BROOKLINE BANCORP INC
Form 10-Q
November 08, 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 September 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 November 8, 2013, the number of shares of common stock, par value $0.01 per share, outstanding was 70,160,550.

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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 September 30, 2013	At December 31, 2012
	(In Thousands Except Share Data)	
ASSETS		
Cash and due from banks	$ 37,220	$ 78,441
Short-term investments	58,195	38,656
Total cash and cash equivalents	95,415	117,097
Investment securities available-for-sale (amortized cost of $488,551 and $475,946, respectively)	480,402	481,323
Investment securities held-to-maturity (fair value of $500 and $502, respectively)	500	500
Total investment securities	480,902	481,823
Loans held-for-sale	200	3,233
Loans and leases:		
Commercial real estate loans	2,118,460	2,005,963
Commercial loans and leases	965,926	847,455
Indirect automobile loans	440,949	542,344
Consumer loans	774,142	779,950
Total loans and leases	4,299,477	4,175,712
Allowance for loan and lease losses	(46,390)	(41,152)
Net loans and leases	4,253,087	4,134,560
Restricted equity securities	66,627	68,661
Premises and equipment, net of accumulated depreciation and amortization of $42,870 and $38,985, respectively	79,504	70,791
Deferred tax asset	34,322	27,197
Goodwill, net	137,890	137,890
Identified intangible assets, net of accumulated amortization of $21,767 and $18,272, respectively	18,015	21,510
Other real estate owned and repossessed assets, net	1,319	1,491
Other assets	68,948	83,281
Total assets	$ 5,236,229	$ 5,147,534
LIABILITIES AND EQUITY		
Deposits:		
Non-interest-bearing deposits:		
Demand checking accounts	$ 667,181	$ 623,274
Interest-bearing deposits:		
NOW accounts	204,164	212,858
Savings accounts	512,393	515,367
Money market accounts	1,403,881	1,253,819
Certificate of deposit accounts	950,359	1,010,941
Total interest-bearing deposits	3,070,797	2,992,985

Total deposits		3,737,978		3,616,259
Borrowed funds:				
Advances from the FHLBB		784,740		790,865
Other borrowed funds		44,062		63,104
Total borrowed funds		828,802		853,969
Mortgagors escrow accounts		8,008		6,946
Accrued expenses and other liabilities		42,820		54,551
Total liabilities		4,617,608		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		757		757
Additional paid-in capital		616,968		618,426
Retained earnings, partially restricted		63,210		53,358
Accumulated other comprehensive (loss) income		(4,900)		3,483
Treasury stock, at cost; 5,154,327 shares and 5,373,733 shares, respectively		(59,576)		(62,107)
Unallocated common stock held by ESOP; 302,229 shares and 333,918 shares, respectively		(1,648)		(1,820)
Total Brookline Bancorp, Inc. stockholders equity		614,811		612,097
Noncontrolling interest in subsidiary		3,810		3,712
Total equity		618,621		615,809
Total liabilities and equity	$	5,236,229	$	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 September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(In Thousands Except Share Data)			
Interest and dividend income:				
Loans and leases	$ 48,462	$ 53,271	$ 148,525	$ 153,049
Debt securities	2,041	1,949	5,827	6,719
Short-term investments	22	71	72	166
Marketable and restricted equity securities	298	103	911	291
Total interest and dividend income	50,823	55,394	155,335	160,225
Interest expense:				
Deposits	4,637	5,375	14,214	16,355
Borrowed funds and subordinated debt	2,774	3,608	8,677	11,065
Total interest expense	7,411	8,983	22,891	27,420
Net interest income	43,412	46,411	132,444	132,805
Provision for credit losses	2,748	2,862	7,042	12,787
Net interest income after provision for credit losses	40,664	43,549	125,402	120,018
Non-interest income:				
Fees, charges and other income	4,011	3,858	11,412	11,759
Loss from investments in affordable housing projects	(558)	(73)	(1,494)	(455)
Gain on sales of securities				797
Total non-interest income	3,453	3,785	9,918	12,101
Non-interest expense:				
Compensation and employee benefits	15,591	14,664	48,586	43,590
Occupancy	3,312	2,673	9,260	7,852
Equipment and data processing	4,061	4,136	12,423	11,548
Professional services	1,329	1,932	4,343	10,939
FDIC insurance	508	973	2,378	3,123
Advertising and marketing	758	689	2,196	2,166
Amortization of identified intangible assets	1,154	1,271	3,495	3,825
Other	2,840	4,098	8,459	8,464
Total non-interest expense	29,553	30,436	91,140	91,507
Income before provision for income taxes	14,564	16,898	44,180	40,612
Provision for income taxes	4,645	5,176	15,156	14,473
Net income before noncontrolling interest in subsidiary	9,919	11,722	29,024	26,139
Less net income attributable to noncontrolling interest in subsidiary	490	321	1,292	860
Net income attributable to Brookline Bancorp, Inc.	$ 9,429	$ 11,401	$ 27,732	$ 25,279
Earnings per common share:				
Basic	$ 0.14	$ 0.16	$ 0.40	$ 0.36

Diluted		0.13		0.16		0.40		0.36
Weighted average common shares outstanding during the period:								
Basic		69,830,953		69,716,283		69,789,737		69,682,741
Diluted		69,913,765		69,754,473		69,860,722		69,718,072
Dividends declared per common share	$	0.085	$	0.085	$	0.255	$	0.255

See accompanying notes to the unaudited consolidated financial statements.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Comprehensive Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In Thousands)			
Net income before noncontrolling interest in subsidiary	$ 9,919	$ 11,722	$ 29,024	$ 26,139
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	(735)	2,592	(13,526)	3,394
Non-credit gain on impairment of securities				34
Income tax benefit (expense)	276	(992)	5,137	(1,303)
Net unrealized securities holding (losses) gains before reclassification adjustments	(459)	1,600	(8,389)	2,125
Less reclassification adjustments for securities gains included in net income:				
Gain on sales of securities, net				797
Income tax expense				(282)
Net reclassification adjustments for securities gains included in net income				515
Net unrealized securities holding (losses) gains	(459)	1,600	(8,389)	1,610
Postretirement benefits:				
Adjustment of accumulated obligation for postretirement benefits			8	(10)
Income tax (expense) benefit			(2)	6
Net adjustment of accumulated obligation for postretirement benefits			6	(4)
Net other comprehensive (loss) income	(459)	1,600	(8,383)	1,606
Comprehensive income	9,460	13,322	20,641	27,745
Net income attributable to noncontrolling interest in subsidiary	490	321	1,292	860
Comprehensive income attributable to Brookline Bancorp, Inc.	$ 8,970	$ 13,001	$ 19,349	$ 26,885

See accompanying notes to the unaudited consolidated financial statements.

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Changes in Equity

Nine Months Ended September 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	$ 757	$ 618,426	$ 53,358	$ 3,483	$ (62,107)	$ (1,820)	$ 612,097	$ 3,712	$ 615,809
Net income attributable to Brookline Bancorp, Inc.			27,732				27,732		27,732
Net income attributable to noncontrolling interest in subsidiary								1,292	1,292
Other comprehensive loss				(8,383)			(8,383)		(8,383)
Common stock dividends of $0.255 per share			(17,880)				(17,880)		(17,880)
Dividend to owners of noncontrolling interest in subsidiary								(1,194)	(1,194)
Compensation under recognition and retention plan		1,073					1,073		1,073
Restricted stock awards issued, net of awards surrendered		(2,531)			2,531				
Common stock held by ESOP committed to be released (31,689 shares)						172	172		172
Balance at September 30, 2013	$ 757	$ 616,968	$ 63,210	$ (4,900)	$ (59,576)	$ (1,648)	$ 614,811	$ 3,810	$ 618,621

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Changes in Equity (Continued)

Nine Months Ended September 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.			25,279				25,279		25,279
Net income attributable to noncontrolling interest in subsidiary								860	860
Issuance of shares of common stock (10,997,840 shares)	110	92,712					92,822		92,822
Other comprehensive income				1,606			1,606		1,606
Common stock dividends of $0.255 per share			(17,821)				(17,821)		(17,821)
Dividend to owners of noncontrolling interest in subsidiary									
Compensation under recognition and retention plan		293					293	(5)	288
Common stock held by ESOP committed to be released (33,219 shares)						181	181		181
Balance at September 30, 2012	$ 754	$ 618,176	$ 47,451	$ 3,569	$ (62,107)	$ (1,881)	$ 605,962	$ 4,255	$ 610,217

See accompanying notes to the unaudited consolidated financial statements.

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BROOKLINE BANCORP. INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2013	2012
	(In Thousands)	
Cash flows from operating activities:		
Net income attributable to Brookline Bancorp, Inc.	$ 27,732	$ 25,279
Adjustments to reconcile net income to net cash provided from operating activities:		
Net income attributable to noncontrolling interest in subsidiary	1,292	860
Provision for credit losses	7,042	12,787
Origination of loans and leases to be sold	(25,118)	(65,252)
Proceeds from loans and leases sold	28,798	68,208
Deferred income tax expense	(1,985)	(2,984)
Depreciation of premises and equipment	4,587	2,696
Amortization of securities premiums and discounts, net	2,564	3,549
Amortization of deferred loan and lease origination costs, net	7,749	7,606
Amortization of identified intangible assets	3,495	3,825
Accretion of acquisition fair value adjustments, net	(5,518)	(9,411)
Gain on sales of investment securities		(797)
Gains on sales of loans held for sale	(647)	(434)
Losses on sales of other real estate owned and repossessed assets	35	41
Write-down of other real estate owned and repossessed assets	188	60
Compensation under recognition and retention plans	1,073	288
Loss on investments in affordable housing projects	1,494	455
ESOP shares committed to be released	172	181
Net change in:		
Cash surrender value of bank-owned life insurance	(824)	(886)
Other assets	13,663	(4,213)
Accrued expenses and other liabilities	(11,858)	(2,479)
Net cash provided from operating activities	53,934	39,379
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	108,940	158,144
Purchases of investment securities available-for-sale	(124,106)	(251,765)
Proceeds from redemption of restricted equity securities	2,108	2,003
Purchases of restricted equity securities	(74)	(15,505)
Purchases of investment securities held-to-maturity		(500)
Net increase in loans and leases	(137,775)	(297,966)
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	(13,763)	(24,126)
Sale of premises and equipment	330	
Proceeds from sales of other real estate owned and repossessed assets	7,948	145
Net cash used for investing activities	(156,392)	(248,620)
Cash flows from financing activities:		
Increase in demand checking, NOW, savings and money market accounts	182,301	233,824
Decrease in certificates of deposit	(60,929)	(50,529)
Proceeds from FHLBB advances	2,165,600	2,300,774
Repayment of FHLBB advances	(2,169,090)	(2,305,682)

Repayment of subordinated debt		(3,000)		
(Decrease) increase in other borrowed funds		(16,094)		19,012
Increase in mortgagors escrow accounts		1,062		553
Payment of dividends on common stock		(17,880)		(17,821)
Payment of dividends to owners of noncontrolling interest in subsidiary		(1,194)		(914)
Net cash provided from financing activities		80,776		179,217
Net decrease in cash and cash equivalents		(21,682)		(30,024)
Cash and cash equivalents at beginning of period		117,097		106,296
Cash and cash equivalents at end of period	$	95,415	$	76,272
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest on deposits, borrowed funds and subordinated debt	$	26,345	$	32,018
Income taxes		14,990		17,055
Non-cash investing activities:				
Transfer from loans to other real estate owned	$	7,999	$	
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 Nine Months Ended September 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, municipal and retail deposits, origination of mortgage loans on commercial and residential real estate located principally in Massachusetts and Rhode Island, origination of commercial loans and leases to small- and mid-sized businesses, origination of indirect automobile loans, investment in debt and equity securities, and the offering of cash management and investment advisory services. The Company also provides specialty equipment financing through its subsidiaries Eastern Funding, which is based in New York City, and Macrolease, which is based in Plainview, New York.

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

The Federal Deposit Insurance Corporation (FDIC) offers insurance coverage on all deposits up to $250,000 per depositor 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.

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

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

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

In July 2013, the FASB issued ASU 2013-10, *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes.* This ASU amends ASC 815 to allow entities to use the Fed Funds Effective Swap Rate, in addition to U.S. Treasury rates and LIBOR, as a benchmark interest rate in accounting for fair value and cash flow hedges in the United States. This ASU also eliminates the provision from ASC 815-20-25-6 that prohibits the use of different benchmark rates for similar hedges except in rate and justifiable circumstances. This ASU is effective prospectively for qualifying new hedging relationship entered into on or after July 17, 2013, and for hedging

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

relationship redesignated on or after that day. As of September 30, 2013, the Company did not have any fair value and cash flow hedges. The adoption of ASU No. 2013-10 did not have a material impact on the Company s financial statements.

In July 2013, the FASB issued ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* This ASU provides guidance on financial statement presentation of unrecognized tax benefits (UTBs) when a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward exists. The FASB s objective in issuing this ASU is to eliminate diversity in practice resulting from a lack of guidance on this topic in current U.S. GAAP. Under this ASU, an entity must present a UTB, or a portion of a UTB, in the financial statements as a reduction to a deferred tax asset (DTA) for an NOL carryforward, a similar tax loss, or a tax credit carryforward except when: (a) an NOL carryforward, a similar tax loss, or a tax credit carryforward is not available as of the reporting date under the governing tax law to settle taxes that would result from the disallowance of the tax position; (b) the entity does not intend to use the DTA for this purpose (provided that the tax law permits a choice). If either of these conditions exists, an entity should present a UTB in the financial statements as a liability and should not net the UTB with a DTA. New recurring disclosures are not required because the ASU does not affect the recognition or measurement of uncertain tax positions under ASC 740. This amendment does not affect the amounts public entities disclose in the tabular reconciliation of the total amounts of UTBs because the tabular reconciliation presents the gross amount of UTBs. This ASU is effective for fiscal years beginning after December 15, 2013, and interim periods within those years. The amendments should be applied to all UTBs that exist as of the effective date. Entities may choose to apply the amendments retrospectively to each prior reporting period presented. As of September 30, 2013, the Company did not have a UTB. Management will assess the applicability of this ASU after it becomes effective in the first quarter of 2014.

(3) Investment Securities

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

	At September 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In Thousands)			
Debt securities:				
GSEs	$ 20,178	$ 64	$	$ 20,242
GSE CMOs	255,658	95	7,422	248,331
GSE MBSs	178,510	2,115	3,475	177,150
Private-label CMOs	4,013	118	34	4,097
SBA commercial loan asset-backed securities	261		2	259
Auction-rate municipal obligations	1,900		126	1,774
Municipal obligations	1,065	24		1,089
Corporate debt obligations	23,103	413		23,516
Trust preferred securities and pools	2,607	296	275	2,628

Total debt securities		487,295		3,125		11,334		479,086
Marketable equity securities		1,256		62		2		1,316
Total investment securities available-for-sale	$	488,551	$	3,187	$	11,336	$	480,402
Investment securities held-to-maturity	$	500	$		$		$	500

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	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

At September 30, 2013, the fair value of all securities available-for-sale was $480.4 million and carried a total of $8.1 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 $480.4 million in securities available-for-sale at September 30, 2013, $352.3 million, or 73.3%, of the portfolio, had gross unrealized losses of $11.3 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 nine months of 2013 was driven by rising interest rates.

Investment Securities as Collateral

At September 30, 2013 and December 31, 2012, respectively, $320.6 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; and Federal Home Loan Bank of Boston (FHLBB) borrowings. The Company did not have any outstanding FRB borrowings at September 30, 2013 or December 31, 2012.

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Other-Than-Temporary Impairment (OTTI)

Investment securities at September 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 September 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	$ 190,433	$ 5,110	$ 51,296	$ 2,312	$ 241,729	$ 7,422
GSE MBSs	79,020	2,039	26,423	1,436	105,443	3,475
Private-label CMOs	1,145	34			1,145	34
SBA commercial loan asset-backed securities	39		199	2	238	2
Auction-rate municipal obligations			1,774	126	1,774	126
Trust preferred securities:						
Without OTTI loss			1,998	275	1,998	275
Temporarily impaired debt securities	270,637	7,183	81,690	4,151	352,327	11,334
Marketable equity securities	509	2			509	2
Total temporarily impaired securities	$ 271,146	$ 7,185	$ 81,690	$ 4,151	$ 352,836	$ 11,336

	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
Temporarily impaired debt securities	43,431	104	4,142	532	47,573	636
Marketable equity securities						
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 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 that were in an unrealized loss position at September 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 September 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 $13.1 million, compared to $10.0 million at December 31, 2012.

At September 30, 2013, the Company held GSE debentures with a total fair value of $20.2 million and a net unrealized gain of less than $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 September 30, 2013, none of the twelve securities in the Company s portfolio were in unrealized loss positions. All securities are performing and backed by the implicit or explicit guarantee of the U.S. Government.

At September 30, 2013, the Company held SBA securities with a total fair value of $0.3 million and a net unrealized loss of less than $0.1 million. At December 31, 2012, the Company held GSE debentures with a total fair value of $0.4 million and a net unrealized loss of less than $0.1 million. At September 30, 2013, seven of the nine securities in the Company s portfolio were in unrealized loss positions, which represented

0.8% of the amortized cost of the securities. All securities are performing and backed by the implicit or explicit guarantee of the U.S. Government.

At September 30, 2013, the Company held GSE mortgage-related securities with a total fair value of $425.5 million and a net unrealized loss of $8.7 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 nine months ended September 30, 2013, the Company purchased $111.4 million in GSE CMOs and GSE MBSs to reinvest cash from matured securities. This compares to a total of $252.3 million during the same period in 2012. At September 30, 2013, 80 of the 235 securities in the Company s portfolio were in unrealized loss positions, which represented 3.0% of the amortized cost of the securities. All securities are performing and backed by the implicit or explicit guarantee of the U.S. Government.

Private-Label CMOs

At September 30, 2013, the Company held private-issuer CMO-related securities with a total fair value of $4.1 million and a net unrealized gain of less than $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. At September 30, 2013, two of the eleven securities in the Company s portfolio were in unrealized loss positions, which represented 2.9% of the amortized cost of the

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securities. All securities are performing and while one security was downgraded during the third quarter of 2013, the security is in an unrealized gain position as the underlying credit metrics have not deteriorated over the third quarter of 2013.

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 September 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. At September 30, 2013, two of the two securities in the Company s portfolio were in unrealized loss positions, which represented 6.6% of the amortized cost of the securities. 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 September 30, 2013. This compares to a total fair value of $1.1 million which also approximated amortized cost at December 31, 2012. At September 30, 2013, none of the two securities in the Company s portfolio were in unrealized loss positions. Full collection of the obligations is expected because the financial condition of the issuers is sound, none of the issuers has defaulted on scheduled payments, the obligations are rated investment grade and the Company has the ability and intent to hold the obligations for a period of time to recover the 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 ten corporate obligation securities with a total fair value of $23.5 million and total net unrealized gains of $0.4 million at September 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. At September 30, 2013, none of the ten securities in the Company s portfolio were in unrealized loss positions. Full collection of the obligations is expected because the financial condition of the issuers is sound, none of the issuers has defaulted on scheduled payments, except for one security 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. During the nine months ended September 30, 2013, the Company purchased $12.7 million in corporate obligations. The Company did not purchase any corporate obligations in the same period in 2012.

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 September 30, 2013, the Company owned three trust preferred securities and two PreTSL pools with a total fair value of $2.6 million which approximate amortized costs. 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. At September 30, 2013, three of the five securities in the Company s portfolio were in unrealized loss positions, which represents 12.1% of the amortized cost of the securities. 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.

At September 30, 2013, one PreTSL received a $0.2 million principal and interest payment. This payment, which was reported in non-interest income, was applied to the amortized cost with the remainder applied to gains on other assets in accordance with the cost recovery method. The payment completely paid down the amortized cost of this security and future

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payments will be recognized as gains on other assets The other PreTSL was 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 September 30, 2013 that was considered in determining whether OTTI existed on this PreTSL.

			At September 30, 2013			
[redacted]						
PreTSL B	A-1	25%	16%	42%	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.

	September 30, 2013					
					Total Cumulative OTTI	
	Current Par	Amortized Cost (1)	Gross Unrealized Gain/(Loss)	Fair Value	Credit-Related	Credit and Non-Credit
	(In Thousands)					
PreTSL B	$ 818	$ 813	$ (25)	$ 788	$	$

(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 September 30, 2013 was as follows:

PreTSL B has experienced $86.0 million in deferrals/defaults, or 25.2% of the security s underlying collateral, to date. During the third 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 15.7% over its remaining life, the security s current amortized cost (99.5% of current par), $108.0 million in excess subordination (42.2% of outstanding performing collateral) and the Company s intent and ability to hold the security until recovery, Management believes that no OTTI is warranted at this time.

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

Marketable Equity Securities

At September 30, 2013, the Company owned marketable equity securities with a fair value of $1.3 million, including net unrealized gains of less than $0.1 million. This compares to a fair value of $1.3 million and net unrealized gains of $0.1 million at December 31, 2012. At September 30, 2013 one out of the total four securities in the Company s portfolio was in an unrealized loss position, which represents 0.4% of the amortized cost of the securities.

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Portfolio Maturities

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

	At September 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	$ 20,288	$ 20,347	1.31%	$ 59,396	$ 59,736	1.20%
After 1 year through 5 years	36,108	37,055	2.78%	25,249	25,579	1.61%
After 5 years through 10 years	48,309	49,428	2.62%	50,283	52,557	3.29%
Over 10 years	382,590	372,256	1.93%	339,769	342,114	1.93%
	$ 487,295	$ 479,086	2.04%	$ 474,697	$ 479,986	1.97%
Investment securities held-to-maturity:						
Within 1 year	$ 500	$ 500	1.99%	$	$	%
After 1 year through 5 years			%	500	502	1.99%
After 5 years through 10 years			%			%
Over 10 years			%			%
	$ 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 September 30, 2013, 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

There were no security sales during the nine-month period ended September 30, 2013.

	Nine Months Ended September 30, 2012

		(In Thousands)
Sales of debt securities	$	157,225
Gross gains from sales		964
Gross losses from sales		167

Security transactions are recorded on the trade date. When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on the sale.

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(4) Loans and Leases

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

	At September 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	$ 1,035,394	4.33%	$ 365,375	4.46%	$ 1,400,769	4.36%
Multi-family mortgage	523,340	4.33%	76,261	4.71%	599,601	4.38%
Construction	106,436	3.98%	11,654	4.28%	118,090	4.01%
Total commercial real estate loans	1,665,170	4.31%	453,290	4.50%	2,118,460	4.35%
Commercial loans and leases:						
Commercial	290,951	3.62%	118,425	4.62%	409,376	3.91%
Equipment financing	480,387	7.15%	32,958	6.63%	513,345	7.12%
Condominium association	43,205	4.77%		%	43,205	4.77%
Total commercial loans and leases	814,543	5.76%	151,383	5.06%	965,926	5.65%
Indirect automobile loans	440,949	5.05%		%	440,949	5.05%
Consumer loans:						
Residential mortgage	385,680	3.67%	126,155	4.04%	511,835	3.76%
Home equity	121,353	3.40%	133,535	3.91%	254,888	3.67%
Other consumer	6,074	5.88%	1,345	14.25%	7,419	7.40%
Total consumer loans	513,107	3.63%	261,035	4.03%	774,142	3.77%
Total loans and leases	$ 3,433,769	4.65%	$ 865,708	4.44%	$ 4,299,477	4.60%

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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, 40.5% of which is in the greater New York/New Jersey metropolitan area and 59.5% of which is in other areas in the United States of America.

Residential mortgage loans held-for-sale were $0.2 million and $3.2 million at September 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 September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(In Thousands)			
Balance at beginning of period	$ 52,182	$ 68,656	$ 57,812	$ (1,369)
Acquisitions				81,503
Reclassification from nonaccretable difference for loans with improved cash flows	1,537	1,200	6,913	1,200
Accretion	(5,029)	(7,632)	(16,035)	(19,110)
Balance at end of period	$ 48,690	$ 62,224	$ 48,690	$ 62,224

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Subsequent to acquisition, management quarterly 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 nine months ended September 30, 2013 and 2012, accretable yield adjustments totaling $6.9 million and $1.2 million, respectively 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.

The aggregate remaining nonaccretable difference (representing both principal and interest) applicable to acquired loans totaled $8.2 million and $14.6 million at September 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 September 30, 2013.

	Nine Months Ended September 30, 2013		2012	
	(In Thousands)			
Balance at beginning of period	$	4,083	$	16,428
Acquired loans				2,848
New loans granted during the period		498		140
Advances on lines of credit		6,163		540
Repayments		(887)		(14,300)
Loans reclassified as insider loans		10,753		
Balance at end of period	$	20,610	$	5,656

Unfunded commitments on extensions of credit to insiders totaled $2.6 million and $6.9 million at September 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 September 30, 2013 was 1.19%. At September 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 September 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; and FHLBB borrowings. The Company did not have any outstanding FRB borrowings at September 30, 2013 or December 31, 2012.

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(5) Allowance for Loan and Lease Losses

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

	Three Months Ended September 30, 2013 (In Thousands)					
	Commercial Real Estate	Commercial	Indirect Automobile	Consumer	Unallocated	Total
Balance at June 30, 2013	$ 22,019	$ 11,791	$ 4,695	$ 2,999	$ 2,777	$ 44,281
Charge-offs	(7)	(219)	(510)	(167)		(903)
Recoveries		62	116	104		282
Provision for loan and lease losses	447	2,036	15	179	53	2,730
Balance at September 30, 2013	$ 22,459	$ 13,670	$ 4,316	$ 3,115	$ 2,830	$ 46,390

	Three Months Ended September 30, 2012 (In Thousands)					
	Commercial Real Estate	Commercial	Indirect Automobile	Consumer	Unallocated	Total
Balance at June 30, 2012	$ 17,938	$ 8,962	$ 5,680	$ 2,113	$ 2,738	$ 37,431
Charge-offs		(1,276)	(423)	(108)		(1,807)
Recoveries	38	97	122	11		268
Provision (credit) for loan and lease losses	1,187	1,453	235	429	(283)	3,021
Balance at September 30, 2012	$ 19,163	$ 9,236	$ 5,614	$ 2,445	$ 2,455	$ 38,913

	Nine Months Ended September 30, 2013 (In Thousands)					
	Commercial Real Estate	Commercial	Indirect Automobile	Consumer	Unallocated	Total
Balance at December 31, 2012	$ 20,018	$ 10,655	$ 5,304	$ 2,545	$ 2,630	$ 41,152
Charge-offs	(88)	(943)	(1,190)	(373)		(2,594)
Recoveries	4	326	395	190		915
Provision (credit) for loan and lease losses	2,525	3,632	(193)	753	200	6,917
Balance at September 30, 2013	$ 22,459	$ 13,670	$ 4,316	$ 3,115	$ 2,830	$ 46,390

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 2013 and 2012

	Nine Months Ended September 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		(5,033)	(1,206)	(326)		(6,565)
Recoveries	118	299	388	24		829
Provision (credit) for loan and lease losses	3,568	7,973	828	1,170	(593)	12,946
Balance at September 30, 2012	$ 19,163	$ 9,236	$ 5,614	$ 2,445	$	