6,481)	-1.7%
Total loans and leases	$	4,205,015	$	4,175,712	$	29,303	1.4%

The Company s loan portfolio consists primarily of first mortgage loans secured by commercial, multi-family and residential real estate properties located in the Company s primary lending area, indirect automobile loans, loans to business entities, including commercial lines of credit, loans to condominium associations and loans and leases used to finance 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 an important source of business since many of them have more than one loan outstanding with the Company. The Company s ability to originate loans depends on the strength of the economy, trends in interest rates, and levels of customer demand and market competition.

Commercial Real Estate Loans

The commercial real estate portfolio of $2.1 billion at June 30, 2013 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 48.9% of total loans and leases outstanding at June 30, 2013. 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.

Brookline Bank 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 Brookline Bank s activities for many years. These types of loans typically generate higher yields, but also involve greater credit risk. Many of Brookline Bank s borrowers have more than one multi-family or commercial real estate loan outstanding with Brookline Bank.

Over 99% of the commercial real estate loans outstanding at June 30, 2013 were secured by properties located in New England. The commercial real estate portfolio at that date was composed primarily of loans secured by office buildings ($418.4 million), retail stores ($389.8 million), industrial properties ($70.2 million), apartment buildings ($407.5 million), and mixed-use properties ($157.9 million).

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

Criteria applied in underwriting construction loans for which the primary source of repayment is the sale of the property are different from the criteria applied in underwriting construction loans for which the primary source of repayment is the stabilized cash flow from the completed project. For those loans where the primary source of repayment is from resale of the property, in addition to the normal credit analysis performed for other loans, the Company also analyzes project costs, the attractiveness of the property in relation to the market in which it is located and demand within the market area. For those construction loans where the source of repayment is the stabilized cash flow from the completed project, the Company analyzes 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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Historically, construction and development lending has comprised a modest part of the Company s loan originations. At June 30, 2013, originated construction loans equaled $101.2 million, or 3.1% of total originated loans outstanding at that date.

Commercial Loans and Leases

The commercial loan and lease portfolio of $895.1 million at June 30, 2013 is composed of commercial loans, equipment financing loans and leases and condominium association loans and represented 21.3% of total loans outstanding at June 30, 2013. The Company focuses on making commercial loans in the $1 million to $10 million range.

The Company provides commercial banking services to companies in its market area. Over 95% of the commercial loans outstanding at June 30, 2013 were made to borrowers located in New England. Product offerings include lines of credit, term loans, letters of credit, deposit services and cash management. These types of credit facilities have as their primary source of repayment cash flows from the operations of a business. Interest rates offered are available on a floating basis tied to the prime rate or a similar index or on a fixed-rate basis referenced on the Federal Home Loan Bank of Boston (FHLBB) index.

Credit extensions are made to established businesses on the basis of 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. The Company also participates in U.S. Government programs such as the Small Business Administration (the SBA) in both the 7A program and as an SBA preferred lender.

The equipment financing portfolio is composed primarily of loans to finance coin-operated laundry, dry cleaning, fitness, and convenience store equipment and, most recently, tow trucks. The borrowers are located primarily in the greater New York/New Jersey metropolitan area, although the customer base extends to locations throughout the United States. Typically, the loans are priced at a fixed rate of interest and require monthly payments over their three- to 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 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 size of loan is determined by an analysis of cash flow and other characteristics pertaining to the business and the equipment to be financed, based on detailed revenue and profitability data of similar operations.

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

Indirect Automobile Loans

The indirect automobile loan portfolio of $479.8 million at June 30, 2013 represented 11.4% of total loans outstanding at June 30, 2013. Indirect automobile loans are down from $542.3 million at December 31, 2012. Although in 2012 the automobile industry reported the highest sales since 2007 with strong sales continuing into the first six months of 2013, competition for these loans increased significantly as credit unions and large national banks entered indirect automobile lending in a search for additional sources of income. That competition drove interest rates down and, in some cases, changed the manner in which interest rates are developed, i.e. from including a dealer-shared spread to requiring a dealer-based fee to originate the loan. Depending on the terms of the dealer s enrollment agreement with the Company, the dealer earns this fee 90 days after a loan is originated or once the borrower makes at least three payments on the loan.

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

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

The Company s indirect automobile loan policy limits origination of loans with credit scores of 660 or below to 5% of monthly indirect loan originations. At June 30, 2013, loans with credit scores of 660 or below were 3.3% of loans outstanding. The average-dollar original weighted credit score of loans in the portfolio at that date was 748. See the subsection *Results of Operations Provision for Credit Losses* appearing elsewhere herein for further information regarding loan underwriting and the average credit scores of the borrowers to whom indirect automobile loans were made. All loans require the purchase of single interest insurance by the borrower. The insurance is designed to protect the Company from loss when a loan is in default and the collateral value is impaired due to vehicle damage or the Company is unable to take possession of the vehicle.

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

Various reports are generated to monitor receipt of required loan documents, adherence to loan policy parameters, dealer performance, loan delinquencies and loan charge-offs. Summary reports are submitted to the chief credit officer, the chief financial officer and the board of directors on a monthly basis.

Consumer Loans

The consumer loan portfolio of $773.5 million at June 30, 2013 is composed of residential mortgage loans, home equity loans and lines of credit, and other consumer loans and represented 18.4% of total loans outstanding at June 30, 2013. The Company focuses its mortgage loans on existing 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 on a servicing-released basis. Each residential mortgage loan granted is subject to a satisfactorily completed application, employment verification, credit history and a demonstrated ability to repay the debt. Generally, loans are not made when the loan-to-value ratio exceeds 80% unless private mortgage insurance is obtained and/or there is a financially strong guarantor. Appraisals are performed by outside independent fee appraisers.

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In general, the Company maintains three-, five- and seven-year adjustable-rate mortgage loans and ten-year fixed-rate fully amortizing mortgage loans in its portfolio. Fixed-rate mortgage loans with maturities beyond ten years, such as 15- and 30-year fixed-rate mortgages, are not generally maintained in the Company s portfolio but are, rather, sold into the secondary market. At June 30, 2013, Brookline Bank and BankRI act as brokers in these secondary-market transactions. Loan sales in the secondary market provide funds for additional lending and other banking activities. The Company had $4.2 million and $3.2 million in residential mortgage loans held-for-sale at June 30, 2013 and December 31, 2012, respectively.

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 less the amount of any existing first mortgage liens.

Other consumer loans have historically been a modest part of the Company s loan originations. At June 30, 2013, originated other consumer loans equaled $7.4 million or 0.2% of total originated loans outstanding at that date. Equity and debt securities were pledged as collateral for a substantial part of the total of those loans.

Asset Quality

Criticized and Classified Assets

The Company s management negatively rates certain assets as special mention, 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 as special mention have potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects of the loan or lease at some future date. Loans and leases rated as substandard are inadequately protected by the payment capacity of the obligor or of the collateral pledged, if any. Substandard loans and leases have a well-defined weakness or weaknesses that jeopardize the liquidation of debt and are characterized by the distinct possibility that the Company will sustain some loss if existing deficiencies are not corrected. At June 30, 2013, the Company had $53.5 million of total assets, including acquired assets that were designated as criticized. This compares to $58.6 million of assets that were designated as criticized at December 31, 2012. 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 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 June 30, 2013	At December 31, 2012
	(Dollars in Thousands)	
Nonaccrual loans and leases:		
Commercial real estate mortgage	$ 2,682	$ 4,014
Multi-family mortgage	1,593	4,233
Commercial	4,680	5,454
Equipment financing	4,014	3,873
Condominium association	4	8
Indirect automobile	156	99
Residential mortgage	2,786	3,804
Home equity	1,557	716
Other consumer	21	45
Total nonaccrual loans and leases	17,493	22,246
Other real estate owned	1,002	903
Other repossessed assets	491	588
Total nonperforming assets	$ 18,986	$ 23,737
Loans and leases 61-90 days past due	$ 5,059	$ 4,536
Loans and leases past due greater than 90 days	15,823	24,150
Total loans and leases greater than 60 days past due	$ 20,882	$ 28,686
Troubled debt restructurings:		
On accrual	$ 9,631	$ 10,414
On nonaccrual	6,919	6,786
Total troubled debt restructurings	$ 16,550	$ 17,200
Total nonperforming loans and leases as a percentage of total loans and leases	0.42%	0.53%
Total nonperforming assets as a percentage of total assets	0.37%	0.46%
Total delinquent loans and leases 61-90 days past due as a percentage of total loans and leases	0.12%	0.11%
Total delinquent loans and leases past due greater than 90 days and accruing as a percentage of total loans and leases	0.38%	0.58%

Total nonperforming assets, which are composed of nonaccrual loans and leases, other real estate owned and other repossessed assets, decreased from $23.7 million at December 31, 2012 to $19.0 million at June 30, 2013. From December 31, 2012 to June 30, 2013, nonaccrual loans and leases decreased $1.3 million (33.2%) in commercial real estate mortgage, $2.6 million (62.4%) in multi-family mortgage, $0.8 million in commercial, and $1.0 million (26.8%) in residential mortgage. The decreases in nonaccrual loans in these categories were partially offset by increases of $0.1 million (3.6%) in equipment financing, $0.1 million (57.6%) in indirect automobile and $0.8 million (117.5%) in home equity. The $1.3 million decrease in commercial real estate nonaccrual loans is the result of three loans paying off during the period ending June 30, 2013. The $2.6 million decrease in multi-family nonaccrual loans is primarily attributed to payoff of two loans and the sale of another in this category. The $0.8 million decrease in commercial is primarily the result of payoff of one loan and charge off of another loan in this category. The $1.0 million decrease in residential nonaccrual loans is the result of a large loan payoff in this category. The $0.8 million increase in home equity nonaccrual loans is primarily due to 5 new home equity loans that have been place on nonaccrual status during the period ending June 30, 2013.

At June 30, 2013, restructured loans of $16.6 million included $5.1 million of commercial real estate mortgage loans, $0.9 million of multi-family mortgage loans, $3.4 million of commercial loans, $2.9 million of equipment financing loans, and $4.3 million of residential mortgage loans. At December 31, 2012, restructured loans of $17.2 million included $5.2 million of commercial real estate mortgage loans, $0.9 million of multi-family mortgage loans, $3.3 million of commercial loans, and $3.8 million of equipment financing loans and leases and $4.0 million of residential mortgage loans.

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Allowance for Loan and Lease Losses

The allowance for loan and lease losses consists of general, specific and unallocated allowances and reflects management s estimate of probable loan and lease losses inherent in the loan portfolio at the balance sheet date. Management uses a consistent and systematic process and methodology to evaluate the adequacy of the allowance for loan and lease losses on a quarterly basis. The allowance is calculated by loan type: commercial real estate loans, commercial loans and leases, indirect automobile loans and consumer loans, each category of which is further segregated. A formula-based credit evaluation approach is applied to each group, coupled with an analysis of certain loans for impairment.

The process to determine the allowance for loan and lease losses requires management to exercise considerable judgment regarding the risk characteristics of the loan portfolios and the effect of relevant internal and external factors. While management evaluates currently available information in establishing the allowance for loan and lease losses, future adjustments to the allowance for loan and lease losses may be necessary if conditions differ substantially from the assumptions used in making the evaluations. Management performs a comprehensive review of the allowance for loan and lease losses on a quarterly basis. In addition, various regulatory agencies, as an integral part of their examination process, periodically review a financial institution s allowance for loan and lease losses and carrying amounts of other real estate owned. Such agencies may require the financial institution to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. See Note 1, Basis of Presentation, and Note 5, Allowance for Loan and Lease Losses, to the unaudited consolidated financial statements for descriptions of how management determines the balance of the allowance for loan and lease losses for each portfolio and class of loans.

The following tables present the changes in the allowance for loan and lease losses by portfolio segment for the three months and six months ended June 30, 2013 and 2012, respectively.

	At and for the Three Months Ended June 30, 2013					
	Commercial Real Estate	Commercial	Indirect Automobile	Consumer	Unallocated	Total
	(Dollars in Thousands)					
Balance at March 31, 2013	$ 20,588	$ 11,652	$ 5,000	$ 2,596	$ 2,696	$ 42,532
Charge-offs	(81)	(477)	(318)	(154)		(1,030)
Recoveries		182	149	60		391
Provision (credit) for loan and lease losses	1,512	434	(136)	497	81	2,388
Balance at June 30, 2013	$ 22,019	$ 11,791	$ 4,695	$ 2,999	$ 2,777	$ 44,281
Total loans and leases	$ 2,056,674	$ 895,090	$ 479,782	$ 773,469	N/A	$ 4,205,015
Allowance for loan and lease losses as a percentage of total loans and leases	1.07%	1.32%	0.98%	0.39%	N/A	1.05%

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	At and for the Three Months Ended June 30, 2012					
	Commercial Real Estate	Commercial	Indirect Automobile	Consumer	Unallocated	Total
	(Dollars in Thousands)					
Balance at March 31, 2012	$ 16,836	$ 7,078	$ 5,656	$ 1,825	$ 3,033	$ 34,428
Charge-offs		(3,416)	(344)	(210)		(3,970)
Recoveries	40	124	119	12		295
Provision (credit) for loan and lease losses	1,062	5,176	249	486	(295)	6,678
Balance at June 30, 2012	$ 17,938	$ 8,962	$ 5,680	$ 2,113	$ 2,738	$ 37,431
Total loans and leases	$ 1,922,174	$ 750,556	$ 581,063	$ 758,751	N/A	$ 4,012,544
Allowance for loan and lease losses as a percentage of total loans and leases	0.93%	1.19%	0.98%	0.28%	N/A	0.93%

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

	At and for the Six Months Ended June 30, 2012					
	Commercial Real Estate	Commercial	Indirect Automobile	Consumer	Unallocated	Total
	(Dollars in Thousands)					
Balance at December 31, 2011	$ 15,477	$ 5,997	$ 5,604	$ 1,577	$ 3,048	$ 31,703
Charge-offs		(3,757)	(783)	(218)		(4,758)
Recoveries	80	202	266	13		561
Provision (credit) for loan and lease losses	2,381	6,520	593	741	(310)	9,925
Balance at June 30, 2012	$ 17,938	$ 8,962	$ 5,680	$ 2,113	$ 2,738	$ 37,431
Total loans and leases	$ 1,922,174	$ 750,556	$ 581,063	$ 758,751	N/A	$ 4,012,544
Allowance for loan and lease losses as a percentage of total loans and leases	0.93%	1.19%	0.98%	0.28%	N/A	0.93%

The allowance for loan and lease losses was $44.3 million at June 30, 2013 or 1.05% of total loans and leases outstanding. This compared to an allowance for loan and lease losses of $41.2 million or 0.98% or total loans and leases outstanding at December 31, 2012, and an allowance for loan and lease losses of $37.4 million or 0.93% of total loans and leases outstanding at June 30, 2012. The increase in the allowance for loan and lease losses and in the

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allowance for loan and lease losses as a percentage of total loans and leases from June 30, 2012 to June 30, 2013 is due to additions to the allowance for continued loan growth in the commercial real estate portfolios and an additional allowance recorded for subsequent deterioration in certain loan pools within the acquired loan portfolios. The allowance for loan and lease losses related to originated loans and leases represents 1.34%, 1.33%, and 1.33% of originated loans and leases at June 30, 2013, December 31, 2012, and June 30, 2012, respectively.

Commercial Real Estate Loans

The allowance for commercial real estate loan losses was $22.0 million at June 30, 2013 or 1.07% of total commercial real estate loans outstanding. This compared to an allowance for commercial real estate loan losses of $20.0 million or 1.00% of commercial real estate loans outstanding at December 31, 2012, and an allowance for commercial real estate loan losses of $17.9 million or 0.93% of commercial real estate loans outstanding at June 30, 2012. Specific reserves on commercial real estate loans of $0.3 million were unchanged from December 31, 2012 to June 30, 2013. Excluding balances in acquired loan portfolios, the allowance for commercial real estate loan losses as a percentage of total commercial real estate loans outstanding increased to 1.40% at June 30, 2013 from 1.37% at December 31, 2012.

The $2.1 million increase in the allowance for commercial real estate loan losses during the first half of 2013 was primarily driven by originated loan growth of $110.7 million or 7.59% from December 31, 2012 and the addition of $75,000 in allowance for post-acquisition deterioration in certain commercial real estate loan and lease portfolios. The ratio of total criticized and classified commercial real estate loans to total commercial real estate loans decreased to 1.60% at June 30, 2013 from 1.81% at December 31, 2012. The ratio of originated commercial real estate loans on nonaccrual to total originated commercial real estate loans decreased to 0.12% at June 30, 2013 from 0.24% at December 31, 2012.

As a percentage of average commercial real estate loans, annualized net charge-offs for the three- and six-month periods ended June 30, 2013, December 31, 2012 and June 30, 2012 were negligible. See the *Results of Operations Provision for Credit Losses* section below for additional information.

Commercial Loans and Leases

The allowance for commercial loan and lease losses was $11.8 million or 1.32% of total commercial loans and leases outstanding at June 30, 2013, as compared to $10.7 million or 1.26% at December 31, 2012. Specific reserves on commercial loans and leases remained relatively constant from December 31, 2012 to June 30, 2012 at $0.7 million. Excluding balances in acquired loan portfolios, the allowance for commercial loan and lease losses as a percentage of total commercial loans and leases outstanding increased to 1.63% at June 30, 2013 from 1.66% at December 31, 2012.

The $1.1 million increase in the allowance for commercial loan and lease losses during the first half of 2013 was primarily driven by originated loan growth of $81.0 million or 12.6% from December 31, 2012 and the addition of $0.1 million in allowances for post-acquisition deterioration in certain commercial loan and lease portfolios. The ratio of total criticized and classified commercial loans and leases to total commercial loans and leases was 2.31% at June 30, 2013 as compared to 2.63% at December 31, 2012 and reflects the resolution of several problem credits in the second quarter 2013. The ratio of originated commercial loans and leases on nonaccrual to total originated commercial loans and leases decreased to 0.79% at June 30, 2013 from 0.91% at December 31, 2012.

Net charge-offs in the commercial loan and lease portfolio for the three-month periods ended June 30, 2013, December 31, 2012 and June 30, 2012 were $0.3 million, $0.2 million, and $3.3 million respectively. As a percentage of average commercial loans and leases, annualized net charge-offs for the three-month periods ended June 30, 2013, December 31, 2012 and June 30, 2012 were 0.28%, 0.20% and 3.20%, respectively. Net charge-offs in the commercial loan and lease portfolio for the six-month periods ended June 30, 2013, December 31, 2012 and June 30, 2012 were $0.5 million, $1.4 million, and $3.6 million, respectively. As a percentage of average commercial loans and leases, annualized net charge-offs for the six month periods ended June 30, 2013, December 31, 2012 and June 30, 2012 were 0.11%, 0.34% and 0.95%, respectively. See the *Results of Operations Provision for Credit Losses* section below for additional information.

Indirect Automobile Loans

The allowance for indirect automobile loan losses was $4.7 million or 0.98% of total indirect automobile loans outstanding at June 30, 2013, compared to $5.3 million or 0.98% of the indirect automobile portfolio outstanding at December 31, 2012. There were no loans individually evaluated for impairment in the indirect automobile portfolio

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at June 30, 2013. The $0.6 million decrease in the allowance for indirect automobile loan losses was primarily a result of declines in loan outstanding, which decreased from $542.3 million at December 31, 2012 to $480.0 million at June 30, 2013.

The ratio of indirect automobile loans with borrower credit scores below 660 to the total indirect automobile portfolio increased slightly to 3.25% at June 30, 2013 from 3.12% at December 31, 2012. The ratio of indirect automobile loans on nonaccrual to total indirect automobile loans increased slightly to 0.03% at June 30, 2013 compared to 0.02% at December 31, 2012.

Net charge-offs in the indirect automobile portfolio for the three-month periods ended June 30, 2013, December 31, 2012 and June 30, 2012 were $0.2 million, $0.4 million and $0.2 million, respectively. As a percentage of average loans and leases, annualized net charge-offs for the three-month periods ended June 30, 2013, December 31, 2012 and June 30, 2012 were 0.14%, 0.26% and 0.15% respectively, reflecting the favorable trend in credit quality as the portfolio has been allowed to run down somewhat. Net charge-offs in the indirect automobile portfolio for the six-month periods ended June 30, 2013, December 31, 2012 and June 30, 2012 were $0.4 million, $0.7 million, and $0.5 million, respectively. As a percentage of average indirect automobile loans, annualized net charge-offs for the six month periods ended June 30, 2013, December 31, 2012 and June 30, 2012 were 0.16%, 0.23% and 0.18%, respectively. See the *Results of Operations Provision for Credit Losses* section below for additional information.

Consumer Loans

The allowance for consumer loan losses, including residential loans and home equity loans and lines of credit, was $3.0 million or 0.39% of total consumer loans and leases outstanding as compared to $2.5 million or 0.32% at December 31, 2012. The reserve for loans individually evaluated for impairment at June 30, 2013 was $0.4 million on loan balances of $4.6 million, compared to $0.6 million on loan balances of $4.8 million at December 31, 2012. Excluding balances in acquired loan portfolios, the allowance for consumer losses as a percentage of total consumer loans outstanding was 0.61%, at June 30, 2013 from 0.54% at December 31, 2012.

The $0.5 million increase in the allowance for consumer loans during the first half of 2013 was primarily driven by the addition of $0.4 million in allowance port-acquisition deterioration in residential loans and home equity loans and lines of credit. The ratio of residential and home equity loans with loan-to-value ratios greater than 80% decreased to 6.25% of total residential and home equity loans at June 30, 2013 from 12.79% at December 31, 2012. The ratio of originated consumer loans on nonaccrual to total originated consumer loans (including deferred origination costs) decreased to 0.36% at June 30, 2013 from 0.44% at December 31, 2012. The risk of loss on a home equity loan is higher since the property securing the loan has often been previously pledged as collateral for a first mortgage loan. The Company gathers and analyzes delinquency data, to the extent that data are available on these first liens, for purposes of assessing the collectability of the second liens held for the Company even if these home equity loans are not delinquent. These data are further analyzed for performance differences between amortizing and non-amortizing home equity loans, the percentage borrowed to total loan commitment, and by the amount of payments made by the borrowers. The exposure to loss is not considered to be high due to the combination of current property values, the low level of losses experienced in the past few years and the low level of loan delinquencies at June 30, 2013. If the local economy weakens, however, a rise in losses in those loan classes could occur. Historically, losses in these classes have been low.

Net charge-offs in the consumer portfolio for the three-month periods ended June 30, 2013, December 31, 2012 and June 30, 2012 were $94,000, $0.3 million and $0.2 million, respectively. As a percentage of average consumer loans and leases, annualized net charge-offs for the three-month periods ended June 30, 2013, December 31, 2012 and June 30, 2012 were 0.05%, 0.14% and 0.10%, respectively. Net charge-offs in the consumer portfolio for the six-month periods ended June 30, 2013, December 31, 2012 and June 30, 2012 were $0.1 million, $0.4 million, and $0.2 million, respectively. As a percentage of average consumer loans and leases, annualized net charge-offs for the three-month periods

ended June 30, 2013, December 31, 2012 and June 30, 2012 were 0.03%, 0.09% and 0.05%, respectively. See the *Results of Operations Provision for Credit Losses* section below for additional information.

Unallocated Allowance

The unallocated allowance recognizes the estimation risk associated with the allocated general and specific allowances, and incorporates management s evaluation of existing conditions that are not included in the allocated allowance determinations and protects against potential losses outside of the ordinary course of business. These conditions are reviewed quarterly by management and include general economic conditions, credit quality trends, loan and lease mix, and internal loan review and regulatory examination findings. Causes of losses outside the

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normal course of business include but are not limited to fraudulently obtained loans where there is no primary or secondary source of repayment; catastrophic and uninsured property loss where collateral is destroyed with no compensation; and legal documentation flaws that compromise security interests in collateral assets or the availability of guarantors.

The unallocated allowance for loan and lease losses was $2.8 million at June 30, 2013, compared to $2.6 million at December 31, 2012. The $0.2 million or 5.6% increase in the unallocated portion of the allowance for loan and lease losses reflects the 0.7% growth in total loans as leases during the first half of 2013.

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 (including deferred loan origination costs) for each of the categories listed at the dates indicated.

	At June 30, 2013			At December 31, 2012		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans
	(Dollars in Thousands)					
Commercial real estate mortgage	$ 14,034	31.7%	32.1%	$ 12,993	31.6%	31.0%
Multi-family	4,445	10.0%	14.1%	4,541	11.0%	14.5%
Construction	3,540	8.0%	2.7%	2,484	6.0%	2.4%
Commercial	4,292	9.7%	9.0%	3,870	9.4%	9.2%
Equipment financing	7,185	16.2%	11.3%	6,454	15.7%	10.1%
Condominium association	314	0.7%	1.0%	331	0.8%	1.1%
Indirect automobile	4,695	10.6%	11.4%	5,304	12.9%	13.0%
Residential mortgage	1,657	3.7%	12.1%	1,516	3.7%	12.2%
Home equity	1,266	2.9%	6.1%	970	2.4%	6.3%
Other consumer	76	0.2%	0.2%	59	0.2%	0.2%
Unallocated	2,777	6.3%	0.0%	2,630	6.3%	0.0%
Total	$ 44,281	100.0%	100.0%	$ 41,152	100.0%	100.0%

Investments

The investment portfolio exists primarily for liquidity purposes, and secondarily as sources of interest and dividend income, interest-rate risk management and tax planning as a counterbalance to loan and deposit flows. Securities available-for-sale are employed 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 acceptable types of investments, 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 and equivalents and investment securities available-for-sale balances of between 10% and 30% of total assets.

Cash, cash equivalents, and investment securities decreased $19.4 million, or 3.3%, since December 31, 2012. Cash, cash equivalents, and investment securities were 11.3% of total assets at June 30, 2013, compared to 11.6% of total assets at December 31, 2012.

Investment Securities Available-for-Sale and Held-to-Maturity

The Company s portfolio of investment securities consists of investment securities available-for-sale and investment securities held-to-maturity. The following table sets forth certain information regarding the amortized

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cost and market value of the Company s investment securities available-for-sale and held-to-maturity at the dates indicated:

	At June 30, 2013		At December 31, 2012		At December 31, 2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)					
Investment securities available-for-sale:						
Debt securities:						
GSEs	$ 39,233	$ 39,336	$ 69,504	$ 69,809	$ 152,036	$ 151,765
GSE CMOs	259,795	253,712	215,670	217,001	1,297	1,305
GSE MBSs	165,292	163,544	165,996	169,648	97,146	100,561
Private-label CMOs	4,740	4,844	6,719	6,866		
SBA commercial loan asset-backed securities	270	269	383	381		
Auction-rate municipal obligations	1,900	1,796	2,100	1,976	3,200	2,965
Municipal obligations	1,063	1,093	1,058	1,101	750	791
Corporate debt obligations	10,387	10,634	10,481	10,685	42,367	43,552
Trust preferred securities	2,656	2,629	2,786	2,519	3,945	3,169
Total debt securities	485,336	477,857	474,697	479,986	300,741	304,108
Marketable equity securities	1,254	1,320	1,249	1,337	366	432
Total investment securities available-for-sale	$ 486,590	$ 479,177	$ 475,946	$ 481,323	$ 301,107	$ 304,540
Investment securities held-to-maturity	$ 500	$ 500	$ 500	$ 502	$	$

Maturities, calls and principal repayments totaled $69.8 million for the six months ended June 30, 2013 compared to $116.9 million for the same period in 2012. During the six months ended June 30, 2013, the Company purchased $82.3 million of available-for-sale securities compared to $130.2 million for the same period in 2012. During the six months ended June 30, 2013, the Company did not sell any available-for-sale securities. This compared to $157.2 million sales and $0.8 million net realized gains during the six months ended June 30, 2012.

Securities available-for-sale are recorded at fair value, which is primarily obtained from a third-party pricing service. At June 30, 2013, the fair value of all securities available-for-sale was $479.2 million and carried a total of $7.4 million of net unrealized losses at the end of the quarter, compared to $5.4 million of net unrealized gains at December 31, 2012. Of the $479.2 million in securities available-for-sale at June 30, 2013, $368.0 million, or 76.8%, of the portfolio, had gross unrealized losses of $10.1 million. This compares to $47.6 million or 9.9% of the portfolio with gross unrealized losses of $0.6 million at December 31, 2012. The shift from an unrealized gain position to an unrealized loss position over the first six months of 2013 was driven by rising interest rates. Management believes that these negative differences between amortized cost and fair value reflect the changes in the level of interest rates between the time of purchase and the time of measurement. It is more likely than not that the Company will not sell the securities before recovery, and, as a result, it will recover the amortized cost basis of the securities. As such, management has determined that the securities are not other-than-temporarily impaired at June 30, 2013. If market conditions for securities worsen or the creditworthiness of the underlying issuers deteriorates, it is possible that the Company may recognize additional other-than-temporary impairments in future periods. For additional discussion on how the Company validates fair values provided by the third-party pricing service, see Note 4, Investment Securities, of the Company s 2012 Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

U.S. Government-Sponsored Enterprises (GSEs) The Company invests in securities issued by of 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 (Freddie Mac), the Government National Mortgage Association (GNMA), the Federal Home Loan Banks and the Federal Farm Credit Bank. At June 30, 2013, none of those obligations is backed by the full faith and credit of the U.S. Government, except for GNMA MBSs and CMOs, and Small Business Administration (SBA) commercial loan asset-backed securities with an estimated fair value of $13.9 million, compared to $10.0 million at December 31, 2012.

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At June 30, 2013, the Company held GSE debentures with a total fair value of $39.3 million and a net unrealized gain of $0.1 million. At December 31, 2012, the Company held GSE debentures of with a total fair value of $69.8 million and a net unrealized gain of $0.3 million.

At June 30, 2013, the Company held GSE mortgage-related securities with a total fair value of $417.3 million and a net unrealized gain of $7.8 million. At December 31, 2012, the Company held GSE mortgage-related securities with a total fair value of $386.6 million and a net unrealized gain of $5.0 million. During the six months ended June 30, 2013, the Company purchased a total of $82.3 million in GSE CMOs and GSE MBSs to reinvest matured cash flow, as compared to $130.2 during the same period in 2012.

Private-Label CMOs At June 30, 2013, the Company held private-issuer CMO-related securities with a total fair value of $4.8 million and a net unrealized gain of $0.1 million. At December 31, 2012, the Company held private-issuer CMO-related securities with a total fair value of $6.9 million and a net unrealized gain of $0.1 million.

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

Based on an evaluation of market factors, the estimated fair value of the auction-rate municipal obligations owned by the Company at June 30, 2013 was $1.8 million with a corresponding net unrealized loss of $0.1 million. This compares to an estimated fair value of $2.0 million and a corresponding net unrealized loss of $0.1 million at December 31, 2012. 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 unrealized losses.

The Company owns municipal securities with an estimated fair value of $1.1 million and a corresponding net gain of $30,000 at June 30, 2013. This compares to an estimated fair value of $1.1 million and a corresponding net unrealized gain of $43,000 at December 31, 2012. 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 unrealized losses.

Corporate Debt 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 five corporate obligation securities with a total fair value of $10.6 million and total net unrealized gains of $0.2 million at June 30, 2013. This compares to eight corporate obligation securities with a total fair value of $10.7 million and total net unrealized gains of $0.2 million at December 31, 2012. All of these securities are investment grade which is currently in an unrealized gain position.

Trust Preferred Securities and Pools Trust preferred securities represent subordinated debt issued by financial institutions. These securities are sometimes pooled and sold to investors through structured vehicles known as PreTSLs. When issued, PreTSLs are divided into tranches or

segments that establish priority rights to cash flows from the underlying trust preferred securities. At June 30, 2013, the Company owned three trust preferred securities and two PreTSL pools with a total fair value of $2.6 million and a total net unrealized loss of $27,000. This compares to three trust preferred securities and two PreTSL pools with a total fair value of $2.5 million and a total net unrealized loss of $0.3 million at December 31, 2012. The Company monitors these pools closely for impairment due to a history of defaults experienced on the part of the banks underlying the trust preferred securities.

Marketable Equity Securities At June 30, 2013, the Company owned marketable equity securities with a fair value of $1.3 million, including net unrealized gains of $66,000. This compares to a fair value of $1.3 million and net unrealized gains of $88,000 million at December 31, 2012.

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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 Federal Reserve System. At June 30, 2013, the Company owned stock in the Federal Reserve Bank of Boston with a carrying value of $16.1 million.

FHLBB Stock

The Company invests in the stock of the FHLBB as one of the requirements to borrow. The Company maintains an excess balance of capital stock of $9.6 million which allows for additional borrowing capacity at each Bank. At June 30, 2013, the Company owned stock in the FHLBB with a carrying value of $50.1 million, which represents a decrease of $2.1 as compared to December 31, 2012 due to a redemption of excess stock. The FHLBB stated that it remained in compliance with all regulatory capital ratios at June 30, 2013 and, based on the most recent information available, was classified as adequately capitalized by its regulator.

Premises and Equipment

Corporate Headquarters

In addition to building and land costs of $14.0 million, the Company had previously entered into contracts totaling $23.6 million for capital expenditures associated with the rehabilitation of its new headquarters in Boston, of which $21.4 million was incurred in 2012. Of the remaining $2.2 million in refurbishment expenses owed, $2.1 million was capitalized in the first six months of 2013. A portion of the Company s new headquarters is rented to third-party tenants and the remaining refurbishment commitments are mostly related to those leases.

Core Operating Systems

The Company has also entered into contracts associated with the conversion of its core operating systems. All three Banks have successfully converted to a new core operating system. Brookline Bank and First Ipswich were converted in 2012, while BankRI completed its conversion in the second quarter of 2013. The useful life of the core processing system is 7.5 years, and ongoing maintenance and operation contracts extend over seven years. During the six months ended June 30, 2013, $3.2 million in conversion-related expenditures have been capitalized.

Deposits

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

	At June 30, 2013			At December 31, 2012		
	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total	Weighted Average Rate
	(Dollars in Thousands)					
Non-interest-bearing accounts	$ 644,507	17.6%	0.00%	$ 623,274	17.2%	0.00%
NOW accounts	196,778	5.4%	0.08%	212,858	5.9%	0.09%
Savings accounts	503,170	13.8%	0.25%	515,367	14.2%	0.39%
Money market accounts	1,340,024	36.6%	0.60%	1,253,819	34.7%	0.63%
Certificate of deposit accounts	972,502	26.6%	0.98%	1,010,941	28.0%	1.06%
Total interest-bearing deposits	3,012,474	82.4%	0.63%	2,992,985	82.8%	0.70%
Total deposits	$ 3,656,981	100.0%	0.52%	$ 3,616,259	100.0%	0.58%

Total deposits increased $40.7 million to $3.7 billion at June 30, 2013 compared to $3.6 billion at December 31, 2012. Deposits as percentage of total assets increased slightly from 70.3% at December 31, 2012 to 71.0% at June 30, 2013. During the first half of 2013, core deposits increased $79.2 million, or 6.1% on an annualized basis, rising from 72.0% of total deposits at December 31, 2012 to 73.4% of total deposits at June 30, 2013. Certificate of deposit

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accounts decreased $38.4 million, or 7.6% on an annualized basis, during the first half of 2013. Certificates of deposit have also fallen as a percentage of total deposits from 28.0% at December 31, 2012 to 26.6% at June 30, 2013. The Company does not rely on brokered deposits.

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

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

	Three Months Ended June 30,					
	2013			2012		
	Average Balance	Percent of Total Average Deposits	Weighted Average Rate	Average Balance	Percent of Total Average Deposits	Weighted Average Rate
Core deposits:						
Non-interest-bearing demand checking accounts	$ 640,725	17.5%	0.00%	$ 542,100	15.5%	0.00%
NOW accounts	195,269	5.3%	0.09%	189,118	5.4%	0.12%
Savings accounts	508,451	13.9%	0.25%	505,601	14.5%	0.35%
Money market accounts	1,335,300	36.5%	0.61%	1,204,754	34.4%	0.75%
Total core deposits	2,679,745	73.2%	0.36%	2,441,573	69.8%	0.45%
Certificate of deposit accounts	982,257	26.8%	0.96%	1,056,021	30.2%	1.03%
Total deposits	$ 3,662,002	100.0%		$ 3,497,594	100.0%	

	Six Months Ended June 30,					
	2013			2012		
	Average Balance	Percent of Total Average Deposits	Weighted Average Rate	Average Balance	Percent of Total Average Deposits	Weighted Average Rate
Core deposits:						
Non-interest-bearing demand checking accounts	$ 624,386	17.2%	0.00%	$ 525,811	15.2%	0.00%
NOW accounts	192,808	5.2%	0.09%	184,102	5.3%	0.12%
Savings accounts	511,401	14.1%	0.26%	508,374	14.7%	0.37%
Money market accounts	1,315,056	36.2%	0.63%	1,174,149	34.0%	0.76%
Total core deposits	2,643,651	72.7%	0.37%	2,392,436	69.2%	0.46%
Certificate of deposit accounts	992,380	27.3%	0.96%	1,067,148	30.8%	1.04%
Total deposits	$ 3,636,031	100.0%		$ 3,459,584	100.0%	

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

	At June 30, 2013		At December 31, 2012	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)			
Maturity period:				
Six months or less	$ 241,068	0.87%	$ 172,176	0.90%
Over six months through 12 months	160,666	0.82%	158,057	1.01%
Over 12 months	172,358	1.42%	114,572	1.41%
	$ 574,092	1.02%	$ 444,805	1.07%

Borrowed Funds

Advances from the FHLBB

Although on a long-term basis the Company intends to continue to increase its core deposits, the Company also uses FHLBB borrowings and other wholesale borrowing opportunistically as part of the Company s overall strategy to fund loan growth and manage interest-rate risk and liquidity. The advances are secured by a blanket security agreement which requires 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 Federal Reserve discount window and on $119.0 million of lines of credit as necessary.

FHLBB borrowings decreased $5.3 million to $785.6 million at June 30, 2013 from the December 31, 2012 balance of $790.9 million. The decrease in FHLBB borrowings was primarily due to deposit growth outpacing loan growth.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in Thousands)			
Average balance outstanding	$ 760,237	$ 694,746	$ 756,773	$ 709,373
Maximum amount outstanding at any month-end during the period	785,565	733,394	785,565	733,394
Balance outstanding at end of period	785,565	733,394	785,565	733,394
Weighted average interest rate for the period	1.41%	1.98%	1.50%	2.01%
Weighted average interest rate at end of period	1.32%	1.78%	1.32%	1.78%

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 $15.6 million during the six months ended June 30, 2013 from $51.0 million to $35.4 million as customers shifted funds into other deposit products.

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Subordinated Debt

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

Issue Date	Rate	Maturity Date (Dollars in Thousands)	Next Call Date	Carrying Amount at June 30, 2013
June 26, 2003	Variable; 3-month LIBOR + 3.10%	June 26, 2033	September 26, 2013	$ 4,649,274
March 17, 2004	Variable; 3-month LIBOR + 2.79%	March 17, 2034	September 17, 2013	$ 4,473,913

Derivative Financial Instruments

The Company has entered into interest-rate swaps with certain of its commercial customers and concurrently enters into offsetting swaps with third-party financial institutions. The Company did not have derivative fair value hedges or derivative cash flow hedges at June 30, 2013 or December 31, 2012. The following table summarizes certain information concerning the Company s interest-rate swaps at June 30, 2013:

	Interest-Rate Swaps (Dollars in Thousands)
Notional principal amounts	$ 22,820
Fixed weighted average interest rate from customer to counterparty	5.7%
Floating weighted average rate from counterparty	3.5%
Weighted average remaining term to maturity (in months)	53
Fair value:	
Recognized as an asset	$ 948
Recognized as a liability	$ (987)

Stockholders Equity and Dividends

The Company s total stockholders equity was $611.3 million at June 30, 2013, a $0.8 million decrease compared to $612.1 million at December 31, 2012. The decrease reflects net income of $18.3 million for the six months ended June 30, 2013, offset by dividends paid of $11.9 million in that same period and an unrealized loss on securities available-for-sale of $7.9 million (after-tax). The dividends paid in the second quarter of 2013 represented the Company s 57th consecutive quarter of dividend payments, and the 45th consecutive quarter in which the Company paid a regular dividend of $0.085.

Stockholders equity represented 11.87% of total assets at June 30, 2013, as compared to 11.89% at December 31, 2012. Tangible stockholders equity (total stockholders equity less goodwill and identified intangible assets, net) represented 9.10% of tangible assets (total assets less goodwill and identified intangible assets, net) at June 30, 2013, as compared to 9.08% at December 31, 2012.

Results of Operations Comparison of the Three-Month and Six-Month Periods Ended June 30, 2013 and June 30, 2012

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

The Company s net interest income represents the difference between interest income earned on its investments, loans and leases, and its cost of funds. Interest income depends on the amount of interest-earning assets outstanding during the period and the yield earned thereon. Cost of funds is a function of the average amount of deposits and

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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* on page 75. 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* on pages 73 and 74.

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* on pages 83 to 84.

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* on pages 57 to 58.

Result Summary

The Company s net income of $9.5 million for the three months ended June 30, 2013 increased $0.7 million, or 7.7%, compared to the three months ended March 31, 2013, and increased $2.0 million, or 26.0%, compared to the three months ended June 30, 2012. This linked-quarter increase in net income reflects an increase in net interest income of $1.7 million, offset by a decrease in non-interest income of $0.2 million, and an increase in provision for credit losses of $0.6 million.

The Company s operating earnings of $18.3 million for the six months ended June 30, 2013 increased $0.5 million, or 2.5%, compared to the six months ended June 30, 2012. While the Company s operating earnings for the six months ended June 30, 2012 was adjusted for acquisition-related expenses of $4.0 million (after-tax) that were incurred during the first quarter of 2012 and which were associated with the acquisition of Bancorp Rhode Island, Inc., this adjustment was offset by a major provision for credit losses during the same period. Diluted operating EPS increased 7.7% compared to the first quarter of 2013, from $0.13 to $0.14, and increased 27.3% compared to the second quarter of 2012, from $0.11 to $0.14.

Earnings in the second quarter of 2013 represented an annualized return on average assets of 0.74% and an annualized return on average stockholders equity of 6.16%, as compared to an annualized return on average assets of 0.70% and an annualized return on average stockholders equity of 5.72% for the first quarter of 2013, and an annualized return on average assets of 0.61% and a return on average stockholders equity of 5.04% for the second quarter of 2012. Operating earnings for the six months ended June 30, 2013 represented an annualized operating return on average assets of 0.72% and an annualized operating return on average stockholders equity of 5.93%, as compared to an annualized operating return on average assets of 0.73% and an annualized operating return on average stockholders equity of 5.97% for the six months ended June 30, 2012.

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Selected income statement, per share data and operating ratios are presented in the table below for the periods indicated:

	Three Months Ended			Six Months Ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	(Dollars in Thousands, Except Per Share Data)				
Income statement data:					
Net interest income	$ 45,363	$ 43,669	$ 42,759	$ 89,030	$ 86,392
Non-interest income	3,138	3,327	4,721	6,466	8,315
Non-interest expense	30,815	30,772	28,621	61,585	61,069
Net income	9,490	8,813	7,529	18,304	13,878
Operating earnings	9,490	8,813	7,529	18,304	17,850
Per share data:					
Basic earnings per share	$ 0.14	$ 0.13	$ 0.11	$ 0.26	$ 0.20
Diluted earnings per common share	0.14	0.13	0.11	0.26	0.20
Dividends per common share	0.085	0.085	0.085	0.170	0.170
Operating ratios:					
Interest-rate spread	3.62%	3.54%	3.63%	3.58%	3.67%
Net interest margin (1) (4)	3.78%	3.70%	3.81%	3.74%	3.85%
Return on average assets (2) (4)	0.74%	0.70%	0.61%	0.72%	0.57%
Efficiency ratio	63.53%	65.48%	60.28%	64.49%	64.48%
Return on average stockholders equity (3) (4)	6.16%	5.72%	5.04%	5.93%	4.64%

(1) Calculated as a fully taxable equivalent by dividing annualized net interest income by average interest-earning assets.

(2) Calculated by dividing annualized net income by average total assets.

(3) Calculated by dividing annualized net income applicable to common shares by average common stockholders equity.

(4) Non-GAAP performance measure.

Net Interest Income

Net interest income of $45.4 million for the quarter ended June 30, 2013 increased $2.6 million or 6.1% as compared to the second quarter of 2012. This overall increase on a quarter-over-quarter basis benefited from increases in total interest income of $1.1 million from $51.8 million at June 30, 2012 to $52.9 million at June 30, 2013 and a $1.5 million reduction in total interest expense from $9.1 million at June 30, 2012 to $7.5 million at June 30, 2013. Pricing pressures in all lending areas continued through the second quarter 2013 with decreases in the rates charged on newly originated loans quarter-over-quarter offset by an increase in prepayment penalties as discussed at greater length in *Comparison of the Three-Month and Six-Month Periods Ended June 30, 2013 and June 30, 2012 Interest Income Loans and Leases* beginning on page 76.

As a result, net interest margin of 3.78% in the second quarter of 2013 decreased 3 basis points from 3.81% in the second quarter of 2012. Purchase accounting amortization and accretion of $1.4 million contributed 11 basis points to yields on interest-earning assets during the second

quarter of 2013, compared to an additional $1.7 million and 15 basis points in the second quarter of 2012.

Funding costs declined from 0.98% for the three months ended June 30, 2012 to 0.79% for the three months ended June 30, 2013. The Company s reduction in interest rates offered on money market accounts contributed significantly to the reduction in the cost of interest-bearing deposits, which declined 4 basis points and 14 basis points, respectively, from March 31, 2013 and June 30, 2012. Purchase accounting amortization and accretion on certificates of deposit and other funding sources of $1.0 million and $1.3 million contributed 8 basis points and 11 basis points to reductions in the costs of funds for the three months ended June 30, 2013 and 2012, respectively.

Net interest income of $89.0 million for the six months ended June 30, 2013 increased $2.6 million or 3.1% when compared to the six months ended June 30, 2012. This overall increase on a year-over-year basis was largely a result of a $3.0 million reduction in total interest expense, from $18.4 million for the first half of 2012 to $15.5 million for the first half of 2013.

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Net interest margin of 3.74% in the first half of 2013 decreased 11 basis points from 3.85% in the first half of 2012. Purchase accounting amortization and accretion of $2.5 million contributed 10 basis points to yields on interest-earning assets during the first six months of 2013, compared to an additional $1.5 million and 6 basis points in the first six months of 2012.

Funding costs also declined from 1.00% for the first six months of 2012 to 0.82% for the first six months of 2013. Purchase accounting amortization and accretion on certificates of deposit and other funding sources of $2.1 million and $2.7 million contributed 9 and 12 basis points to reductions in the costs of yields for the first halves of 2013 and 2012, respectively.

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 purchase accounting accretion and amortization included in interest income and interest expense.

Comparison of the Three-Month and Six-Month Periods Ended June 30, 2013 and June 30, 2012

General

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013	2012	Dollar Change	Percent Change	2013	2012	Dollar Change	Percent Change
	(Dollars in Thousands)							
Interest and dividend income	$ 52,900	$ 51,839	$ 1,061	2.0%	$ 104,511	$ 104,830	$ (319)	-0.3%
Interest expense	7,537	9,080	(1,543)	-17.0%	15,481	18,438	(2,957)	-16.0%
Net interest income	45,363	42,759	2,604	6.1%	89,030	86,392	2,638	3.1%
Provision for credit losses	2,439	6,678	(4,239)	-63.5%	4,294	9,925	(5,631)	-56.7%
Net interest income after provision for credit losses	42,924	36,081	6,843	19.0%	84,736	76,467	8,269	10.8%
Non-interest income	3,138	4,721	(1,583)	-33.5%	6,466	8,315	(1,849)	-22.2%
Non-interest expense	30,815	28,621	2,194	7.7%	61,585	61,069	516	0.8%
Provision for income taxes	5,382	4,398	984	22.4%	10,511	9,296	1,215	13.1%
Net income before noncontrolling interest in subsidiary	9,865	7,783	2,082	26.8%	19,106	14,417	4,689	32.5%
Less net income attributable to noncontrolling interest in subsidiary	375	254	121	47.6%	802	539	263	48.8%
Net income attributable to Brookline Bancorp, Inc.	$ 9,490	$ 7,529	$ 1,961	26.0%	$ 18,304	$ 13,878	$ 4,426	31.9%

Reported net income for the three months ended June 30, 2013 was $2.0 million higher as compared to the same period in 2012. This is primarily the result of an increase in net interest income of $2.6 million, a decrease in provision for credit losses of $4.2 million, offset by a decrease in non-interest income of $1.6 million, an increase of non-interest expense of $2.2 million, and an increase in provision for income

taxes for $1.0 million.

Reported net income for the six months ended June 30, 2013 was $4.4 million higher as compared to the same period in 2012. This is primarily the result of an increase in net interest income of $2.6 million, a decrease in provision for credit losses of $5.6 million, offset by a decrease in non-interest income of $1.8 million, an increase of non-interest expense of $0.5 million, and an increase in provision for income taxes for $1.2 million.

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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 ended June 30, 2013, March 31, 2013, and June 30, 2012, and for the six months ended June 30, 2013 and June 30, 2012. 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.

	Three Months Ended					
	June 30, 2013			June 30, 2012		
	Average Balance	Interest (1)	Average Yield/ Cost	Average Balance	Interest (1)	Average Yield/ Cost
	(Dollars in Thousands)					
Assets:						
Interest-earning assets:						
Short-term investments	$ 52,541	$ 19	0.14%	$ 71,675	$ 68	0.38%
Debt securities (2)	487,271	1,940	1.59%	430,206	1,548	1.44%
Marketable and restricted equity securities (2)	66,988	350	2.10%	54,583	110	0.81%
Total investments	606,800	2,309	1.52%	556,464	1,726	1.24%
Commercial real estate loans (3)	2,034,920	23,863	4.67%	1,859,292	23,607	5.10%
Commercial loans (3)	420,194	6,531	6.16%	412,476	4,713	4.58%
Equipment financing (3)	467,156	8,279	7.10%	348,426	7,428	8.53%
Indirect automobile loans (3)	494,571	4,523	3.67%	580,678	6,033	4.18%
Residential mortgage loans (3)	512,975	5,101	3.98%	489,688	5,445	4.45%
Other consumer loans (3)	264,183	2,508	3.81%	266,572	3,003	4.53%
Total loans and leases	4,193,999	50,805	4.83%	3,957,132	50,229	5.09%
Total interest-earning assets	4,800,799	53,114	4.41%	4,513,596	51,955	4.62%
Allowance for loan and lease losses	(42,954)			(35,962)		
Non-interest-earning assets	380,299			427,299		
Total assets	$ 5,138,144			$ 4,904,933		
Liabilities and Stockholders Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW accounts	$ 195,269	$ 41	0.09%	$ 189,118	$ 57	0.12%
Savings accounts	508,451	316	0.25%	505,601	443	0.35%
Money market accounts	1,335,300	2,036	0.61%	1,204,754	2,260	0.75%
Certificates of deposit	982,257	2,350	0.96%	1,056,021	2,703	1.03%
Total interest-bearing deposits (4)	3,021,277	4,743	0.63%	2,955,494	5,463	0.74%
Advances from the FHLBB	760,237	2,682	1.41%	694,746	3,424	1.98%
Other borrowed funds	48,655	112	0.93%	60,550	193	1.28%
Total interest-bearing liabilities	3,830,169	7,537	0.79%	3,710,790	9,080	0.98%
Non-interest-bearing liabilities:						
Demand checking accounts (4)	640,725			542,100		
Other non-interest-bearing liabilities	47,589			50,327		
Total liabilities	4,518,483			4,303,217		
Brookline Bancorp, Inc. stockholders equity	616,327			597,908		
Noncontrolling interest in subsidiary	3,334			3,808		

Total liabilities and equity	$ 5,138,144			$ 4,904,933		
Net interest income (tax-equivalent basis) / Interest-rate spread (5)		45,577	3.62%		42,875	3.63%
Less adjustment of tax-exempt income		214			116	
Net interest income		$ 45,363			$ 42,759	
Net interest margin (6)			3.78%			3.81%

(1) Tax-exempt income on debt securities, equity securities and revenue bonds included in commercial real estate loans is included on a tax-equivalent basis.

(2) Investment securities available-for-sale, which include marketable equity securities, also include unrealized gains (losses). Dividend payments may not be consistent and average yield on equity securities may vary from month to month.

(3) Loans on nonaccrual status are included in the average balances.

(4) Including non-interest-bearing checking accounts, the average interest rate on total deposits was 0.52% and 0.63% in the three months ended June 30, 2013 and June 30, 2012, respectively.

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

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

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	Six Months Ended					
	June 30, 2013			June 30, 2012		
	Average Balance	Interest (1)	Average Yield/ Cost	Average Balance	Interest (1)	Average Yield/ Cost
	(Dollars in Thousands)					
Assets:						
Interest-earning assets:						
Short-term investments	$ 53,586	$ 50	0.19%	$ 64,780	$ 95	0.29%
Debt securities (2)	479,433	3,799	1.58%	460,483	4,785	2.08%
Marketable and restricted equity securities (2)	67,764	705	2.09%	55,263	219	0.79%
Total investments	600,783	4,554	1.52%	580,526	5,099	1.76%
Commercial real estate loans (3)	2,018,117	48,159	4.76%	1,844,566	46,845	5.10%
Commercial loans (3)	415,633	11,242	5.39%	405,639	9,326	4.61%
Equipment financing (3)	453,642	16,138	7.15%	342,558	14,465	8.45%
Indirect automobile loans (3)	510,657	9,439	3.73%	577,802	12,280	4.27%
Residential mortgage loans (3)	510,801	10,266	4.04%	490,467	10,989	4.48%
Other consumer loans (3)	264,433	5,124	3.91%	270,065	6,043	4.50%
Total loans and leases	4,173,283	100,368	4.81%	3,931,097	99,948	5.10%
Total interest-earning assets	4,774,066	104,922	4.40%	4,511,623	105,047	4.67%
Allowance for loan and lease losses	(42,225)			(34,515)		
Non-interest-earning assets	371,475			406,052		
Total assets	$ 5,103,316			$ 4,883,160		
Liabilities and Stockholders Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW accounts	$ 192,808	$ 86	0.09%	$ 184,102	$ 110	0.12%
Savings accounts	511,401	660	0.26%	508,374	942	0.37%
Money market accounts	1,315,056	4,097	0.63%	1,174,149	4,412	0.76%
Certificates of deposit	992,380	4,735	0.96%	1,067,148	5,516	1.04%
Total interest-bearing deposits (4)	3,011,645	9,578	0.64%	2,933,773	10,980	0.75%
Advances from the FHLBB	756,773	5,637	1.50%	709,373	7,095	2.01%
Other borrowed funds	54,303	266	0.99%	59,574	363	1.22%
Total interest-bearing liabilities	3,822,721	15,481	0.82%	3,702,720	18,438	1.00%
Non-interest-bearing liabilities:						
Demand checking accounts (4)	624,386			525,811		
Other non-interest-bearing liabilities	35,750			52,754		
Total liabilities	4,482,857			4,281,285		
Brookline Bancorp, Inc. stockholders equity	616,868			598,277		
Noncontrolling interest in subsidiary	3,591			3,598		
Total liabilities and equity	$ 5,103,316			$ 4,883,160		
Net interest income (tax-equivalent basis) / Interest-rate spread (5)		89,441	3.58%		86,609	3.67%
Less adjustment of tax-exempt income		411			217	
Net interest income		$ 89,030			$ 86,392	
Net interest margin (6)			3.74%			3.85%

(1) Tax-exempt income on debt securities, equity securities and revenue bonds included in commercial real estate loans is included on a tax-equivalent basis.

(2) Investment securities available-for-sale, which include marketable equity securities, also include unrealized gains (losses). Dividend payments may not be consistent and average yield on equity securities may vary from month to month.

(3) Loans on nonaccrual status are included in the average balances.

(4) Including non-interest-bearing checking accounts, the average interest rate on total deposits was 0.53% and 0.64% in the six months ended June 30, 2013 and June 30, 2012, respectively.

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

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

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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.

	Three Months Ended June 30, 2013 as Compared to the Three Months Ended June 30, 2012			Six Months Ended June 30, 2013 as Compared to the Six Months Ended June 30, 2012		
	Increase (Decrease) Due To			Increase (Decrease) Due To		
	Volume	Rate	Net	Volume	Rate	Net
	(In Thousands)					
Interest and dividend income						
Short-term investments	$ (15)	$ (34)	$ (49)	$ (15)	$ (30)	$ (45)
Debt securities	218	174	392	189	(1,175)	(986)
Marketable and restricted equity securities	30	210	240	59	427	486
Total investments	233	350	583	233	(778)	(545)
Loans and leases:						
Commercial real estate loans	2,247	(1,991)	256	4,415	(3,101)	1,314
Commercial loans and leases	94	1,724	1,818	246	1,670	1,916
Equipment financing	2,234	(1,383)	851	4,141	(2,468)	1,673
Indirect automobile loans	(828)	(682)	(1,510)	(1,361)	(1,480)	(2,841)
Residential mortgage loans	247	(591)	(344)	421	(1,144)	(723)
Other consumer loans	(26)	(469)	(495)	(126)	(793)	(919)
Total loans and leases	3,968	(3,392)	576	7,736	(7,316)	420
Total change in interest and dividend income	4,201	(3,042)	1,159	7,969	(8,094)	(125)
Interest expense						
Deposits:						
NOW accounts	2	(18)	(16)	5	(29)	(24)
Savings accounts	3	(130)	(127)	5	(287)	(282)
Money market accounts	231	(455)	(224)	500	(815)	(315)
Certificates of deposit	(180)	(173)	(353)	(379)	(402)	(781)
Total deposits	56	(776)	(720)	131	(1,533)	(1,402)
Advances from the FHLBB	303	(1,045)	(742)	444	(1,902)	(1,458)
Other borrowed funds	(34)	(47)	(81)	(31)	(66)	(97)
Total change in interest expense	325	(1,868)	(1,543)	544	(3,501)	(2,957)
Change in tax-exempt income		98	98		194	194
Change in net interest income	$ 3,876	$ (1,272)	$ 2,604	$ 7,425	$ (4,787)	$ 2,638

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Interest Income

Loans and Leases

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013	2012	Dollar Change	Percent Change	2013	2012	Dollar Change	Percent Change
	(Dollars in Thousands)							
Interest income loans and leases:								
Commercial real estate loans	$ 23,702	$ 23,512	$ 190	0.8%	$ 47,854	$ 46,676	$ 1,178	2.5%
Commercial loans	6,531	4,713	1,818	38.6%	11,242	9,325	1,917	20.6%
Equipment financing	8,279	7,428	851	11.5%	16,138	14,465	1,673	11.6%
Indirect automobile loans	4,523	6,033	(1,510)	-25.0%	9,439	12,280	(2,841)	-23.1%
Residential mortgage loans	5,101	5,446	(345)	-6.3%	10,266	10,989	(723)	-6.6%
Other consumer loans	2,508	3,003	(495)	-16.5%	5,124	6,043	(919)	-15.2%
Total interest income loans and leases	$ 50,644	$ 50,135	$ 509	1.0%	$ 100,063	$ 99,778	$ 285	0.3%

Declines in the yields on all but the commercial loan portfolio reflect the high rate of loan refinancings and the intense pricing competition which continues to characterize the Company s lending markets.

Interest income from loans and leases was $50.6 million for the three months ended June 30, 2013, resulting in a yield on total loans and leases of 4.83%. This compares to $50.1 million of interest on loans and leases and a yield of 5.09% for the three months ended June 30, 2012. Quarter-over-quarter increases in interest income on loans and leases of $3.9 million resulting from increased volume offset the $3.4 million decrease in loan interest income resulting from interest-rate reductions on loans. Accretion and amortization on acquired loans of $1.4 million contributed 11 basis points to yields on loans and leases during the second quarter of 2013, compared to an additional $1.7 million and 15 basis points in the second quarter of 2012. The second quarter 2013 also benefited from $1.4 million in prepayment penalties which contributed 11 basis points to the yield on loans and leases and in particular, to the yield on commercial loans, compared to $0.5 million and 5 basis points in the second quarter of 2012.

Interest income from loans and leases was $100.1 million for the six months ended June 30, 2013, resulting in a yield on total loans of 4.81%. This compares to $99.8 million of interest on loans and a yield of 5.10% for the six months ended June 30, 2012. Period-over-period increases in interest income on loans and leases of $7.7 million resulting from increased volume offset the $7.3 million decrease in loan interest income resulting from interest-rate reductions on loans. Accretion and amortization on acquired loans of $2.5 million contributed 10 basis points to yields on loans and leases during the first half of 2013, compared to an additional $1.5 million and 6 basis points in the first half of 2012. The second quarter 2013 also benefited from $1.9 million in prepayment penalties which contributed 8 basis points to the yield on loans and leases and in particular, to the yield on commercial loans, compared to $1.0 million and 5 basis points during the first half of 2012.

Investments

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013	2012	Dollar Change	Percent Change	2013	2012	Dollar Change	Percent Change
	(Dollars in Thousands)							
Interest income investments:								
Short-term investments	$ 19	$ 68	$ (49)	-72.1%	$ 50	$ 95	$ (45)	-47.4%
Debt securities	1,934	1,541	393	25.5%	3,786	4,770	(984)	-20.6%
Marketable and restricted equity securities	303	95	208	218.9%	612	187	425	227.3%
Total interest income investments	$ 2,256	$ 1,704	$ 552	32.4%	$ 4,448	$ 5,052	$ (604)	-12.0%

The year-over-year decrease in total investment income is largely a result of rate-driven reduction stemming from the paydown of higher-coupon MBSs and CMOs which were replaced by similar but lower-yielding securities.

Total investment income was $2.3 million for the three months ended June 30, 2013, compared to $1.7 million for the three months ended June 30, 2012, representing an increase of $0.6 million, or 32.4%. The yield on investments increased from 1.24% for the quarter ended June 30, 2012 to 1.52% for the quarter ended June 30,

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2013. Of the $0.6 million year-over-year increase in quarterly interest income on investments, $0.2 million resulted from increases in volume while $0.4 million resulted from increases in interest rates.

Total investment income was $4.4 million for the six months ended June 30, 2013 compared to $5.1 million for the six months ended June 30, 2012, representing a decrease of $0.6 million, or 12.0%. The yield on investments decreased from 1.76% for the six months ended June 30, 2012 to 1.52% for the six months ended June 30, 2013. Of the $0.6 million decrease in interest income on investments from the first half of 2012 to the first half of 2013, $0.2 million of increases in volume were offset by $0.8 million of decreases in interest rates.

Interest Expense

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013	2012	Dollar Change	Percent Change	2013	2012	Dollar Change	Percent Change
	(Dollars in Thousands)							
Interest expense:								
Deposits:								
NOW accounts	$ 41	$ 57	$ (16)	-28.1%	$ 86	$ 110	$ (24)	-21.8%
Savings accounts	316	443	(127)	-28.7%	660	942	(282)	-29.9%
Money market accounts	2,036	2,260	(224)	-9.9%	4,097	4,412	(315)	-7.1%
Certificates of deposit	2,350	2,703	(353)	-13.1%	4,735	5,516	(781)	-14.2%
Total interest expense deposits	4,743	5,463	(720)	-13.2%	9,578	10,980	(1,402)	-12.8%
Borrowed funds:								
Advances from the FHLBB	2,682	3,424	(742)	-21.7%	5,637	7,095	(1,458)	-20.5%
Other borrowed funds	112	193	(81)	-42.0%	266	363	(97)	-26.7%
Total interest expense borrowed funds	2,794	3,617	(823)	-22.8%	5,903	7,458	(1,555)	-20.9%
Total interest expense	$ 7,537	$ 9,080	$ (1,543)	-17.0%	$ 15,481	$ 18,438	$ (2,957)	-16.0%

Deposits

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

Interest expense on deposits decreased $0.7 million or 13.2% from $5.5 million for the quarter ended June 30, 2012 to $4.7 million for the quarter ended June 30, 2013, largely as a result of decreases in interest rates. As a result, the cost of total interest-bearing deposits decreased from 0.74% during the three months ended June 30, 2012 to 0.63% in the three months ended June 30, 2013. Purchase accounting amortization of $0.1 million and $0.3 million improved the Company s net interest margin 1 basis point and 3 basis points, respectively, in the three months ended June 30, 2013 and 2012.

Similarly, the Company s year-over-year interest expense on interest-bearing deposits decreased $1.4 million from $11.0 million for the six months ended June 30, 2012 to $9.6 million for the same period in 2012, again largely as a result of reductions in interest rates paid. The cost of total interest-bearing deposits decreased from 0.75% in the six months ended June 30, 2012 to 0.64% in the six months ended June 30, 2013. Purchase accounting amortization of $0.3 million and $0.7 million improved the Company s net interest margin by 1 basis point and 3 basis points, respectively, in the first half of June 30, 2013 compared to the first half of 2012.

Borrowed Funds

Interest paid on borrowed funds decreased by $ 0.8 million, or 22.8% from $3.6 million for the three months ended June 30, 2012 to $2.8 million for the three months ended June 30, 2013. The cost of borrowed funds declined from 1.93% during the three months ended June 30, 2012 to 1.39% for the quarter ended June 30, 2013. Decreases in borrowing rates resulted in a reduction in debt-related interest expenses of $1.1 million, partially offset by a $0.3 million increase in interest expense due to an increase in borrowed funds. Premium amortization on borrowed funds acquired in the BankRI acquisition of $0.9 million and $0.9 million improved the Company s net interest margin by 8 basis points and 8 basis points, respectively, in the three months ended June 30, 2013 compared to the three months ended June 30, 2012.

Interest paid on borrowed funds decreased by $1.6 million, or 20.9% from $7.5 million for the six months ended June 30, 2013 to $5.9 million for the six months ended June 30, 2013. The cost of borrowed funds declined from 1.93% on a period-over-period basis to 1.54% for the first half of June 30, 2013. Decreases in borrowing rates

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resulted in a reduction in debt-related interest expenses of $2.0 million, partially offset by a $0.4 million increase in interest expense due to an increase in the balance of borrowed funds. Premium amortization on borrowed funds acquired in the BankRI acquisition of $2.0 million and $1.8 million improved the Company s net interest margin by 9 basis points and 8 basis points, respectively, in the first half of June 30, 2013 compared to the first half of 2012.

Provision for Credit Losses

The provisions for credit losses are set forth below:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013	2012	Dollar Change	Percent Change	2013	2012	Dollar Change	Percent Change
	(Dollars in Thousands)							
Provision (credit) for loan and lease losses:								
Commercial real estate	$ 1,512	$ 1,062	$ 29	2.7%	$ 2,078	$ 2,381	$ (724)	-30.4%
Commercial	434	5,176	(4,456)	-86.1%	1,596	6,520	(4,637)	-71.1%
Indirect automobile	(136)	249	(383)	-153.8%	(208)	593	(799)	-134.7%
Consumer	497	486	(445)	-91.6%	574	741	(623)	-84.1%
Unallocated	81	(295)	965	-327.1%	147	(310)	1,046	-337.4%
Total provision for loan and lease losses	2,388	6,678	(4,290)	-64.2%	4,187	9,925	(5,737)	-57.8%
Unfunded credit commitments	51		48	100.0%	107		103	100.0%
Total provision for credit losses	$ 2,439	$ 6,678	$ (4,242)	-63.5%	$ 4,294	$ 9,925	$ (5,634)	-56.8%

The provisions for credit losses for the second quarters of 2013 and 2012 were $2.4 million and $6.7 million, respectively. The provisions for credit losses for the six months ended June 2013 and 2012 were $4.3 million and $9.9 million, respectively. The $4.3 million quarter-over-quarter decrease and the $5.7 million period-over-period decrease in the provision for loan and lease losses were due in large part to a $4.2 million provision related to two short-term commercial loans made by BankRI shortly after acquisition in early 2012. The second-quarter 2013 provision for loan and lease losses includes a first-time provision of $0.6 million for post-acquisition deterioration of certain acquired loans and loan pools. 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.

During the six months ended June 30, 2013, the liability for unfunded credit commitments increased $0.2 million to reflect changes in the estimate of loss exposure associated with credit commitments. This increase increased the provision for credit losses by the same amount during the first six months of 2013. No credit commitments were charged off against the liability account in the six-month periods ended June 30, 2013 or 2012.

Non-Interest Income

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013	2012	Dollar Change	Percent Change	2013	2012	Dollar Change	Percent Change
	(Dollars in Thousands)							
Fees, charges and other income	$ 3,762	$ 4,168	$ (406)	-9.7%	$ 7,402	$ 7,901	$ (499)	-6.3%
Loss from investments in affordable housing	(624)	(244)	(380)	155.7%	(936)	(383)	(553)	144.4%
Gain on sales of securities		797	(797)	-100.0%		797	(797)	-100.0%
Total non-interest income	$ 3,138	$ 4,721	$ (1,583)	-33.5%	$ 6,466	$ 8,315	$ (1,849)	-22.2%

Total non-interest income decreased $1.6 million, or 33.5%, from $4.7 million for the three months ended June 30, 2012 to $3.1 million for the three months ended June 30, 2013, and decreased $1.8 million, or 22.2%, from $8.3 million for the six months ended June 30, 2012 to $6.5 million for the six months ended June 30, 2013. The decrease is due, in part, to larger losses from an investment in affordable housing in 2013 and the absence of any gains on sales of securities in the three-month and six-month periods ended June 30, 2013.

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Fees, charges and other income are the major sources of non-interest income for the Company and include deposit-related fees, indirect automobile and consumer loan fees, and other service fees. Fees, charges, and other income decreased $0.4 million for the three-month period ended June 30, 2013 as compared to the three-month period ended June 30, 2012, and decreased $0.5 million for the six-month period ended June 30, 2013 as compared to the six-month period ended June 30, 2012. The decrease is due in part to a reduction in deposit-related service charges due to systems conversion and a smaller gain on sales of mortgage loans due to the higher interest-rate environment.

Non-Interest Expense

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013	2012	Dollar Change	Percent Change	2013	2012	Dollar Change	Percent Change
	(Dollars in Thousands)							
Compensation and employee benefits	$ 16,697	$ 14,238	$ 2,459	17.3%	$ 32,993	$ 28,926	$ 4,067	14.1%
Occupancy	2,865	2,503	362	14.5%	5,948	5,179	769	14.8%
Equipment and data processing	4,150	3,632	518	14.3%	8,163	7,275	888	12.2%
Professional services	1,513	2,554	(1,041)	-40.8%	3,014	9,008	(5,994)	-66.5%
FDIC insurance	936	1,230	(294)	-23.9%	1,870	2,150	(280)	-13.0%
Advertising and marketing	768	774	(6)	-0.8%	1,438	1,476	(38)	-2.6%
Amortization of identified intangible assets	1,177	1,271	(94)	-7.4%	2,343	2,554	(211)	-8.3%
Other	2,709	2,419	290	12.0%	5,816	4,501	1,315	29.2%
Total non-interest expense	$ 30,815	$ 28,621	$ 2,194	7.7%	$ 61,585	$ 61,069	$ 516	0.8%

Non-interest expense for the three months ended June 30, 2013 increased $2.2 million compared to the year-ago period. The primary driver is an increase of $2.5 million in compensation and employee benefits expense. Non-interest expense for the six months ended June 30, 2013 remained flat as compared to the six months ended June 30, 2012. The increase of $4.1 million in compensation and employee benefits expense and the increase of $1.3 million in other expense were offset by a decrease of $6.0 million in professional services expense.

The efficiency ratio improved due to increased net interest income during the second quarter of 2013. The efficiency ratio increased from 60.28% for the three-month period ending June 30, 2012 to 63.53% for the three-month period ending June 30, 2013, primarily as a result of costs associated with the Company s infrastructure build, which is now entering its final stages. The efficiency ration remained flat for the six-month period ending June 30, 2012 when compared to the six-month period ending June 30, 2013 and decreased from 65.48% for the three-month period ending March 31, 2013 to 63.53% for the three-month period ending June 30, 2013.

Compensation and employee benefit expense for the three months ended June 30, 2013 increased $2.5 million, or 17.3% as compared to the same period in 2012. Comparing the six-month period ended June 30, 2013 and June 30, 2012, the expense increased $4.1 million, or 14.1%. The increase was a result of the addition of loan officers and other individuals in key support areas of the Company including the Loan Review, Credit Administration, Compliance, Human Resources, Legal and Finance functions. The additions to staff are needed to support systems

conversions and to further the Company s infrastructure build.

Equipment and data processing expense for the three months ended June 30, 2013 increased $0.5 million, or 14.3%, as compared to the same period in 2012. The increase was mainly due to one-time costs incurred in conjunction with BankRI s core systems conversion in the second quarter of 2013. While the Company incurred additional expenses in both six-month periods ended June 30, 2013 and June 30, 2012 due to BankRI s core systems conversion in the second quarter of 2013 and First Ipswich s core systems conversion in the first quarter of 2012, equipment and data processing expenses for the six months ended June 30, 2013 increased $0.9 million, or 12.2%, as compared to six months ended June 30, 2012. The increase was, in part, due to continuous upgrades in data processing and purchases of equipment.

Professional services expense for the three months ended June 30, 2013 decreased $1.0 million, or 40.8% as compared to the same period in 2012. Comparing the six-month period ended June 30, 2013 and June 30, 2012, the expense decreased $6.0 million, or 66.5%. The decrease was largely a result of reduced costs for integration activities, systems conversions, and bank charter conversion expense.

Other expense increased $0.3 million and $1.3 million, respectively, for the three months and six months ended June 30, 2013 and 2012. The increase was due in part to increased expenses for repossessed assets, telecommunications, printing and marketing.

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Provision for Income Taxes

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013	2012	Dollar Change	Percent Change	2013	2012	Dollar Change	Percent Change
	(Dollars in Thousands)							
Income before provision for income taxes	$ 15,247	$ 12,181	$ 3,066	25.2%	$ 29,617	$ 23,713	$ 5,904	24.9%
Provision for income taxes	5,382	4,398	984	22.4%	10,511	9,296	1,215	13.1%
Net income	$ 9,865	$ 7,783	$ 2,082	26.8%	$ 19,106	$ 14,417	$ 4,689	32.5%
Effective tax rate	35.3%	36.1%	N/A	-2.2%	35.5%	39.2%	N/A	-9.5%

The Company recorded income tax expense of $5.4 million for the three months ended June 30, 2013, compared to $4.4 million for the three months ended June 30, 2012, representing total effective tax rates of 35.3% and 36.1%, respectively. On a year-to-date basis, the Company recorded income tax expense of $10.5 million for the first six months of 2013, compared to $9.3 million for the first six months of 2012, representing total effective tax rates of 35.5% and 39.2%, respectively.

The decrease in the effective state and federal tax rate for the three months and six months ended June 30, 2013 is primarily due to the non-deductibility of $1.4 million of the $5.4 million in professional fees incurred related to the BankRI acquisition.

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 and sales of securities from the available-for-sale portfolio.

Deposits, which are considered the most stable source of liability liquidity, totaled $3.7 billion at June 30, 2013, and represented 71.7% of total funding (the sum of total deposits, total borrowings, and stockholders equity), compared to deposits of $3.6 billion, or 71.2% of total funding, at

December 31, 2012. Core deposits, which consist of demand checking, NOW, savings and money market accounts, totaled $2.7 billion at June 30, 2013 and represented 73.4% of total deposits, compared to core deposits of $2.6 billion, or 72.0% of total deposits, at December 31, 2012. While deposits are considered the most reliable source of liquidity, the Company is careful to increase deposits without adversely impacting the weighted average cost of those funds.

Borrowings are used to diversify the Company s funding mix and to support asset growth. When profitable lending and investment opportunities exist, access to borrowings provides a means to grow the balance sheet. Borrowings totaled $830.1 million at June 30, 2013, representing 16.3% of total funding, compared to $854.0 million, or 16.8% of total funding, at December 31, 2012. As members of the FHLBB, the Banks have access to both short- and long-term borrowings. The Banks also have access to funding through retail repurchase agreements, brokered deposits and $119.0 million of uncommitted lines of credit, and may utilize additional sources of funding in the future, including borrowings at the Federal Reserve discount window, to supplement its liquidity. At June 30, 2013, the Company s total borrowing limit from the FHLBB for advances and repurchase agreements was $1.1 billion, 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 and equivalents and available-for-sale security balances of between 10% and 30% of total assets. At June 30, 2013, cash and equivalents and available-for-sale securities totaled $579.0 million, or 11.3% of total assets. This compares to $598.4 million, or 11.6% of total assets at December 31, 2012.

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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 credits, 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 June 30, 2013	At December 31, 2012
	(In Thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to originate loans and leases:		
Commercial real estate	$ 58,665	$ 85,726
Commercial	76,949	67,857
Residential mortgage	6,174	8,726
Unadvanced portion of loans and leases	519,808	421,143
Unused lines of credit:		
Home equity	187,754	165,936
Other consumer	5,804	4,017
Other commercial	972	965
Unused letters of credit:		
Financial standby letters of credit	19,730	19,887
Performance standby letters of credit	2,916	2,916
Commercial and similar letters of credit	158	112
Back-to-back interest-rate swaps	23,021	33,221

Capital Resources

At June 30, 2013, the Company and the Banks are all under the primary regulation of and must comply with the capital requirements of the FRB. At that date, the Company, Brookline Bank, BankRI and First Ipswich exceeded all regulatory capital requirements and were considered

well-capitalized.

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

At June 30, 2013:									
Brookline Bancorp, Inc.									
Tier 1 leverage capital ratio	(1)	$	471,509	9.47%	$	199,159	4.00%	N/A	N/A
Tier 1 risk-based capital ratio	(2)		471,509	11.23%		167,946	4.00%	N/A	N/A
Total risk-based capital ratio	(3)		516,680	12.31%		335,779	8.00%	N/A	N/A
Brookline Bank									
Tier 1 leverage capital ratio	(1)	$	298,867	9.59%		124,658	4.00%	155,822	5.00%
Tier 1 risk-based capital ratio	(2)		298,867	10.69%		111,830	4.00%	167,746	6.00%
Total risk-based capital ratio	(3)		333,844	11.94%		223,681	8.00%	279,601	10.00%
BankRI									
Tier 1 leverage capital ratio	(1)	$	142,449	8.92%		63,878	4.00%	79,848	5.00%
Tier 1 risk-based capital ratio	(2)		142,449	11.83%		48,165	4.00%	72,248	6.00%
Total risk-based capital ratio	(3)		150,208	12.48%		96,287	8.00%	120,359	10.00%
First Ipswich									
Tier 1 leverage capital ratio	(1)	$	29,965	10.02%		11,962	4.00%	14,953	5.00%
Tier 1 risk-based capital ratio	(2)		29,965	13.80%		8,686	4.00%	13,028	6.00%
Total risk-based capital ratio	(3)		31,062	14.31%		17,365	8.00%	21,706	10.00%
At December 31, 2012:									
Brookline Bancorp, Inc.									
Tier 1 leverage capital ratio	(1)	$	465,142	9.44%	$	197,094	4.00%	N/A	N/A
Tier 1 risk-based capital ratio	(2)		465,142	10.85%		171,481	4.00%	N/A	N/A
Total risk-based capital ratio	(3)		507,077	11.83%		342,909	8.00%	N/A	N/A
Brookline Bank									
Tier 1 leverage capital ratio	(1)	$	282,706	9.29%	$	121,725	4.00%	$ 152,156	5.00%
Tier 1 risk-based capital ratio	(2)		282,706	9.78%		115,626	4.00%	173,439	6.00%
Total risk-based capital ratio	(3)		318,629	11.02%		231,310	8.00%	289,137	10.00%
BankRI									

Tier 1 leverage capital ratio	(1)	$ 136,100	8.50%	$ 64,047	4.00%	$ 80,059	5.00%
Tier 1 risk-based capital ratio	(2)	136,100	11.54%	47,175	4.00%	70,763	6.00%
Total risk-based capital ratio	(3)	141,171	11.97%	94,350	8.00%	117,937	10.00%
First Ipswich							
Tier 1 leverage capital ratio	(1)	$ 29,209	9.72%	$ 12,020	4.00%	$ 15,025	5.00%
Tier 1 risk-based capital ratio	(2)	29,209	13.24%	8,824	4.00%	13,237	6.00%
Total risk-based capital ratio	(3)	30,168	13.68%	17,642	8.00%	22,053	10.00%

(1) Tier 1 leverage capital ratio is calculated by dividing Tier 1 capital by average assets.

(2) Tier 1 risk-based capital ratio is calculated by dividing Tier 1 capital by risk-weighted assets.

(3) Total risk-based capital ratio is calculated by dividing total capital by risk-weighted assets.

The Dodd-Frank Consumer Protection and Wall Street Reform Act (the Dodd-Frank Act) requires the federal banking agencies to establish minimum leverage and risk-based capital requirements for insured banks and their holding companies. The federal banking agencies issued a joint final rule, or the Final Capital Rule, that implements the Basel III capital standards and establishes the minimum capital levels required under the Dodd-

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Frank Act. The Company must comply with the Final Capital Rule by January 1, 2015. The Final Capital Rule establishes a minimum common equity Tier I capital ratio of 6.5% of risk-weighted assets for a well capitalized institution and increases the minimum Tier I capital ratio for a well capitalized institution from 6% to 8%. Additionally, the Final Capital Rule requires an institution to maintain a 2.5% common equity Tier I capital conservation buffer over the 6.5% minimum risk-based capital requirement to avoid restrictions on the ability to pay dividends, discretionary bonuses, and engage in share repurchases. The Final Capital Rule permanently grandfathers trust-preferred securities issued before May 19, 2010, subject to a limit of 25% of Tier I capital. The Final Capital Rule increases the required capital for certain categories of assets, including high-volatility construction real estate loans and certain exposures related to securitizations; however, the Final Capital Rule retains the current capital treatment of residential mortgages. Under the Final Capital Rule, the Company may make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. If the Company does not make this election, unrealized gains and losses will be included in the calculation of the Company s regulatory capital.

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 at a time of disadvantage to person selling the option; this risk is most often associated with the prepayment of loans, callable investments, and callable borrowings.

Asset/Liability Management

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

and the 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 June 30, 2013 or December 31, 2012. See Note 8, Derivatives and Hedging Activities, to the unaudited consolidated financial statements.

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Measuring Interest-Rate Risk

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

The Company s interest-rate risk position is measured using both income simulation and interest-rate sensitivity gap analysis. Income simulation is the primary tool for measuring the interest-rate risk inherent in the Company s balance sheet at a given point in time by showing the effect on net interest income, over a twelve-month period, of a variety of interest-rate shocks. These simulations take into account repricing, maturity and prepayment characteristics of individual products. The ALCO reviews simulation results to determine whether the exposure resulting from changes in market interest rates remains within established tolerance levels over a twelve-month horizon, and develops appropriate strategies to manage this exposure. The Company s interest-rate risk analysis remains modestly asset-sensitive at June 30, 2013.

At June 30, 2013, 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 shocks on the Company s estimated net interest income over the twelve-month periods indicated:

	Estimated Exposure to Net Interest Income over Twelve-Month Horizon Beginning					
	June 30, 2013		March 31, 2013		June 30, 2012	
Gradual Change in Interest Rate Levels	**Dollar Change**	**Percent Change**	**Dollar Change**	**Percent Change**	**Dollar Change**	**Percent Change**
	(Dollars in Thousands)					
Up 200%	$ 1,848	1.07%	$ 1,635	0.93%	$ 3,515	2.13%
Up 100%	803	0.47%	687	0.39%	1,675	1.02%
Down 100%	(2,201)	-1.28%	(2,193)	-1.25%	489	0.30%

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 June 30, 2013, the Company s one-year cumulative gap was a negative $618.2 million, or negative 12.0% of total assets, compared with a negative $502.3 million, or 9.8% of total assets at December 31, 2012 and a negative $486.5 million, or 9.8% of total assets at June 30, 2012.

For additional discussion on interest-rate risk see Item 7A, Quantitative and Qualitative Disclosures about Market Risk on pages 83 to 86 of the Company s 2012 Annual Report on Form 10-K.

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.

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 and Chief 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

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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 Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In conjunction with the Company s core systems conversions and its ongoing consolidation of its subsidiary banks back-office operations, shared services, and policies and procedures, the Company continues to focus on consolidating and enhancing internal controls over financial reporting. 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 control 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, 2012 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, 2012.

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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

In addition to the risk factor discussed below and other information set forth in this report, you should carefully consider the factors discussed in Item 1A of the Company s Form 10-K for the year ended December 31, 2012.

We will become subject to more stringent capital requirements.

The Dodd-Frank Consumer Protection and Wall Street Reform Act (the Dodd-Frank Act) requires the federal banking agencies to establish minimum leverage and risk-based capital requirements for insured banks and their holding companies. The federal banking agencies issued a joint final rule, or the Final Capital Rule, that implements the Basel III capital standards and establishes the minimum capital levels required under the Dodd-Frank Act. We must comply with the Final Capital Rule by January 1, 2015. The Final Capital Rule establishes a minimum common equity Tier I capital ratio of 6.5% of risk-weighted assets for a well capitalized institution and increases the minimum Tier I capital ratio for a well capitalized institution from 6% to 8%. Additionally, the Final Capital Rule requires an institution to maintain a 2.5% common equity Tier I capital conservation buffer over the 6.5% minimum risk-based capital requirement to avoid restrictions on the ability to pay dividends, discretionary bonuses, and engage in share repurchases. The Final Capital Rule permanently grandfathers trust-preferred securities issued before May 19, 2010, subject to a limit of 25% of Tier I capital. The Final Capital Rule increases the required capital for certain categories of assets, including high-volatility construction real estate loans and certain exposures related to securitizations; however, the Final Capital Rule retains the current capital treatment of residential mortgages. Under the Final Capital Rule, we may make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. If we do not make this election, unrealized gains and losses will be included in the calculation of our regulatory capital. Implementation of these standards, or any other new regulations, may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our results of operations or financial condition.

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.

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Item 6. Exhibits

Exhibits

Exhibit 10.1	Form of Change in Control Agreement dated June 26, 2013 incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed on June 26, 2013.
Exhibit 31.1*	Certification of Chief Executive Officer
Exhibit 31.2*	Certification of Chief Financial Officer
Exhibit 32.1**	Section 1350 Certification of Chief Executive Officer
Exhibit 32.2**	Section 1350 Certification of Chief Financial Officer
Exhibit 101***	The following materials from Brookline Bancorp, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012; (ii) Unaudited Consolidated Statements of Income for the three months and six months ended June 30, 2013 and 2012; (iii) Unaudited Consolidated Statements of Comprehensive Income for the three months and six months ended June 30, 2013 and 2012; (iv) Unaudited Consolidated Statements of Changes in Equity for the six months ended June 30, 2013 and 2012; (v) Unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012; and (vi) Notes to Unaudited Consolidated Financial Statements at and for the six months ended June 30, 2013 and 2012.

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

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SIGNATURES

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

BROOKLINE BANCORP, INC.

Date: August 9, 2013	By:	/s/ Paul A. Perrault Paul A. Perrault President and Chief Executive Officer (Principal Executive Officer)
Date: August 9, 2013	By:	/s/ Julie A. Gerschick Julie A. Gerschick Chief Financial Officer and Treasurer (Principal Financial Officer)