

BROOKLINE BANCORP INC
Form 10-Q
August 07, 2015
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

Commission file number 0-23695

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

Delaware
(State or other jurisdiction of incorporation or
organization)

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

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

02116
(Zip Code)

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

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

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

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

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

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

At August 7, 2015, the number of shares of common stock, par value \$0.01 per share, outstanding was 70,121,016.

Table of ContentsBROOKLINE BANCORP, INC. AND SUBSIDIARIES
FORM 10-Q

Index

	Page
<u>Part I</u> <u>Financial Information</u>	
<u>Item 1.</u> <u>Unaudited Consolidated Financial Statements</u>	
<u>Unaudited Consolidated Balance Sheets at June 30, 2015 and December 31, 2014</u>	<u>1</u>
<u>Unaudited Consolidated Statements of Income for the Three Months and Six Months Ended June 30, 2015 and 2014</u>	<u>2</u>
<u>Unaudited Consolidated Statements of Comprehensive Income for the Three Months and Six Months Ended June 30, 2015 and 2014</u>	<u>3</u>
<u>Unaudited Consolidated Statements of Changes in Equity for the Six Months Ended June 30, 2015 and 2014</u>	<u>4</u>
<u>Unaudited Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2015 and 2014</u>	<u>6</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2.</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>53</u>
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>88</u>
<u>Item 4.</u> <u>Controls and Procedures</u>	<u>90</u>
<u>Part II</u> <u>Other Information</u>	
<u>Item 1.</u> <u>Legal Proceedings</u>	<u>91</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>91</u>
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>91</u>
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	<u>91</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>91</u>
<u>Item 5.</u> <u>Other Information</u>	<u>91</u>
<u>Item 6.</u> <u>Exhibits</u>	<u>92</u>
<u>Signatures</u>	<u>93</u>

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Financial Statements

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Unaudited Consolidated Balance Sheets

	At June 30, 2015	At December 31, 2014
(In Thousands Except Share Data)		
ASSETS		
Cash and due from banks	\$43,363	\$36,893
Short-term investments	48,513	25,830
Total cash and cash equivalents	91,876	62,723
Investment securities available-for-sale	530,476	550,761
Investment securities held-to-maturity (fair value of \$59,993 and \$500)	60,511	500
Total investment securities	590,987	551,261
Loans and leases held-for-sale	12,482	1,537
Loans and leases:		
Commercial real estate loans	2,513,358	2,467,801
Commercial loans and leases	1,282,180	1,167,094
Indirect automobile loans	19,377	316,987
Consumer loans	914,666	870,725
Total loans and leases	4,729,581	4,822,607
Allowance for loan and lease losses	(56,398)	(53,659)
Net loans and leases	4,673,183	4,768,948
Restricted equity securities	75,553	74,804
Premises and equipment, net of accumulated depreciation of \$48,216 and \$44,668, respectively	77,892	80,619
Deferred tax asset	28,466	27,687
Goodwill	137,890	137,890
Identified intangible assets, net of accumulated amortization of \$27,700 and \$26,238, respectively	12,082	13,544
Other real estate owned ("OREO") and repossessed assets, net	2,412	1,456
Other assets*	80,111	80,479
Total assets*	\$5,782,934	\$5,800,948
LIABILITIES AND EQUITY		
Deposits:		
Non-interest-bearing deposits:		
Demand checking accounts	\$783,331	\$726,118
Interest-bearing deposits:		
NOW accounts	247,172	235,063
Savings accounts	532,184	531,727
Money market accounts	1,523,798	1,518,490
Certificate of deposit accounts	1,042,923	946,708
Total interest-bearing deposits	3,346,077	3,231,988
Total deposits	4,129,408	3,958,106
Borrowed funds:		
Advances from the Federal Home Loan Bank of Boston ("FHLBB")	823,452	1,004,026
Subordinated debentures and notes	82,850	82,763
Other borrowed funds	31,346	39,615
Total borrowed funds	937,648	1,126,404

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Mortgagors' escrow accounts	7,494	8,501
Accrued expenses and other liabilities	49,792	61,332
Total liabilities	5,124,342	5,154,343

Commitments and contingencies (Note 14)

Stockholders' Equity:

Brookline Bancorp, Inc. stockholders' equity:

Common stock, \$0.01 par value; 200,000,000 shares authorized; 75,744,445 shares issued	757	757
Additional paid-in capital	618,044	617,475
Retained earnings, partially restricted*	96,128	84,860
Accumulated other comprehensive loss	(1,775	) (1,622
Treasury stock, at cost; 5,048,525 shares and 5,040,571 shares, respectively	(58,372	) (58,282
Unallocated common stock held by the Employee Stock Ownership Plan ("ESOP"); 232,224 shares and 251,382 shares, respectively	(1,266	) (1,370
Total Brookline Bancorp, Inc. stockholders' equity*	653,516	641,818
Noncontrolling interest in subsidiary	5,076	4,787
Total stockholders' equity*	658,592	646,605
Total liabilities and stockholders' equity*	\$5,782,934	\$5,800,948

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

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In Thousands Except Share Data)			
Interest and dividend income:				
Loans and leases	\$51,684	\$50,433	\$105,065	\$102,375
Debt securities	2,931	2,360	5,614	4,619
Marketable and restricted equity securities	491	539	1,015	988
Short-term investments	60	14	81	58
Total interest and dividend income	55,166	53,346	111,775	108,040
Interest expense:				
Deposits	4,296	4,201	8,600	8,492
Borrowed funds	3,698	2,711	7,475	5,380
Total interest expense	7,994	6,912	16,075	13,872
Net interest income	47,172	46,434	95,700	94,168
Provision for credit losses	1,913	2,276	4,176	4,719
Net interest income after provision for credit losses	45,259	44,158	91,524	89,449
Non-interest income:				
Deposit fees	2,195	2,204	4,261	4,163
Loan fees	271	126	613	560
Loan level derivative income	941	62	941	62
Loss on sales of securities, net	—	(13	) —	(13
Gain on sales of loans and leases held-for-sale	279	54	1,148	656
(Loss)/gain on sale/disposals of premises and equipment, net	—	(6	) —	1,504
Other	1,181	1,395	2,374	2,518
Total non-interest income*	4,867	3,822	9,337	9,450
Non-interest expense:				
Compensation and employee benefits	17,085	17,295	34,609	35,327
Occupancy	3,437	3,154	6,909	7,559
Equipment and data processing	3,680	4,348	7,700	8,725
Professional services	1,163	1,480	2,257	3,207
FDIC insurance	831	847	1,698	1,707
Advertising and marketing	823	776	1,571	1,441
Amortization of identified intangible assets	724	827	1,462	1,688
Other	2,709	2,488	5,572	5,137
Total non-interest expense	30,452	31,215	61,778	64,791
Income before provision for income taxes*	19,674	16,765	39,083	34,108
Provision for income taxes*	7,115	6,158	14,219	12,537
Net income before noncontrolling interest in subsidiary*	12,559	10,607	24,864	21,571

Edgar Filing: BROOKLINE BANCORP INC - Form 10-Q

Less net income attributable to noncontrolling interest in subsidiary	694	476	1,296	898
Net income attributable to Brookline Bancorp, Inc.*	\$11,865	\$10,131	\$23,568	\$20,673
Earnings per common share:				
Basic*	\$0.17	\$0.15	\$0.34	\$0.30
Diluted*	0.17	0.14	0.34	0.29
Weighted average common shares outstanding during the period:				
Basic	70,049,829	69,886,576	70,042,997	69,881,055
Diluted	70,215,850	70,012,377	70,190,015	69,998,219
Dividends declared per common share	\$0.090	\$0.085	\$0.175	\$0.170

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

See accompanying notes to the unaudited consolidated financial statements.

Table of ContentsBROOKLINE BANCORP, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Comprehensive Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In Thousands)			
Net income before noncontrolling interest in subsidiary*	\$ 12,559	\$ 10,607	\$ 24,864	\$ 21,571
Other comprehensive income, net of taxes:				
Investment securities available-for-sale:				
Unrealized securities holding (losses) gains	(5,484	) 4,350	(113	) 7,643
Income tax benefit (expense)	1,962	(1,631	) (40	) (2,893
Net unrealized securities holding (losses) gains	(3,522	) 2,719	(153	) 4,750
Less reclassification adjustments for securities losses included in net income:				
Loss on sales of securities, net	—	(13	) —	(13
Income tax benefit	—	5	—	5
Net reclassification adjustments for securities losses included in net income	—	(8	) —	(8
Net securities holding (losses) gains	(3,522	) 2,727	(153	) 4,758
Postretirement benefits:				
Adjustment of accumulated obligation for postretirement benefits	—	—	—	(85
Income tax benefit	—	—	—	33
Net adjustment of accumulated obligation for postretirement benefits	—	—	—	(52
Other comprehensive (loss) income, net of taxes	(3,522	) 2,727	(153	) 4,706
Comprehensive income*	9,037	13,334	24,711	26,277
Net income attributable to noncontrolling interest in subsidiary	694	476	1,296	898
Comprehensive income attributable to Brookline Bancorp, Inc.*	\$ 8,343	\$ 12,858	\$ 23,415	\$ 25,379

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

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES
 Unaudited Consolidated Statements of Changes in Equity
 Six Months Ended June 30, 2015 and 2014

	Common Stock	Additional Paid-in Capital	Retained Earnings*	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Unallocated Common Stock Held by ESOP	Total Brookline Bancorp, Inc. Stockholders Equity*	Noncontrolling Interest in Subsidiary	Total Equity*
(In Thousands Except Share Data)									
Balance at December 31, 2014	\$757	\$617,475	\$84,860	\$(1,622)	\$(58,282)	\$(1,370)	\$641,818	\$4,787	\$646,605
Net income attributable to Brookline Bancorp, Inc.	—	—	23,568	—	—	—	23,568	—	23,568
Net income attributable to noncontrolling interest in subsidiary	—	—	—	—	—	—	—	1,296	1,296
Issuance of noncontrolling units	—	—	—	—	—	—	—	65	65
Other comprehensive income	—	—	—	(153)	—	—	(153)	—	(153)
Common stock dividends of \$0.175 per share	—	—	(12,300)	—	—	—	(12,300)	—	(12,300)
Dividend to owners of noncontrolling interest in subsidiary	—	—	—	—	—	—	—	(1,072)	(1,072)
Compensation under recognition and retention plans	—	476	—	—	(90)	—	386	—	386
Common stock held by ESOP committed to be released (19,158 shares)	—	93	—	—	—	104	197	—	197

Balance at June 30, 2015 \$757 \$618,044 \$96,128 \$(1,775) \$(58,372) \$(1,266) \$ 653,516 \$ 5,076 \$658,592

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

Table of Contents

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Changes in Equity (Continued)

Six Months Ended June 30, 2015 and 2014

	Common Stock	Additional Paid-in Capital	Retained Earnings*	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Unallocated Common Stock Held by ESOP	Total Brookline Bancorp, Inc. Stockholders' Equity*	Noncontrolling Interest in Subsidiary	Total Equity*
(In Thousands Except Share Data)									
Balance at December 31, 2013	\$757	\$617,538	\$65,448	\$ (7,915)	\$(59,826)	\$ (1,590)	\$ 614,412	\$ 4,304	\$618,716
Net income attributable to Brookline Bancorp, Inc.	—	—	20,673	—	—	—	20,673	—	20,673
Net income attributable to noncontrolling interest in subsidiary	—	—	—	—	—	—	—	898	898
Issuance of noncontrolling units	—	—	—	—	—	—	—	60	60