BROOKLINE BANCORP INC
Form 10-Q
April 30, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

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.)
160 Washington Street, Brookline, MA	**02447-0469**
(Address of principal executive offices)	(Zip Code)

(617) 730-3500

(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 (1) 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 o NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

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**

As of April 30, 2010, the number of shares of common stock, par value $0.01 per share, outstanding was 59,038,156.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

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Part I - Financial Information

Item 1. Financial Statements

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands except share data)

	March 31, 2010 (unaudited)	December 31, 2009
ASSETS		
Cash and due from banks	$ 17,782	$ 17,635
Short-term investments	53,023	48,886
Securities available for sale	301,931	293,023
Securities held to maturity (market value of $123 and $121, respectively)	111	112
Restricted equity securities	36,335	36,335
Loans	2,173,989	2,164,295
Allowance for loan losses	(30,850)	(31,083)
Net loans	2,143,139	2,133,212
Accrued interest receivable	8,785	9,062
Bank premises and equipment, net	10,759	10,685
Deferred tax asset	9,871	10,178
Goodwill	43,241	43,241
Identified intangible assets, net of accumulated amortization of $10,163 and $9,857, respectively	2,789	3,095
Other assets	11,296	10,420
Total assets	$ 2,639,062	$ 2,615,884
LIABILITIES AND EQUITY		
Deposits	$ 1,654,767	$ 1,633,687
Borrowed funds	465,509	468,766
Mortgagors escrow accounts	6,430	5,938
Income taxes payable	3,475	1,115
Accrued expenses and other liabilities	16,834	16,955
Total liabilities	2,147,015	2,126,461
Equity:		
Brookline Bancorp, Inc. stockholders equity:		
Preferred stock, $0.01 par value; 50,000,000 shares authorized; none issued		
Common stock, $0.01 par value; 200,000,000 shares authorized; 64,411,889 shares and 64,404,419 shares issued, respectively	644	644
Additional paid-in capital	524,058	523,736
Retained earnings, partially restricted	26,756	25,420
Accumulated other comprehensive income	2,939	2,201
Treasury stock, at cost - 5,373,733 shares	(62,107)	(62,107)
Unallocated common stock held by ESOP - 460,559 shares and 472,604 shares, respectively	(2,511)	(2,577)
Total Brookline Bancorp, Inc. stockholders equity	489,779	487,317

Noncontrolling interest in subsidiary		2,268		2,106
Total equity		492,047		489,423
Total liabilities and equity	$	2,639,062	$	2,615,884

See accompanying notes to the unaudited consolidated financial statements.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands except share data)

	Three months ended March 31, 2010	Three months ended March 31, 2009
	(unaudited)	
Interest income:		
Loans	$ 30,868	$ 31,553
Debt securities	1,923	3,076
Short-term investments	15	202
Equity securities	24	23
Total interest income	32,830	34,854
Interest expense:		
Deposits (excluding brokered deposits)	5,911	8,580
Brokered deposits		349
Borrowed funds	3,774	6,819
Total interest expense	9,685	15,748
Net interest income	23,145	19,106
Provision for credit losses	1,267	2,801
Net interest income after provision for credit losses	21,878	16,305
Non-interest income:		
Fees, charges and other income	825	1,018
Impairment losses on securities	(49)	(779)
Less non-credit loss on impairment of securities		53
Total non-interest income	776	292
Non-interest expense:		
Compensation and employee benefits	5,632	4,966
Occupancy	1,101	1,045
Equipment and data processing	1,825	1,750
Professional services	936	645
FDIC insurance	416	430
Advertising and marketing	129	131
Amortization of identified intangible assets	306	372
Other	1,355	1,381
Total non-interest expense	11,700	10,720
Income before income taxes	10,954	5,877
Provision for income taxes	4,439	2,361
Net income	6,515	3,516
Less net income attributable to noncontrolling interest in subsidiary	162	72
Net income attributable to Brookline Bancorp, Inc.	$ 6,353	$ 3,444
Earnings per common share attributable to Brookline Bancorp, Inc.:		
Basic	$ 0.11	$ 0.06
Diluted	0.11	0.06

Weighted average common shares outstanding during the period:		
Basic	58,554,922	57,919,412
Diluted	58,559,786	58,052,757

See accompanying notes to the unaudited consolidated financial statements.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands)

	Three months ended March 31, 2010	Three months ended March 31, 2009
	(unaudited)	
Net income	$ 6,515	$ 3,516
Other comprehensive income, net of taxes:		
Unrealized securities holding gains excluding non-credit loss on impairment of securities	1,130	2
Non-credit loss on impairment of securities		(76)
Net unrealized securities holding gains (losses) before income taxes	1,130	(74)
Income tax expense (benefit)	421	(28)
Net unrealized securities holding gains (losses)	709	(46)
Adjustment of accumulated obligation for postretirement benefits	(5)	(8)
Income tax benefit	2	3
Net adjustment of accumulated obligation for postretirement benefits	(3)	(5)
Net unrealized holding gains (losses)	706	(51)
Less reclassification adjustment for securities losses included in net income:		
Impairment losses on securities	(49)	(726)
Income tax benefit	17	254
Net credit impairment losses on securities	(32)	(472)
Net other comprehensive income	738	421
Comprehensive income	7,253	3,937
Net income attributable to noncontrolling interest in subsidiary	(162)	(72)
Comprehensive income attributable to Brookline Bancorp, Inc.	$ 7,091	$ 3,865

See accompanying notes to the unaudited consolidated financial statements.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

Three Months Ended March 31, 2010 and 2009 (Unaudited)

(Dollars in thousands)

	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	Non-Controlling Interest in Subsidiary	Total Equity
Balance at December 31, 2008	$ 637	$ 518,712	$ 38,092	$ 1,385	$ (62,107)	$ (2,850)	$ 493,869	$ 1,798	$ 495,667
Net income attributable to Brookline Bancorp, Inc.			3,444				3,444		3,444
Net income attributable to noncontrolling interest in subsidiary								72	72
Other comprehensive income				421			421		421
Common stock dividends of $0.285 per share			(16,499)				(16,499)		(16,499)
Payment of dividend equivalent rights			(403)				(403)		(403)
Exercise of stock options (777,915 shares)	5	2,563					2,568		2,568
Stock options granted (325,449 options)	1	92					93		93
Income tax benefit from vesting of recognition and retention plan shares, exercise of non-incentive stock options, payment of dividend equivalent rights and dividend distributions on allocated ESOP shares		666					666		666
Compensation under recognition and retention plan		35					35		35
Common stock held by ESOP committed to be released (12,540 shares)		46				69	115		115
Balance at March 31, 2009	$ 643	$ 522,114	$ 24,634	$ 1,806	$ (62,107)	$ (2,781)	$ 484,309	$ 1,870	$ 486,179

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity (Continued)

Three Months Ended March 31, 2010 and 2009 (Unaudited)

(Dollars in thousands)

	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	Non-Controlling Interest in Subsidiary	Total Equity
Balance at December 31, 2009	$ 644	$ 523,736	$ 25,420	$ 2,201	$ (62,107)	$ (2,577)	$ 487,317	$ 2,106	$ 489,423
Net income attributable to Brookline Bancorp, Inc.			6,353				6,353		6,353
Net income attributable to noncontrolling interest in subsidiary								162	162
Other comprehensive income				738			738		738
Common stock dividends of $0.085 per share			(5,017)				(5,017)		(5,017)
Stock options granted (97,333 options)		117					117		117
Income tax benefit from vesting of recognition and retention plan shares and dividend distributions on allocated ESOP shares		129					129		129
Compensation under recognition and retention plan		20					20		20
Common stock held by ESOP committed to be released (12,045 shares)		56				66	122		122
Balance at March 31, 2010	$ 644	$ 524,058	$ 26,756	$ 2,939	$ (62,107)	$ (2,511)	$ 489,779	$ 2,268	$ 492,047

See accompanying notes to the unaudited consolidated financial statements.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

	Three months ended March 31, 2010	2009
	(unaudited)	
Cash flows from operating activities:		
Net income attributable to Brookline Bancorp, Inc.	$ 6,353	$ 3,444
Adjustments to reconcile net income to net cash provided from operating activities:		
Net income attributable to noncontrolling interest in subsidiary	162	72
Provision for credit losses	1,267	2,801
Depreciation and amortization	374	334
Net amortization (accretion) of securities premiums and discounts	608	(44)
Amortization of deferred loan origination costs	2,292	2,379
Amortization of identified intangible assets	306	372
Amortization (accretion) of acquisition fair value adjustments	4	(33)
Amortization of mortgage servicing rights	7	10
Impairment losses on securities	49	726
Write-down of assets acquired	54	195
Compensation under recognition and retention plan	20	35
Release of ESOP shares	122	115
Deferred income taxes	(129)	110
Decrease (increase) in:		
Accrued interest receivable	277	364
Prepaid income taxes		193
Other assets	(937)	491
Increase in income taxes payable	2,360	317
Decrease in accrued expenses and other liabilities	(126)	(153)
Net cash provided from operating activities	13,063	11,728
Cash flows from investing activities:		
Proceeds from principal repayments of securities available for sale	46,523	30,775
Proceeds from principal repayments of securities held to maturity	1	2
Purchase of securities available for sale	(54,896)	(54,718)
Net increase in loans	(13,492)	(23,207)
Purchase of bank premises and equipment	(464)	(321)
Net cash used for investing activities	(22,328)	(47,469)

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

(In thousands)

	Three months ended March 31, 2010	Three months ended March 31, 2009
	(unaudited)	
Cash flows from financing activities:		
Increase in demand deposits and NOW, savings and money market savings accounts	$ 65,721	$ 40,405
Increase (decrease) in certificates of deposit	(44,641)	68,103
Proceeds from Federal Home Loan Bank of Boston advances	62,000	3,777,000
Repayment of Federal Home Loan Bank of Boston advances	(65,252)	(3,865,636)
Increase in mortgagors escrow accounts	492	359
Income tax benefit from vesting of recognition and retention plan shares, exercise of non-incentive stock options, payment of dividend equivalent rights and dividend distributions on allocated ESOP shares	129	666
Exercise of stock options		2,568
Stock options granted	117	93
Payment of dividends on common stock	(5,017)	(16,499)
Payment of dividend equivalent rights		(403)
Net cash provided from financing activities	13,549	6,656
Net increase (decrease) in cash and cash equivalents	4,284	(29,085)
Cash and cash equivalents at beginning of period	66,521	121,352
Cash and cash equivalents at end of period	$ 70,805	$ 92,267
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest on deposits and borrowed funds	$ 9,680	$ 15,599
Income taxes	2,077	1,078

See accompanying notes to the unaudited consolidated financial statements.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Three Months Ended March 31, 2010 and 2009

(Unaudited)

(1) Basis of Presentation and Recent Accounting Pronouncements

Basis of Presentation

The consolidated financial statements include the accounts of Brookline Bancorp, Inc. (the Company) and its wholly owned subsidiaries, Brookline Bank (Brookline) and Brookline Securities Corp. Brookline includes the accounts of its wholly owned subsidiaries, BBS Investment Corporation and Longwood Securities Corp., and its 85.6% (86.0% prior to April 1, 2009) owned subsidiary, Eastern Funding LLC (Eastern).

The Company operates as one reportable segment for financial reporting purposes. All significant intercompany transactions and balances are eliminated in consolidation. Certain amounts previously reported have been reclassified to conform to the current year s presentation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation have been included. Results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

Recent Accounting Pronouncements

Other-Than-Temporary Impairment in Debt Securities. On April 9, 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 320-10, *Investments Debt and Equity Securities (FSP FAS 115-2 and FAS 124-2), Recognition and Presentation of Other-Than-Temporary Impairments* . This FSP amends the other-than-temporary impairment guidance in U.S. generally accepted accounting principles for debt securities. Consistent with current requirements for recording other-than-temporary impairments, this FSP states that the amount of impairment loss recorded in earnings for a debt security will be the entire difference between the security s cost and its fair value if the company intends to sell the debt security prior to recovery or it is more-likely-than not that the company will have to sell the debt security prior to recovery. If, however, the company does not intend to sell the debt security or it concludes that it is more-likely-than-not that it will not have to sell the debt security prior to recovery, this FSP requires a company to recognize the credit loss component of an other-than-temporary impairment of a debt security in earnings and the remaining portion of the impairment loss in other comprehensive income. The credit loss component of an other-than-temporary impairment must be determined based on a company s best estimate of cash flows expected to be collected. This FSP, which became effective for interim and annual periods ending after June 15, 2009, allowed early adoption for periods ending after March 15, 2009, provided FSP FAS 157-4 (see Fair Value Measurements below) was adopted at the same time. The Company adopted this FSP for the period ended March 31, 2009. Adoption did not have a material effect on the Company s consolidated financial statements.

Fair Value Measurements. Effective January 1, 2008, the Company adopted *Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements* , which provides a framework for measuring fair value under U.S. generally accepted accounting principles. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In addition, a hierarchy of valuation techniques is specified based on whether the inputs to those techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company s market assumptions. These two types of inputs have the following fair value hierarchy:

Level 1 - Quoted prices for identical instruments in active markets

Level 2 - Quoted prices for similar instruments in active or non-active markets and model-derived valuations in which all significant inputs and value drivers are observable in active markets

Level 3 - Valuation derived from significant unobservable inputs

Valuation techniques based on unobservable inputs are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that may appropriately reflect market and credit risks. Changes in these judgments often have a material impact on the fair value estimates. In addition, since these estimates are as of a specific point in time, they are susceptible to material near-term changes. The fair values

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Three Months Ended March 31, 2010 and 2009

(Unaudited)

disclosed do not reflect any premium or discount that could result from the sale of a large volume of a particular financial instrument, nor do they reflect possible tax ramifications or estimated transaction costs.

The Company uses fair value measurements to record certain assets at fair value on a recurring basis. Additionally, the Company may be required to record at fair value other assets on a nonrecurring basis. These nonrecurring fair value adjustments typically involve the application of lower-of-cost-or market value accounting or write-downs of individual assets. In accordance with *FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157 (ASC paragraphs 820-10-50-8A, 55-23A and 55-238)*, the Company applied the FSB as it related to non-financial assets, such as goodwill and real property held for sale, and non-financial liabilities effective January 1, 2009. Such application did not have a material effect on the Company s consolidated financial statements.

On April 9, 2009, the FASB issued *FASB Staff Position FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FASB ASC 820).* This FSP provides additional guidance for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased. It also provides guidance on identifying circumstances that indicate a transaction is not orderly. Determination of whether a transaction is orderly or not orderly in instances when there has been a significant decrease in the volume and level of activity for an asset or liability depends on an evaluation of facts and circumstances and requires the use of significant judgment. This FSP requires a company to disclose the inputs and valuation techniques used to measure fair value and to discuss changes in such inputs and valuation techniques, if any, that occurred during the reporting period. This FSP, which became effective for interim and annual periods ending after June 15, 2009, required early adoption for periods ending after March 15, 2009 if a company elected to adopt early *FSP FAS 115-1 and FAS 124-2* (see Other-Than-Temporary Impairment in Debt Securities above). The Company adopted this FSP for the period ended March 31, 2009. Adoption did not have a material effect on the Company s consolidated financial statements.

On April 9, 2009, the FASB issued *FASB Staff Position FAS 107-1 and APB 28-1 (FSP FAS 107-1 and APB 28-1), Interim Disclosures about Fair Value of Financial Instruments* . This FSP requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP, which became effective for interim reporting periods ending after June 15, 2009, allowed early adoption for periods ending after March 15, 2009, only if a company also elected to early adopt *FSP FAS 157-4, FSP FAS 115-2 and FAS 124-2*. The Company adopted this FSP for the period ended March 31, 2009.

On January 21,2010, the FASB issued *Accounting Standards Update (ASU) No. 2010-06, Improving Disclosures about Fair Value Measurements.* ASU No. 2010-06 will require reporting entities to make new disclosures about (a) amounts and reasons for significant transfers in and out of Level 1 and Level *2* fair value measurements, (b) Input and valuation techniques used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3 and (c) information on purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measures. The new and revised disclosures are effective for interim and annual reporting periods beginning after December 15, 2009 except for disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measures, which are effective for fiscal years beginning after December 15, 2010. As of January 1, 2010, the Company adopted the portion of this Statement that became effective for reporting periods beginning after December 15, 2009. Adoption had no material effect on the Company s financial statements.

Accounting for Transfer of Financial Assets. In June, 2009, the FASB issued *Statement of Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (FASB ASC Topic 810).* This Statement was issued to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. This Statement must be applied to transfers occurring on or after the effective date. Additionally, on or after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. *FASB ASC Topic 810* must be applied as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter with early application prohibited. Adoption of this Statement, effective January 1, 2010, did not have a material effect on the Company s financial statements.

Variable Interest Entities. In June, 2009, the FASB issued *Statement of Financial Accounting Standards No. 167, Amendment to FASB Interpretation No. 46 (R) (FASB ASC Topic 810).* This Statement was issued to improve financial reporting by enterprises involved with variable interest entities. *FASB ASC Topic 810* must be applied as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter with early application prohibited. Adoption of this Statement, effective January 1, 2010, did not have a material effect on the Company s financial statements.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Three Months Ended March 31, 2010 and 2009

(Unaudited)

(2) Investment Securities (Dollars in thousands)

Securities available for sale and held to maturity are summarized below:

	March 31, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Debt securities:				
U.S. Government-sponsored enterprises	$ 107,640	$ 252	$ 117	$ 107,775
Municipal obligations	750	48		798
Auction rate municipal obligations	3,700		570	3,130
Corporate obligations	44,335	1,004	745	44,594
Collateralized mortgage obligations issued by U.S. Government-sponsored enterprises	13,090	155		13,245
Mortgage-backed securities issued by U.S. Government-sponsored enterprises	127,332	3,357	109	130,580
Total debt securities	296,847	4,816	1,541	300,122
Marketable equity securities	793	1,034	18	1,809
Total securities available for sale	$ 297,640	$ 5,850	$ 1,559	$ 301,931
Securities held to maturity:				
Mortgage-backed securities issued by U.S. Government-sponsored enterprises	$ 111	$ 12	$	$ 123

	December 31, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Debt securities:				
U.S. Government-sponsored enterprises	$ 100,762	$ 126	$ 205	$ 100,683
Municipal obligations	750	38		788
Auction rate municipal obligations	3,700		570	3,130
Corporate obligations	36,879	857	922	36,814
Collateralized mortgage obligations issued by U.S. Government-sponsored enterprises	22,218	300		22,518
	124,808	2,752	79	127,481

Mortgage-backed securities issued by U.S. Government-sponsored enterprises								
Total debt securities		289,117		4,073		1,776		291,414
Marketable equity securities		793		833		17		1,609
Total securities available for sale	$	289,910	$	4,906	$	1,793	$	293,023
Securities held to maturity:								
Mortgage-backed securities issued by U.S. Government-sponsored enterprises	$	112	$	9	$		$	121

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Three Months Ended March 31, 2010 and 2009

(Unaudited)

Debt securities of U.S. Government-sponsored enterprises include obligations issued by the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal Home Loan Banks and the Federal Farm Credit Bank. None of those obligations is backed by the full faith and credit of the U.S. Government.

The maturities of the investments in debt securities at March 31, 2010 are as follows:

	Available for sale	
	Amortized cost	Estimated fair value
Within 1 year	$ 10,632	$ 10,775
After 1 year through 5 years	178,768	180,652
After 5 years through 10 years	87,395	89,371
Over 10 years	20,052	19,324
	$ 296,847	$ 300,122

	Held to maturity	
	Amortized cost	Estimated fair value
Within 1 year	$	$
After 1 year through 5 years		
Over 10 years	111	123
	$ 111	$ 123

Mortgage-backed securities and collateralized mortgage obligations are included above based on their contractual maturities (primarily 10 years to 15 years at the time of purchase); the remaining lives at March 31, 2010, however, are expected to be much shorter due to anticipated payments.

Investment securities at March 31, 2010 and December 31, 2009 that have been in a continuous unrealized loss position for less than 12 months or 12 months or longer are as follows:

March 31, 2010

	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Debt securities:						
U.S. Government-sponsored enterprises	$ 37,481	$ 117	$	$	$ 37,481	$ 117
Municipal obligations						
Auction rate municipal obligations			3,130	570	3,130	570
Corporate obligations:						
With other-than-temporary impairment loss						
Without other-than-temporary impairment loss	6,184	43	2,716	702	8,900	745
Collateralized mortgage obligations						
Mortgage-backed securities	13,564	109			13,564	109
Total debt securities	57,229	269	5,846	1,272	63,075	1,541
Marketable equity securities			180	18	180	18
Total temporarily impaired securities	$ 57,229	$ 269	$ 6,026	$ 1,290	$ 63,255	$ 1,559

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Three Months Ended March 31, 2010 and 2009

(Unaudited)

	December 31, 2009					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Debt securities:						
U.S. Government-sponsored enterprises	$ 73,559	$ 205	$	$	$ 73,559	$ 205
Municipal obligations						
Auction rate municipal obligations			3,130	570	3,130	570
Corporate obligations:						
With other-than-temporary impairment loss			151	39	151	39
Without other-than-temporary impairment loss	5,925	61	2,999	822	8,924	883
Collateralized mortgage obligations						
Mortgage-backed securities	5,083	79			5,083	79
Total debt securities	84,567	345	6,280	1,431	90,847	1,776
Marketable equity securities	132	2	183	15	315	17
Total temporarily impaired securities	$ 84,699	$ 347	$ 6,463	$ 1,446	$ 91,162	$ 1,793

At March 31, 2010, the Company does not intend to sell any of its debt securities and it is not likely that it will be required to sell the debt securities before the anticipated recovery of their remaining amortized cost. The unrealized losses on auction rate municipal obligations and corporate obligations without other-than-temporary impairment loss were considered by management to be temporary in nature. Full collection of those debt securities is expected because the financial condition of the issuers is considered to be sound, there has been no default in scheduled payments and the debt securities are rated investment grade. The unrealized loss on mortgage-backed securities related primarily to acquisition premiums to be amortized over the estimated remaining life of the securities. The unrealized loss on marketable equity securities at March 31, 2010, which related to common stock of a financial institution owned by the Company, was considered to be immaterial to the Company s consolidated financial statements as of and for the three months ended March 31, 2010.

At March 31, 2010, corporate obligations included a debt security comprised of a pool of trust preferred securities issued by several financial institutions. Three of the issuers, representing 81% of the pool, announced that they will defer regularly scheduled interest payments. Due to the lack of an orderly market for the debt security, its fair value was determined to be $142 at March 31, 2010 based on analytical modeling taking into consideration a range of factors normally found in an orderly market. The $49 unrealized loss on the security, based on an analysis of projected cash flows, was charged to earnings as a credit loss. At March 31, 2009, this same debt security had an unrealized loss of $104 and, based on an analysis of projected cash flows, $51was charged to earnings as a credit loss and $53 was recognized in other comprehensive income.

Impairment losses on securities charged to earnings in the three months ended March 31, 2009 were $726. In addition to the $51 credit loss on the trust preferred security mentioned above, the losses resulted from write-downs in the carrying value of perpetual preferred stock issued by the FNMA and Merrill Lynch & Co., Inc. (now Bank of America Corporation, or B of A) of $103 and $572, respectively. After the write-downs, the FNMA stock was sold in the fourth quarter of 2009 at a gain of $14. The aggregate cost basis of the B of A stock included in marketable equity securities at March 31, 2010 was $360 and the estimated fair value was $1,016.

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(Unaudited)

A summary of the portion of impairment loss on debt securities recognized in earnings for which a portion of the other-than-temporary impairment was not recognized follows:

	Three months ended March 31, 2010	Three months ended March 31, 2009
Beginning balance	$ 69	$
Amount of credit loss related to debt securities for which an other-than-temporary impairment was not previously recognized		51
Amount of credit loss related to debt securities for which an other-than-temporary impairment was previously recognized	49	
Balance of the amount related to credit losses on debt securities held at end of period for which a portion of an other-than-temporary impairment was recognized in other comprehensive income	$ 118	$ 51

(3) Restricted Equity Securities (Dollars in thousands, except for figures referred to in millions)

Restricted equity securities are as follows:

	March 31, 2010	December 31, 2009
Federal Home Loan Bank of Boston stock	$ 35,960	$ 35,960
Massachusetts Savings Bank Life Insurance Company stock	253	253
Other stock	122	122
	$ 36,335	$ 36,335

As a voluntary member of the Federal Home Loan Bank of Boston (FHLB), the Company is required to invest in stock of the FHLB in an amount ranging from 3% to 4.5% of its outstanding advances from the FHLB, depending on the maturity of individual advances. Stock is purchased at par value. Upon redemption of the stock, which is at the discretion of the FHLB, the Company would receive an amount equal to the par value of the stock. On December 8, 2008, the FHLB placed a moratorium on all excess stock repurchases. At March 31, 2010, the Company s investment in FHLB stock exceeded its required investment by $15,073.

The FHLB reported net income of $22.9 million in the first quarter of 2010, a net loss of $186.8 million in the year 2009 and a net loss of $115.8 million in the year 2008. At March 31, 2010, the FHLB had retained earnings of $165.5 million. The FHLB has a retained earnings target of $925.0 million, a target adopted in connection with the FHLB s revised operating plan to preserve capital in light of the various challenges to the FHLB, including the potential for realization of future losses primarily related to the FHLB s portfolio of held-to-maturity private-label mortgage-backed securities. That portfolio, which had an aggregate amortized cost of $3.1 billion at December 31, 2009, had accumulated other comprehensive losses of $928.5 million at that date. The FHLB monitors its retained earnings target relative to the risks inherent in its balance sheet and operations, and has revised its retained earnings model periodically in an effort to better reflect trends and risks to the FHLB s net income stream that could result in further charges to retained earnings, including, but not limited to, the impact of losses in the FHLB s portfolio of private-label mortgage-backed securities. The retained earnings target has increased significantly over the last two years particularly as the expected performance of private-label mortgage-backed securities has deteriorated beyond prior estimates. Over time, as some unrealized losses become realized losses and the performance of this portfolio begins to stabilize with recovery in the housing markets and in the economy at large, FHLB management has stated that it expects its retained earnings target to begin to decline. However, they expect that the retained earnings target will be sensitive to changes in the FHLB s risk profile, whether favorable or unfavorable. FHLB management stated that they have analyzed the likelihood of the FHLB meeting its retained earnings target over a five-year horizon and projects that the retained earnings target will be met within that time horizon. General economic developments more adverse than the FHLB s projections or other factors outside of the FHLB s control, however, could cause the FHLB to require additional time beyond the five year horizon to meet its retained earnings target.

The ability of the FHLB to pay dividends is subject to statutory and regulatory requirements. The FHLB has adopted a dividend payout restriction under which the FHLB may pay up to 50 percent of a prior quarter s net income while the FHLB s retained earnings are less than its targeted retained earnings level. However, the FHLB s board of directors has announced that it does not expect to declare any dividends until it demonstrates a consistent pattern of positive net income, which will likely preclude a declaration of dividends for at least the first two quarters of 2010 as the FHLB continues to focus on building retained earnings. No dividends were paid in the first quarter of 2010 or in the year 2009.

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The FHLB s retained earnings target could be superseded by regulatory mandates, either in the form of an order specific to the FHLB or by promulgation of new regulations requiring a level of retained earnings that is different from the FHLB s currently targeted level. Moreover, management and the board of directors at the FHLB may, at any time, change the FHLB s methodology or assumptions for modeling the FHLB s retained earnings target. Either of these could result in the FHLB further increasing its retained earnings target or reducing or eliminating the dividend payout, as necessary.

At March 31, 2010, the FHLB met all of its regulatory capital requirements. In the future, if significant unrealized losses on the FHLB s private-label mortgage-backed securities are deemed to be other-than-temporary credit related losses, the associated impairment charges could put into question whether the fair value of the FHLB stock owned by the Company is less than its carrying value. The FHLB has stated that it expects and intends to hold its private-label mortgage-backed securities to maturity. The Company will continue to monitor its investment in FHLB stock.

(4) Loans (Dollars in thousands)

A summary of loans follows:

	March 31, 2010	December 31, 2009
Mortgage loans:		
One-to-four family	$ 329,831	$ 336,319
Multi-family	377,634	374,695
Commercial real estate	523,305	524,567
Construction and development	20,801	18,161
Home equity	52,663	51,054
Total mortgage loans	1,304,234	1,304,796
Indirect automobile loans	542,929	541,003
Commercial loans - Eastern	171,972	165,671
Other commercial loans	132,092	131,126
Other consumer loans	7,186	6,245
Net loans	2,158,413	2,148,841
Deferred loan origination costs	15,576	15,454
Total loans	$ 2,173,989	$ 2,164,295

(5) <u>Allowance for Loan Losses (Dollars in thousands)</u>

An analysis of the allowance for loan losses for the periods indicated follows:

	Three month ended March 31, 2010	2009
Balance at beginning of period	$ 31,083	$ 28,296
Provision for loan losses	1,267	2,801
Charge-offs	(1,853)	(2,367)
Recoveries	353	213
Balance at end of period	$ 30,850	$ 28,943

During the three months ended March 31, 2010 and 2009, the liability for unfunded credit commitments was not changed. The liability, which is included in other liabilities, was $1,083 at March 31, 2010 and December 31, 2009.

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(6) Deposits (Dollars in thousands)

A summary of deposits follows:

	March 31, 2010	December 31, 2009
Demand checking accounts	$ 89,024	$ 85,044
NOW accounts	103,037	100,946
Savings accounts	89,371	82,588
Guaranteed savings accounts	9,827	12,295
Money market savings accounts	574,936	519,601
Certificate of deposit accounts	788,572	833,213
Total deposits	$ 1,654,767	$ 1,633,687

(7) Accumulated Other Comprehensive Income (Dollars in thousands)

Accumulated other comprehensive income at March 31, 2010 was comprised of (a) unrealized gains of $2,728 (net of income taxes) on securities available for sale after recognition of an unrealized loss of $32 (net of income taxes) related to a corporate obligation included in available for sale securities for which an other-than-temporary impairment loss was recognized in earnings and (b) an unrealized gain of $211 (net of income taxes) related to postretirement benefits. Accumulated other comprehensive income at December 31, 2009 was comprised of an unrealized gain of $1,987 (net of income taxes) on securities available for sale and an unrealized gain of $214 (net of income taxes) related to postretirement benefits. Reclassification amounts are determined using the average cost method. At March 31, 2010 and December 31, 2009, the resulting net income tax liability amounted to $1,713 and $1,277, respectively.

(8) Commitments and Contingencies (Dollars in thousands)

Loan Commitments

At March 31, 2010, the Company had outstanding commitments to originate loans of $78,355, $5,146 of which were one-to-four family mortgage loans, $32,739 were commercial real estate mortgage loans, $8,935 were multi-family mortgage loans and $31,535 were commercial loans. Unused lines of credit available to customers were $60,787, of which $54,989 were equity lines of credit.

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.

(9) **Dividend Declaration**

On April 19, 2010, the Board of Directors of the Company approved and declared a regular quarterly cash dividend of $0.085 per share payable on May 17, 2010 to stockholders of record on April 30, 2010.

(10) **Share-Based Payment Arrangements** **(Dollars in thousands, except per share amounts)**

Recognition and Retention Plan

The Company has a recognition and retention plan, the 2003 RRP. Under the plan, shares of the Company s common stock were reserved for issuance as restricted stock awards to officers, employees and non-employee directors of the Company. Shares issued upon vesting may be either authorized but unissued shares or reacquired shares held by the Company as treasury shares. Any shares not issued because vesting requirements are not met will again be available for issuance under the plan. On March 16, 2009, 8,889 shares were awarded which vested on March 16, 2010 and, on March 16, 2010, 7,470 shares were awarded which will vest on March 16, 2011.

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Total expense for shares awarded under the 2003 RRP amounted to $20 and $35 for the three months ended March 31, 2010 and 2009, respectively. The compensation cost of non-vested RRP shares at March 31, 2010 is expected to be charged to expense as follows: $60 during the nine months ended December 31, 2010 and $17 in 2011. As of March 31, 2010, 121,361 shares were available for award under the 2003 RRP.

Stock Option Plan

The Company has a stock option plan, the 2003 Option Plan. Under the plan, shares of the Company s common stock were reserved for issuance to directors, employees and non-employee directors of the Company. Shares issued upon the exercise of a stock option may be either authorized but unissued shares or reacquired shares held by the Company as treasury shares. Any shares subject to an award which expire or are terminated unexercised will again be available for issuance under the plan.

The exercise price of options awarded is the fair market value of the common stock of the Company on the date the award is made. Certain of the options include a reload feature whereby an optionee exercising an option by delivery of shares of common stock would automatically be granted an additional option at the fair market value of stock when such additional option is granted equal to the number of shares so delivered. If an individual to whom a stock option was granted ceases to maintain continuous service by reason of normal retirement, death or disability, or following a change in control, all options and rights granted and not fully exercisable become exercisable in full upon the happening of such an event and shall remain exercisable for a period ranging from three months to five years. As of March 31, 2010, 1,006,155 options were available for award under the Company s 2003 Stock Option Plan.

Total expense for the stock option plan amounted to $117 and $93 for the three months ended March 31, 2010 and 2009, respectively.

Activity under the Company s stock option plan for the three months ended March 31, 2010 was as follows:

Options outstanding at January 1, 2010		1,396,512
Options awarded at:		
$ 10.71 per option	52,333	
$ 10.78 per option	45,000	
Total options awarded		97,333
Options outstanding at March 31, 2010		1,493,845

Exercisable as of March 31, 2010 at:		
$ 9.00 per option		72,512
$ 10.71 per option		26,167
$ 11.84 per option		25,000
$ 12.91 per option		3,000
$ 15.02 per option		1,269,000
		1,395,679
Aggregate intrinsic value of options outstanding and exercisable	$	119
Weighted average exercise price per option	$	14.56
Weighted average fair value per option of options granted during the period	$	2.22
Weighted average remaining contractual life in years at end of period		4.2

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Employee Stock Ownership Plan

The Company maintains an ESOP to provide eligible employees the opportunity to own Company stock. Employees are eligible to participate in the Plan after reaching age twenty-one, completion of one year of service and working at least one thousand hours of consecutive service during the year. Contributions are allocated to eligible participants on the basis of compensation, subject to federal tax law limits.

A loan obtained by the ESOP from the Company to purchase Company common stock is payable in quarterly installments over 30 years and bears interest at 8.50% per annum. The loan can be prepaid without penalty. Loan payments are principally funded by cash contributions from the Bank, subject to federal tax law limits. The outstanding balance of the loan at March 31, 2010 and December 31, 2009, which was $3,189 and $3,252, respectively, is eliminated in consolidation.

Shares used as collateral to secure the loan are released and available for allocation to eligible employees as the principal and interest on the loan is paid. Employees vest in their ESOP account at a rate of 20% annually commencing in the year of completion of three years of credited service or immediately if service is terminated due to death, retirement, disability or change in control. Dividends on released shares are credited to the participants ESOP accounts. Dividends on unallocated shares are generally applied towards payment of the loan. ESOP shares committed to be released are considered outstanding in determining earnings per share.

At March 31, 2010, the ESOP held 460,559 unallocated shares at an aggregate cost of $2,511; the market value of such shares at that date was $4,900. For the three months ended March 31, 2010 and 2009, $122 and $115, respectively, was charged to compensation expense based on the commitment to release to eligible employees 12,045 shares and 12,540 shares in those respective periods.

(11) **Postretirement Benefits (Dollars in thousands)**

Postretirement benefits are provided for part of the annual expense of health insurance premiums for retired employees and their dependents. No contributions are made by the Company to invest in assets allocated for the purpose of funding this benefit obligation.

The following table provides the components of net periodic postretirement benefit costs for the three months ended March 31, 2010 and 2009:

	2010	2009
Service cost	$ 16	$ 15
Interest cost	14	13
Prior service cost	(6)	(6)
Actuarial gain	(3)	(3)
Net periodic benefit costs	$ 21	$ 19

Benefits paid amounted to $4 and $2 for the three months ended March 31, 2010 and 2009, respectively.

(12) **Stockholders Equity (Dollars in thousands)**

Capital Distributions and Restrictions Thereon

OTS regulations impose limitations on all capital distributions by savings institutions. Capital distributions include cash dividends, payments to repurchase or otherwise acquire the institution s shares, payments to shareholders of another institution in a cash-out merger and other distributions charged against capital. The regulations establish three tiers of institutions. An institution, such as the Bank, that exceeds all capital requirements before and after a proposed capital distribution (Tier 1 institution) may, after prior notice but without the approval of the OTS, make capital distributions during a year up to 100% of its current year net income plus its retained net income for the preceding two years not previously distributed. Any additional capital distributions require OTS approval.

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Common Stock Repurchases

No shares of the Company s common stock were repurchased during the three months ended March 31, 2010. As of March 31, 2010, the Company was authorized to repurchase up to 4,804,410 shares of its common stock. The Board of Directors has delegated to the discretion of the Company s senior management the authority to determine the timing of the repurchases and the prices at which the repurchases will be made.

Restricted Retained Earnings

As part of the stock offering in 2002 and as required by regulation, Brookline Bank established a liquidation account for the benefit of eligible account holders and supplemental eligible account holders who maintain their deposit accounts at Brookline Bank after the stock offering. In the unlikely event of a complete liquidation of Brookline Bank (and only in that event), eligible depositors who continue to maintain deposit accounts at Brookline Bank would be entitled to receive a distribution from the liquidation account. Accordingly, retained earnings of the Company are deemed to be restricted up to the balance of the liquidation account. The liquidation account balance is reduced annually to the extent that eligible depositors have reduced their qualifying deposits as of each anniversary date. Subsequent increases in deposit account balances do not restore an account holder s interest in the liquidation account. The liquidation account totaled $28,402 at December 31, 2009.

(13) Fair Value Disclosures (Dollars in thousands)

The following is a summary of the carrying values and estimated fair values of the Company s significant financial and non-financial instruments as of the dates indicated:

	March 31, 2010		December 31, 2009	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial assets:				
Cash and due from banks	$ 17,782	$ 17,782	$ 17,635	$ 17,635
Short-term investments	53,023	53,023	48,886	48,886
Securities	338,377	338,389	329,470	329,479
Loans, net	2,143,139	2,158,597	2,133,212	2,144,754
Accrued interest receivable	8,785	8,785	9,062	9,062
Financial liabilities:				

Demand, NOW, savings and money market savings deposits	866,195	866,195	800,474	800,474
Certificates of deposit	788,572	791,083	833,213	836,752
Borrowed funds	465,509	466,737	468,766	469,756

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(Unaudited)

The following table presents the balances of certain assets reported at fair value as of March 31, 2010:

	Carrying Value							
		Level 1		**Level 2**		**Level 3**		**Total**
Assets measured at fair value on a recurring basis:								
Securities available for sale:								
U.S. Government-sponsored enterprises	$		$	107,775	$		$	107,775
Municipal obligations				798				798
Auction rate municipal obligations						3,130		3,130
Corporate obligations				43,295		1,299		44,594
Collateralized mortgage obligations issued by U.S.Government-sponsored enterprises				13,245				13,245
Mortgage-backed securities issued by U.S.Government-sponsored enterprises				130,580				130,580
Marketable equity securities		1,809						1,809
Securities available for sale	$	1,809	$	295,693	$	4,429	$	301,931
Assets measured at fair value on a non-recurring basis:								
Collateral dependent impaired loans	$		$	1,700	$		$	1,700
Repossessed vehicles				929				929
Repossessed equipment				400				400

The following table presents the balances of certain assets reported at fair value as of December 31, 2009:

	Carrying Value							
		Level 1		**Level 2**		**Level 3**		**Total**
Assets measured at fair value on a recurring basis:								
Securities available for sale:								
U.S. Government-sponsored enterprises	$		$	100,683	$		$	100,683
Municipal obligations				788				788
Auction rate municipal obligations						3,130		3,130
Corporate obligations				35,506		1,308		36,814
Collateralized mortgage obligations issued by U.S.Government-sponsored enterprises				22,518				22,518
Mortgage-backed securities issued by U.S.Government-sponsored enterprises				127,481				127,481
Marketable equity securities		1,609						1,609

Securities available for sale	$	1,609	$	286,976	$	4,438	$	293,023
Assets measured at fair value on a non-recurring basis:								
Collateral dependent impaired loans	$		$	1,550	$		$	1,550
Repossessed vehicles				1,024				1,024
Repossessed equipment				406				406

The securities comprising the balance in the level 3 column at March 31, 2010 included $3,700 of auction rate municipal obligations, $1,109 of pools of trust preferred obligations and a $500 trust preferred obligation issued by a financial institution, all of which lacked quoted prices in active markets. Based on an evaluation of market factors, the fair value of the auction rate municipal obligations was estimated to be $3,130 and, based on cash flow analyses, the fair value of the pools of trust preferred obligations was estimated to be $799. In the judgment of management, the fair value of the other trust preferred obligation was considered to approximate its carrying value because it was deemed to be fully collectible and the rate paid on the security was higher than rates paid on securities with similar maturities.

During the three months ended March 31, 2010, the fair value of securities available for sale using significant unobservable inputs (level 3) declined by $9 as a result of a $4 pay down of a trust preferred obligation and a $5 net reduction in the estimated fair value of the pools of trust preferred obligations, after inclusion of $49 which was recognized as a credit loss charged to earnings.

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Collateral dependent loans that are deemed to be impaired are valued based upon the fair value of the underlying collateral. The inputs used in the appraisals of the collateral are observable and, therefore, the loans are categorized as level 2.

The following is a further description of the principal valuation methods used by the Company to estimate the fair values of its financial instruments.

Securities

The fair value of securities, other than those categorized as level 3 described above, is based principally on market prices and dealer quotes. Certain fair values are estimated using pricing models or are based on comparisons to market prices of similar securities. The fair value of stock in the FHLB equals its carrying amount since such stock is only redeemable at its par value (See note 3).

Loans

The fair value of performing loans is estimated by discounting the contractual cash flows using interest rates currently being offered for loans with similar terms to borrowers of similar quality. For non-performing loans where the credit quality of the borrower has deteriorated significantly, fair values are estimated by discounting cash flows at a rate commensurate with the risk associated with those cash flows.

Deposit Liabilities

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 retail and brokered 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 deposit liabilities compared to the cost of alternative forms of funding (deposit based intangibles).

Borrowed Funds

The fair value of borrowings from the FHLB represents contractual repayments discounted using interest rates currently available for borrowings with similar characteristics and remaining maturities.

Other Financial Assets and Liabilities

Cash and due from banks, short-term investments and accrued interest receivable have fair values which approximate the respective carrying values because the instruments are payable on demand or have short-term maturities and present relatively low credit risk and interest rate risk.

Off-Balance Sheet Financial Instruments

In the course of originating loans and extending credit, the Company will charge fees in exchange for its commitment. While these commitment fees have value, the Company has not estimated their value due to the short-term nature of the underlying commitments and their immateriality.

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company s various financial Instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The accounting guidelines exclude certain financial instruments and all non-financial instruments from its disclosure requirements.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company.

The following discussion contains forward-looking statements based on management s current expectations regarding economic, legislative and regulatory issues that may impact the Company s earnings and financial condition in the future. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Any statements included herein preceded by, followed by or which include the words may , could , should , will , would , believe , expect , anticipate , estimate , intend , plan , assume or s constitute forward-looking statements.

Forward-looking statements, implicitly and explicitly, include assumptions underlying the statements. While the Company believes the expectations reflected in its forward-looking statements are reasonable, the statements involve risks and uncertainties that are subject to change based on various factors, some of which are outside the control of the Company. The following factors, among others, could cause the Company s actual performance to differ materially from the expectations, forecasts and projections expressed in the forward-looking statements: general and local economic conditions, changes in interest rates, demand for loans, real estate values, deposit flows, regulatory considerations, competition, technological developments, retention and recruitment of qualified personnel, and market acceptance of the Company s pricing, products and services.

Executive Level Overview

The following is a summary of operating and financial condition highlights as of and for the three months ended March 31, 2010 and 2009.

Operating Highlights

	Three months ended March 31, 2010	Three months ended March 31, 2009
	(In thousands except per share amounts)	
Net interest income	$ 23,145	$ 19,106
Provision for credit losses	1,267	2,801
Net impairment losses on securities	(49)	(726)
Non-interest income	825	1,018
Non-interest expense	11,700	10,720

Income before income taxes		10,954		5,877
Provision for income taxes		4,439		2,361
Net income attributable to noncontrolling interest in subsidiary		162		72
Net income attributable to Brookline Bancorp, Inc.		6,353		3,444
Basic earnings per common share	$	0.11	$	0.06
Diluted earnings per common share		0.11		0.06
Interest rate spread		3.24%		2.38%
Net interest margin		3.65%		3.00%

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Financial Condition Highlights

		At March 31, 2010		At December 31, 2009	At March 31, 2009
				(In thousands)	
Total assets	$	2,639,062	$	2,615,884	