BROOKLINE BANCORP INC
Form 10-Q
August 04, 2017

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, 2017

Commission file number 0-23695

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

| | |
|---|---|
| Delaware | 04-3402944 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 131 Clarendon Street, Boston, MA | 02116 |
| (Address of principal executive offices) | (Zip Code) |

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12-b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | o |
| Non-accelerated filer | o (Do not check if a smaller reporting company) | Smaller Reporting Company | o |
| | | Emerging growth company | o |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

At August 4, 2017, the number of shares of common stock, par value $0.01 per share, outstanding was 76,607,315.

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PART I — FINANCIAL INFORMATION
Item 1. Unaudited Consolidated Financial Statements
BROOKLINE BANCORP, INC. AND SUBSIDIARIES
Unaudited Consolidated Balance Sheets

| | At June 30, 2017 | At December 31, 2016 |
|---|---|---|
| | (In Thousands Except Share Data) | |
| ASSETS | | |
| Cash and due from banks | $40,599 | $ 36,055 |
| Short-term investments | 72,996 | 31,602 |
| Total cash and cash equivalents | 113,595 | 67,657 |
| Investment securities available-for-sale | 540,976 | 523,634 |
| Investment securities held-to-maturity (fair value of $108,470 and $85,271, respectively) | 108,963 | 87,120 |
| Total investment securities | 649,939 | 610,754 |
| Loans held-for-sale | 593 | 13,078 |
| Loans and leases: | | |
| Commercial real estate loans | 2,936,187 | 2,918,567 |
| Commercial loans and leases | 1,589,132 | 1,495,408 |
| Consumer loans | 1,012,087 | 984,889 |
| Total loans and leases | 5,537,406 | 5,398,864 |
| Allowance for loan and lease losses | (64,521 ) | (53,666 ) |
| Net loans and leases | 5,472,885 | 5,345,198 |
| Restricted equity securities | 66,988 | 64,511 |
| Premises and equipment, net of accumulated depreciation of $61,831 and $58,790, respectively | 81,052 | 76,176 |
| Deferred tax asset | 26,982 | 25,247 |
| Goodwill | 137,890 | 137,890 |
| Identified intangible assets, net of accumulated amortization of $32,700 and $31,649, respectively | 7,082 | 8,133 |
| Other real estate owned ("OREO") and repossessed assets, net | 4,873 | 1,399 |
| Other assets | 96,188 | 88,086 |
| Total assets | $6,658,067 | $ 6,438,129 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits: | | |
| Non-interest-bearing deposits: | | |
| Demand checking accounts | $920,035 | $ 900,474 |
| Interest-bearing deposits: | | |
| NOW accounts | 321,982 | 323,160 |
| Savings accounts | 584,408 | 613,061 |
| Money market accounts | 1,763,443 | 1,733,359 |
| Certificate of deposit accounts | 1,119,551 | 1,041,022 |
| Total interest-bearing deposits | 3,789,384 | 3,710,602 |
| Total deposits | 4,709,419 | 4,611,076 |
| Borrowed funds: | | |
| Advances from the Federal Home Loan Bank of Boston ("FHLBB") | 930,028 | 910,774 |
| Subordinated debentures and notes | 83,188 | 83,105 |
| Other borrowed funds | 53,427 | 50,207 |

| | | |
|---|---|---|
| Total borrowed funds | 1,066,643 | 1,044,086 |
| Mortgagors' escrow accounts | 7,714 | 7,645 |
| Accrued expenses and other liabilities | 71,232 | 72,573 |
| Total liabilities | 5,855,008 | 5,735,380 |
| | | |
| Commitments and contingencies (Note 12) | | |
| Stockholders' Equity: | | |
| Brookline Bancorp, Inc. stockholders' equity: | | |
| Common stock, $0.01 par value; 200,000,000 shares authorized; 81,695,695 shares issued and 75,744,445 shares issued, respectively | 817 | 757 |
| Additional paid-in capital | 699,923 | 616,734 |
| Retained earnings, partially restricted | 151,759 | 136,671 |
| Accumulated other comprehensive loss | (2,175) | (3,818) |
| Treasury stock, at cost; 4,717,775 shares and 4,707,096 shares, respectively | (53,837) | (53,837) |
| Unallocated common stock held by Employee Stock Ownership Plan ("ESOP"); 159,510 shares and 176,688 shares, respectively | (869) | (963) |
| Total Brookline Bancorp, Inc. stockholders' equity | 795,618 | 695,544 |
| Noncontrolling interest in subsidiary | 7,441 | 7,205 |
| Total stockholders' equity | 803,059 | 702,749 |
| Total liabilities and stockholders' equity | $6,658,067 | $ 6,438,129 |

See accompanying notes to unaudited consolidated financial statements.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Income

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In Thousands Except Share Data) | | | |
| Interest and dividend income: | | | | |
| Loans and leases | $61,138 | $ 55,369 | $119,696 | $ 109,616 |
| Debt securities | 3,156 | 3,075 | 6,156 | 6,007 |
| Marketable and restricted equity securities | 797 | 729 | 1,523 | 1,409 |
| Short-term investments | 95 | 63 | 162 | 102 |
| Total interest and dividend income | 65,186 | 59,236 | 127,537 | 117,134 |
| Interest expense: | | | | |
| Deposits | 5,543 | 5,018 | 10,623 | 9,763 |
| Borrowed funds | 4,060 | 3,961 | 8,233 | 7,911 |
| Total interest expense | 9,603 | 8,979 | 18,856 | 17,674 |
| Net interest income | 55,583 | 50,257 | 108,681 | 99,460 |
| Provision for credit losses | 873 | 2,545 | 14,275 | 4,923 |
| Net interest income after provision for credit losses | 54,710 | 47,712 | 94,406 | 94,537 |
| Non-interest income: | | | | |
| Deposit fees | 2,552 | 2,216 | 4,961 | 4,361 |
| Loan fees | 229 | 287 | 490 | 593 |
| Loan level derivative income, net | 186 | 1,210 | 588 | 2,839 |
| Gain on sales of investment securities, net | — | — | 11,393 | — |
| Gain on sales of loans and leases held-for-sale | 307 | 345 | 660 | 1,250 |
| Other | 1,203 | 1,317 | 2,293 | 2,777 |
| Total non-interest income | 4,477 | 5,375 | 20,385 | 11,820 |
| Non-interest expense: | | | | |
| Compensation and employee benefits | 20,910 | 19,083 | 40,694 | 37,810 |
| Occupancy | 3,657 | 3,391 | 7,302 | 6,917 |
| Equipment and data processing | 4,164 | 3,898 | 8,227 | 7,588 |
| Professional services | 1,036 | 962 | 2,142 | 1,928 |
| FDIC insurance | 951 | 843 | 1,806 | 1,721 |
| Advertising and marketing | 857 | 853 | 1,674 | 1,714 |
| Amortization of identified intangible assets | 519 | 621 | 1,051 | 1,256 |
| Other | 2,701 | 2,599 | 5,655 | 5,345 |
| Total non-interest expense | 34,795 | 32,250 | 68,551 | 64,279 |
| Income before provision for income taxes | 24,392 | 20,837 | 46,240 | 42,078 |
| Provision for income taxes | 8,759 | 7,465 | 16,594 | 15,064 |
| Net income before noncontrolling interest in subsidiary | 15,633 | 13,372 | 29,646 | 27,014 |
| Less net income attributable to noncontrolling interest in subsidiary | 753 | 718 | 1,321 | 1,548 |
| Net income attributable to Brookline Bancorp, Inc. | $14,880 | $ 12,654 | $28,325 | $ 25,466 |
| Earnings per common share: | | | | |
| Basic | $0.20 | $ 0.18 | $0.39 | $ 0.36 |
| Diluted | 0.20 | 0.18 | 0.39 | 0.36 |
| Weighted average common shares outstanding during the year: | | | | |
| Basic | 74,325,017 | 70,196,950 | 72,366,769 | 70,191,935 |
| Diluted | 74,810,088 | 70,388,438 | 72,837,971 | 70,365,923 |
| Dividends declared per common share | $0.090 | $ 0.090 | $0.18 | $ 0.18 |

See accompanying notes to unaudited consolidated financial statements.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In Thousands) | | | |
| Net income before noncontrolling interest in subsidiary | $15,633 | $13,372 | $29,646 | $27,014 |
| Other comprehensive income, net of taxes: | | | | |
| Investment securities available-for-sale: | | | | |
| Unrealized securities holding gains | 1,693 | 4,084 | 2,563 | 13,160 |
| Income tax expense | (607) | (1,467) | (920) | (4,715) |
| Net unrealized securities holding gains before reclassification adjustments | 1,086 | 2,617 | 1,643 | 8,445 |
| Postretirement benefits: | | | | |
| Adjustment of accumulated obligation for postretirement benefits | — | — | — | — |
| Income tax expense | — | — | — | — |
| Net adjustment of accumulated obligation for postretirement benefits | — | — | — | — |
| Other comprehensive income, net of taxes | 1,086 | 2,617 | 1,643 | 8,445 |
| Comprehensive income | 16,719 | 15,989 | 31,289 | 35,459 |
| Net income attributable to noncontrolling interest in subsidiary | 753 | 718 | 1,321 | 1,548 |
| Comprehensive income attributable to Brookline Bancorp, Inc. | $15,966 | $15,271 | $29,968 | $33,911 |

See accompanying notes to unaudited consolidated financial statements.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Changes in Stockholders' Equity
Six Months Ended June 30, 2017 and 2016

| | 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 Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| | (In Thousands) | | | | | | | | |
| Balance at December 31, 2016 | $757 | $616,734 | $136,671 | $(3,818) | $(53,837) | $(963) | $695,544 | $7,205 | $702,749 |
| Net income attributable to Brookline Bancorp, Inc. | — | — | 28,325 | — | — | — | 28,325 | — | 28,325 |
| Net income attributable to noncontrolling interest in subsidiary | — | — | — | — | — | — | — | 1,321 | 1,321 |
| Issuance of common stock | 60 | 81,949 | — | — | — | — | 82,009 | — | 82,009 |
| Issuance of noncontrolling units | — | — | — | — | — | — | — | 118 | 118 |
| Other comprehensive income | — | — | | 1,643 | — | — | 1,643 | — | 1,643 |
| Common stock dividends of $0.18 per share | — | — | (13,237) | — | — | — | (13,237) | — | (13,237) |
| Dividend distribution to owners of noncontrolling interest in subsidiary | — | — | — | — | — | — | — | (1,203) | (1,203) |
| Compensation under recognition and retention plan | — | 1,091 | — | — | — | — | 1,091 | — | 1,091 |
| Common stock held by ESOP committed to be released (17,178 shares) | — | 149 | — | — | — | 94 | 243 | — | 243 |
| Balance at June 30, 2017 | $817 | $699,923 | $151,759 | $(2,175) | $(53,837) | $(869) | $795,618 | $7,441 | $803,059 |

See accompanying notes to unaudited consolidated financial statements.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Changes in Stockholders' Equity (Continued)
Six Months Ended June 30, 2017 and 2016

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (loss) | Treasury Stock | Unallocated Common Stock Held by ESOP | Total Brookline Bancorp, Inc. Stockholders' Equity | Noncontrolling Interest in Subsidiary | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| | (In Thousands) | | | | | | | | |
| Balance at December 31, 2015 | $757 | $616,899 | $109,675 | $(2,476) | $(56,208) | $(1,162) | $667,485 | $6,001 | $673,486 |
| Net income attributable to Brookline Bancorp, Inc. | — | — | 25,466 | — | — | — | 25,466 | — | 25,466 |
| Net income attributable to noncontrolling interest in subsidiary | — | — | — | — | — | — | — | 1,548 | 1,548 |
| Issuance of noncontrolling interest | — | — | — | — | — | — | — | 76 | 76 |
| Other comprehensive income | — | — | | 8,445 | — | — | 8,445 | — | 8,445 |
| Common stock dividends of $0.18 per share | — | — | (12,672) | — | — | — | (12,672) | — | (12,672) |
| Dividend distribution to owners of noncontrolling interest in subsidiary | — | — | — | — | — | — | — | (1,332) | (1,332) |
| Compensation under recognition and retention plans | — | 739 | — | — | (7) | — | 732 | — | 732 |
| Common stock held by ESOP committed to be released (18,186 shares) | — | 100 | — | — | — | 100 | 200 | — | 200 |
| Balance at June 30, 2016 | $757 | $617,738 | $122,469 | $5,969 | $(56,215) | $(1,062) | $689,656 | $6,293 | $695,949 |

See accompanying notes to unaudited consolidated financial statements.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Cash Flows

| | Six Months Ended June 30, | |
|---|---|---|
| | 2017 | 2016 |
| | (In Thousands) | |
| Cash flows from operating activities: | | |
| Net income attributable to Brookline Bancorp, Inc. | $28,325 | $ 25,466 |
| Adjustments to reconcile net income to net cash provided from operating activities: | | |
| Net income attributable to noncontrolling interest in subsidiary | 1,321 | 1,548 |
| Provision for credit losses | 14,275 | 4,923 |
| Origination of loans and leases held-for-sale | (12,860 ) | (19,803 ) |
| Proceeds from sales of loans and leases held-for-sale, net | 18,427 | 22,127 |
| Deferred income tax benefit | (2,655 ) | (199 ) |
| Depreciation of premises and equipment | 3,615 | 3,565 |
| Amortization of investment securities premiums and discounts, net | 746 | 1,222 |
| Amortization of deferred loan and lease origination costs, net | 3,265 | 2,929 |
| Amortization of identified intangible assets | 1,051 | 1,256 |
| Amortization of debt issuance costs | 50 | 51 |
| Accretion of acquisition fair value adjustments, net | (1,353 ) | (1,624 ) |
| Gain on sales of investment securities, net | (11,393 ) | — |
| Gain on sales of loans and leases held-for-sale | (660 ) | (1,250 ) |
| Gain on sales of OREO and other repossessed assets, net | 25 | (7 ) |
| Write-down of OREO and other repossessed assets | 193 | 50 |
| Compensation under recognition and retention plans | 1,147 | 776 |
| ESOP shares committed to be released | 243 | 200 |
| Net change in: | | |
| Cash surrender value of bank-owned life insurance | (517 ) | (532 ) |
| Other assets | (7,541 ) | (22,228 ) |
| Accrued expenses and other liabilities | (1,420 ) | 6,765 |
| Net cash provided from operating activities | 34,284 | 25,235 |
| | | |
| Cash flows from investing activities: | | |
| Proceeds from maturities, calls, and principal repayments of investment securities available-for-sale | 36,881 | 51,747 |
| Purchases of investment securities available-for-sale | (52,448 ) | (59,306 ) |
| Proceeds from maturities, calls, and principal repayments of investment securities held to maturity | 2,083 | 37,210 |
| Purchases of investment securities held-to-maturity | (23,884 ) | (13,312 ) |
| Proceeds from redemption/sales of restricted equity securities | 13,258 | 1,440 |
| Purchase of restricted equity securities | (4,342 ) | — |
| Proceeds from sales of loans and leases held-for-investment, net | 4,643 | 23,116 |
| Net increase in loans and leases | (146,895) | (283,904 ) |
| Purchase of premises and equipment, net | (8,617 ) | (1,622 ) |
| Proceeds from sales of OREO and other repossessed assets | 1,374 | 2,072 |
| Net cash used for investing activities | (177,947) | (242,559 ) |

(Continued)

See accompanying notes to unaudited consolidated financial statements.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Cash Flows (Continued)

| | Six Months Ended June 30, | |
|---|---|---|
| | 2017 | 2016 |
| | (In Thousands) | |
| Cash flows from financing activities: | | |
| Increase in demand checking, NOW, savings and money market accounts | 19,814 | 116,006 |
| Increase in certificates of deposit | 78,529 | 63,179 |
| Proceeds from FHLBB advances | 2,419,299 | 3,604,238 |
| Repayment of FHLBB advances | (2,399,017) | (3,560,127) |
| Increase in other borrowed funds, net | 3,220 | 2,506 |
| Increase (decrease) in mortgagors' escrow accounts, net | 69 | (97) |
| Proceeds from issuance of common stock | 82,009 | — |
| Payment of dividends on common stock | (13,237) | (12,672) |
| Proceeds from issuance of noncontrolling units | 118 | 76 |
| Payment of dividends to owners of noncontrolling interest in subsidiary | (1,203) | (1,332) |
| Net cash provided from financing activities | 189,601 | 211,777 |
| Net decrease in cash and cash equivalents | 45,938 | (5,547) |
| Cash and cash equivalents at beginning of period | 67,657 | 75,489 |
| Cash and cash equivalents at end of period | $ 113,595 | $ 69,942 |
| | | |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest on deposits, borrowed funds and subordinated debt | $ 20,049 | $ 18,999 |
| Income taxes | 21,878 | 17,342 |
| Non-cash investing activities: | | |
| Transfer from loans and leases to loan and leases held-for-sale | $ 7,500 | $ 10,000 |
| Transfer from loans to other real estate owned | 5,066 | 1,523 |

See accompanying notes to unaudited consolidated financial statements.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
At and for the Six Months Ended June 30, 2017 and 2016
(1) Basis of Presentation
Overview
Brookline Bancorp, Inc. (the "Company") is a bank holding company (within the meaning of the Bank Holding Company Act of 1956, as amended) and the parent of Brookline Bank, a Massachusetts-chartered savings bank; Bank Rhode Island ("BankRI"), a Rhode Island-chartered financial institution; and First Ipswich Bank ("First Ipswich"), a Massachusetts-chartered trust company (collectively referred to as the "Banks"). The Banks are all members of the Federal Reserve System. The Company is also the parent of Brookline Securities Corp. ("BSC"). The Company's primary business is to provide commercial, business and retail banking services to its corporate, municipal and retail customers through the Banks and its non-bank subsidiaries.
Brookline Bank, which includes its wholly-owned subsidiaries BBS Investment Corp., Longwood Securities Corp. and its 84.2%-owned subsidiary, Eastern Funding LLC ("Eastern Funding"), operates 25 full-service banking offices in the greater Boston metropolitan area. BankRI, which includes its wholly-owned subsidiaries, Acorn Insurance Agency, BRI Realty Corp., Macrolease Corporation ("Macrolease"), BRI Investment Corp. and its wholly-owned subsidiary, BRI MSC Corp., operates 20 full-service banking offices in the greater Providence, Rhode Island area. First Ipswich, which includes its wholly-owned subsidiaries, First Ipswich Insurance Agency and First Ipswich Securities II Corp., operates six full-service banking offices on the north shore of eastern Massachusetts.
The Company's activities include acceptance of commercial, municipal and retail deposits, origination of mortgage loans on commercial and residential real estate located principally in Massachusetts and Rhode Island, origination of commercial loans and leases to small- and mid-sized businesses, investment in debt and equity securities, and the offering of cash management and investment advisory services. The Company also provides specialty equipment financing through its subsidiaries Eastern Funding, which is based in New York City, New York, and Macrolease, which is based in Plainview, New York.
The Company and the Banks are supervised, examined and regulated by the Board of Governors of the Federal Reserve System ("FRB"). As Massachusetts-chartered savings bank and trust companies, Brookline Bank and First Ipswich, respectively, are also subject to regulation under the laws of the Commonwealth of Massachusetts and the jurisdiction of the Massachusetts Division of Banks. As a Rhode Island-chartered financial institution, BankRI is subject to regulation under the laws of the State of Rhode Island and the jurisdiction of the Banking Division of the Rhode Island Department of Business Regulation.
The Federal Deposit Insurance Corporation ("FDIC") offers insurance coverage on all deposits up to $250,000 per depositor at each of the Banks. As FDIC-insured depository institutions, the 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, 2016.

The unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances are eliminated in consolidation.

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements (Continued)
At and for the Six Months Ended June 30, 2017 and 2016

In preparing these consolidated financial statements, Management is required to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and disclosure of contingent assets and liabilities. Actual results could differ from those estimates based upon changing conditions, including economic conditions and future events. Material estimates that are particularly susceptible to significant change in the near-term include the determination of the allowance for loan and lease losses, the determination of fair market values of assets and liabilities, including acquired loans and leases, the review of goodwill and intangibles for impairment and the review of deferred tax assets for valuation allowances.

The judgments used by Management in applying these critical accounting policies may be affected by a further and prolonged deterioration in the economic environment, which may result in changes to future financial results. For example, subsequent evaluations of the loan and lease portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for loan and lease losses in future periods, and the inability to collect outstanding principal may result in increased loan and lease losses.

Reclassification

Certain previously reported amounts have been reclassified to conform to the current year's presentation.

(2) Recent Accounting Pronouncements

In July 2017, the Financial Accounting Standards Board (“FASB”) issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interest with a Scope Exception. For public entities, this ASU is effective for annual reporting periods beginning after December 15, 2018. Management is currently assessing the applicability of ASU 2017-11 and has not determined the impact of the adoption, if any, as of June 30, 2017.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting. FASB issued this Update to address the diversity in practice as well as the cost and complexity when applying the guidance in Topic 718, Compensation - Stock Compensation, to a change to the terms or conditions of a share-based payment award. For public entities, this ASU is effective for annual reporting periods beginning after December 15, 2017. Management is currently assessing the applicability of ASU 2017-09 and has not determined the impact of the adoption, if any, as of June 30, 2017.

In March 2017, the FASB issued Accounting Standards Update ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715). This ASU was issued primarily to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. This ASU is effective for annual reporting periods beginning after December 15, 2017. Management has determined that ASU 2017-07 does apply, but has not determined the impact, if any, as of June 30, 2017. Management will meet to discuss and will put together a project team to assess steps to adoption prior to implementation of the standard in 2018.

In February 2017, the FASB issued ASU 2017-05, Other Income Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20). This ASU was issued to clarify the scope of Subtopic 610-20, and to add guidance for partial sales of nonfinancial assets. For public entities, this ASU is effective for annual reporting periods beginning after December 15, 2017. Management believes that this ASU applies and is assessing the impact, if any, as of June 30, 2017. Management will form a project team to determine the impact and if the Company will early adopt the ASU.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350). This ASU was issued to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. For public entities, this ASU is effective for the fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted and application should be on a prospective basis. Management has evaluated this ASU and believes that ASU 2017-04 does apply. Management will form a project team to determine the impact and if the Company will early adopt the ASU.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). This ASU was issued to provide clarification and uniformity on the presentation and classification of certain cash receipts and cash payments in the statement of cash flows under Topic 230. This amendments presented in this ASU are effective for fiscal years beginning after December 15, 2017. As of June 30, 2017, management believes that ASU 2016-15 does apply, and after completing an internal analysis has determined the impact of adoption of this ASU in 2018 will be related to financial statement presentation.

In June 2016, the FASB issued ASU 2016-13, Financial instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The intent of this ASU is to replace the current GAAP method of calculating credit losses. Current GAAP uses a higher threshold at which likely losses can be calculated and recorded. The new process will require institutions to account for likely losses that originally would not have been part of the calculation. The calculation will incorporate future forecasting in addition to historical and current measures. For public entities that file with the SEC, this ASU is effective for the fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. This ASU must be applied prospectively to debt securities marked as other than temporarily impaired. A retrospective approach will be applied cumulatively to retained earnings. Early adoption is permitted as of the fiscal years beginning after December 15, 2018. Management has determined that ASU 2016-13 does apply, but has not determined the impact, if any, as of June 30, 2017. In preparation for the adoption in 2019 of this ASU, management formed a steering committee which has developed an approach for implementation which includes the selection of a third party software service provider.

In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The intention of this ASU is to provide additional clarification on specific issues brought forth by the FASB and the International Accounting Standards Board Joint Transition Resource Group for Revenue Recognition in relation to Topic 606 and revenue recognition. This ASU is to have the same effective date as ASU 2015-14 which deferred the effective date of ASU 2014-09 to December 15, 2017. Management has determined that ASU 2016-12 does apply, but has not determined the impact, if any, as of June 30, 2017. Management assembled a project team to address the changes pursuant to Topic 606. The project team has made an initial scope assessment and additional progress over the topic is expected to be made in the third quarter of 2017.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). This ASU was issued to clarify how to recognize revenue depending on an entities position, in relation to another entity involved, on contracts with customers. The entity can either be a principal party or an agent, and must record revenue accordingly. This ASU is not yet effective. Since this ASU affects ASU 2014-09, and that effective date was deferred, this ASU remains suspended too. Management believes that this ASU applies and is assessing the impact, if any, as of June 30, 2017. Management assembled a project team to address the changes pursuant to Topic 606. The project team has made an initial scope assessment and additional progress over the topic is expected to be made in the third quarter of 2017.

In February 2016, FASB issued ASU 2016-02, Leases. This ASU requires lessees to put most leases on their balance sheet but recognize expenses on their income statements in a manner similar to current accounting. This ASU also eliminates current real estate-specific provisions for all companies. For lessors, this ASU modifies the classification criteria and the accounting for sales-type and direct financing leases. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods therein. Early adoption is permitted. Management believes that this ASU applies and is assessing the impact, if any, as of June 30, 2017. Management has met to discuss the impact and will assemble a project team to assess steps required for adoption prior to implementation of the standard in 2019.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments. This ASU significantly revises an entity’s accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods therein. Management believes that this ASU applies and is assessing the impact, if any, as of June 30, 2017. Management has put together a steering committee which has made progress identifying the additional data requirements necessary to implement the ASU and has determined an approach for implementation which includes the selection of a third party software service provider.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. This ASU was issued to defer the effective date of ASU 2014-09 for all entities by one year. In effect, public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods (including interim reporting periods within those period) beginning after December 15, 2017. Management believes that this ASU applies and is assessing the impact, if any, as of June 30, 2017. Management assembled a project team to address the changes pursuant to Topic 606. The project team has made an initial scope assessment and additional progress over the topic is expected to be made in the third quarter of 2017.

(3) Investment Securities

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

| | At June 30, 2017 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| | (In Thousands) | | | |
| Investment securities available-for-sale: | | | | |
| GSE debentures | $139,928 | $ 496 | $ 641 | $139,783 |
| GSE CMOs | 145,673 | 42 | 2,976 | 142,739 |
| GSE MBSs | 193,391 | 601 | 1,669 | 192,323 |
| SBA commercial loan asset-backed securities | 81 | — | — | 81 |
| Corporate debt obligations | 58,651 | 371 | 145 | 58,877 |
| U.S. Treasury bonds | 4,815 | — | 11 | 4,804 |
| Trust preferred securities | 1,470 | — | 83 | 1,387 |
| Marketable equity securities | 971 | 16 | 5 | 982 |
| Total investment securities available-for-sale | $544,980 | $ 1,526 | $ 5,530 | $540,976 |
| Investment securities held-to-maturity: | | | | |
| GSE debentures | $38,620 | $ 15 | $ 547 | $38,088 |
| GSEs MBSs | 15,883 | — | 130 | 15,753 |
| Municipal obligations | 53,960 | 379 | 200 | 54,139 |
| Foreign government obligations | 500 | — | 10 | 490 |
| Total investment securities held-to-maturity | $108,963 | $ 394 | $ 887 | $108,470 |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| | (In Thousands) | | | |
| Investment securities available-for-sale: | | | | |
| GSE debentures | $98,122 | $ 188 | $ 1,290 | $97,020 |
| GSE CMOs | 161,483 | 37 | 3,480 | 158,040 |
| GSE MBSs | 214,946 | 794 | 2,825 | 212,915 |
| SBA commercial loan asset-backed securities | 107 | — | — | 107 |
| Corporate debt obligations | 48,308 | 360 | 183 | 48,485 |
| U.S. Treasury bonds | 4,801 | — | 64 | 4,737 |
| Trust preferred securities | 1,469 | — | 111 | 1,358 |
| Marketable equity securities | 966 | 15 | 9 | 972 |
| Total investment securities available-for-sale | $530,202 | $ 1,394 | $ 7,962 | $523,634 |
| Investment securities held-to-maturity: | | | | |
| GSE debentures | $14,735 | $ — | $ 634 | $14,101 |
| GSEs MBSs | 17,666 | — | 187 | 17,479 |
| Municipal obligations | 54,219 | 5 | 1,020 | 53,204 |
| Foreign government obligations | 500 | — | 13 | 487 |

| | | | | |
|---|---|---|---|---|
| Total investment securities held-to-maturity | $87,120 | $ 5 | $ 1,854 | $85,271 |

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As of June 30, 2017, the fair value of all investment securities available-for-sale was $541.0 million, with net unrealized losses of $4.0 million, compared to a fair value of $523.6 million and net unrealized losses of $6.6 million as of December 31, 2016. As of June 30, 2017, $381.8 million, or 70.6% of the portfolio, had gross unrealized losses of $5.5 million, compared to $389.0 million, or 74.3% of the portfolio, with gross unrealized losses of $8.0 million as of December 31, 2016.

As of June 30, 2017, the fair value of all investment securities held-to-maturity was $108.5 million, with net unrealized losses of $0.5 million, compared to a fair value of $85.3 million with net unrealized losses of $1.8 million as of December 31, 2016. As of June 30, 2017, $63.9 million, or 58.9% of the portfolio, had gross unrealized losses of $0.9 million. There were $82.0 million, or 96.1% of the portfolio, with net unrealized losses $1.9 million as of December 31, 2016.

Investment Securities as Collateral

As of June 30, 2017 and December 31, 2016, respectively, $458.6 million and $429.1 million of investment securities were pledged as collateral for repurchase agreements; municipal deposits; treasury, tax and loan deposits; swap agreements; FRB borrowings; and FHLBB borrowings. The Banks did not have any outstanding FRB borrowings as of June 30, 2017 and December 31, 2016.

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Other-Than-Temporary Impairment ("OTTI")
Investment securities as of June 30, 2017 and December 31, 2016 that have been in a continuous unrealized loss position for less than twelve months or twelve months or longer are as follows:

| | At June 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Less than Twelve Months | | Twelve Months or Longer | | Total | |
| | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| | (In Thousands) | | | | | |
| Investment securities available-for-sale: | | | | | | |
| GSE debentures | $75,801 | $ 641 | $— | $ — | $75,801 | $ 641 |
| GSE CMOs | 103,380 | 1,811 | 35,257 | 1,165 | 138,637 | 2,976 |
| GSE MBSs | 145,136 | 1,666 | 190 | 3 | 145,326 | 1,669 |
| SBA commercial loan asset-backed securities | 38 | — | 36 | — | 74 | — |
| Corporate debt obligations | 15,306 | 145 | — | — | 15,306 | 145 |
| U.S. Treasury bonds | 4,804 | 11 | — | — | 4,804 | 11 |
| Trust preferred securities | — | — | 1,387 | 83 | 1,387 | 83 |
| Marketable equity securities | 506 | 5 | — | — | 506 | 5 |
| Temporarily impaired investment securities available-for-sale | 344,971 | 4,279 | 36,870 | 1,251 | 381,841 | 5,530 |
| Investment securities held-to-maturity: | | | | | | |
| GSE debentures | 26,180 | 547 | — | — | 26,180 | 547 |
| GSEs MBSs | 15,555 | 130 | — | — | 15,555 | 130 |
| Municipal obligations | 21,695 | 200 | — | — | 21,695 | 200 |
| Foreign government obligations | 490 | 10 | — | — | 490 | 10 |
| Temporarily impaired investment securities held-to-maturity | 63,920 | 887 | — | — | 63,920 | 887 |
| Total temporarily impaired investment securities | $408,891 | $ 5,166 | $36,870 | $ 1,251 | $445,761 | $ 6,417 |

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| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Less than Twelve Months | | Twelve Months or Longer | | Total | |
| | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| | (In Thousands) | | | | | |
| Investment securities available-for-sale: | | | | | | |
| GSE debentures | $67,216 | $ 1,291 | $— | $ — | $67,216 | $ 1,291 |
| GSE CMOs | 118,450 | 2,162 | 38,852 | 1,318 | 157,302 | 3,480 |
| GSE MBSs | 149,687 | 2,821 | 198 | 3 | 149,885 | 2,824 |
| SBA commercial loan asset-backed securities | — | — | 72 | — | 72 | — |
| Corporate debt obligations | 7,953 | 183 | — | — | 7,953 | 183 |
| U.S. Treasury bonds | 4,737 | 64 | — | — | 4,737 | 64 |
| Trust preferred securities | — | — | 1,358 | 111 | 1,358 | 111 |
| Marketable equity securities | 503 | 9 | — | — | 503 | 9 |
| Temporarily impaired investment securities available-for-sale | 348,546 | 6,530 | 40,480 | 1,432 | 389,026 | 7,962 |
| Investment securities held-to-maturity: | | | | | | |
| GSE debentures | 14,101 | 634 | — | — | 14,101 | 634 |
| GSEs MBSs | 17,289 | 187 | — | — | 17,289 | 187 |
| Municipal obligations | 50,098 | 1,020 | — | — | 50,098 | 1,020 |
| Foreign government obligations | 487 | 13 | — | — | 487 | 13 |
| Temporarily impaired investment securities held-to-maturity | 81,975 | 1,854 | — | — | 81,975 | 1,854 |
| Total temporarily impaired investment securities | $430,521 | $ 8,384 | $40,480 | $ 1,432 | $471,001 | $ 9,816 |

The Company performs regular analysis on the investment securities available-for-sale portfolio to determine whether a decline in fair value indicates that an investment security is OTTI. In making these OTTI determinations, management considers, among other factors, the length of time and extent to which the fair value has been less than amortized cost; projected future cash flows; credit subordination and the creditworthiness; capital adequacy and near-term prospects of the issuers.

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

Investment Securities Available-For-Sale Impairment Analysis

The following discussion summarizes, by investment security type, the basis for evaluating if the applicable investment securities within the Company’s available-for-sale portfolio were OTTI as of June 30, 2017. Based on the analysis below and the determination that, it is more likely than not that the Company will not sell or be required to sell the investment securities before recovery of its amortized cost. The Company's ability and intent to hold these investment securities until recovery is supported by the Company's strong capital and liquidity positions as well as its historically low portfolio turnover. As such, management has determined that the investment securities are not OTTI as of June 30, 2017. If market conditions for investment securities worsen or the creditworthiness of the underlying issuers deteriorates, it is possible that the Company may recognize additional OTTI in future periods.

U.S. Government-Sponsored Enterprises

The Company invests in securities issued by U.S. Government-sponsored enterprises ("GSEs"), including GSE debentures, mortgage-backed securities ("MBSs"), and collateralized mortgage obligations ("CMOs"). GSE securities include obligations issued by the Federal National Mortgage Association ("FNMA"), the Federal Home Loan Mortgage Corporation ("FHLMC"), the Government National Mortgage Association ("GNMA"), the Federal Home Loan Banks ("FHLB") and the Federal Farm Credit Bank. As of June 30, 2017, only GNMA MBSs and CMOs, and Small Business Administration ("SBA") commercial loan asset-backed securities in our available-for-sale portfolio with an estimated fair value of $26.3 million were backed explicitly by the full faith and credit of the U.S. Government, compared to $26.2 million as of December 31, 2016.

As of June 30, 2017, the Company owned 44 GSE debentures with a total fair value of $139.8 million, and a net unrealized loss of $0.1 million. As of December 31, 2016, the Company held 29 GSE debentures with a total fair value of $97.0 million, and a net unrealized loss of $1.1 million. As of June 30, 2017, 25 of the 44 securities in this portfolio were in an unrealized loss position. As of December 31, 2016, 21 of the 29 securities in this portfolio were in an unrealized loss position. All securities are performing and backed by the implicit (FHLB/FNMA/FHLMC) or explicit (GNMA/SBA) guarantee of the U.S Government. During the six months ended June 30, 2017, the Company purchased a total of $42.1 million GSE debentures. This compares to $26.1 million purchased during the same period in 2016.

As of June 30, 2017, the Company owned 62 GSE CMOs with a total fair value of $142.7 million and a net unrealized loss of $2.9 million. As of December 31, 2016, the Company held 62 GSE CMOs with a total fair value of $158.0 million with a net unrealized loss of $3.4 million. As of June 30, 2017, 46 of the 62 securities in this portfolio were in an unrealized loss position. As of December 31, 2016, 47 of the 62 securities in this portfolio were in an unrealized loss position. All securities are performing and backed by the implicit (FHLB/FNMA/FHLMC) or explicit (GNMA) guarantee of the U.S Government. During the six months ended June 30, 2017 and 2016, the Company did not purchase any GSE CMOs.

As of June 30, 2017, the Company owned 192 GSE MBSs with a total fair value of $192.3 million and a net unrealized loss of $1.1 million. As of December 31, 2016, the Company held 195 GSE MBSs with a total fair value of $212.9 million with a net unrealized loss of $2.0 million. As of June 30, 2017, 66 of the 192 securities in this portfolio were in an unrealized loss position. As of December 31, 2016, 60 of the 195 securities in this portfolio were in an unrealized loss position. All securities are performing and backed by the implicit (FHLB/FNMA/FHLMC) or explicit (GNMA) guarantee of the U.S Government. During the six months ended June 30, 2017, the Company did not purchase any GSE MBSs, as compared to the same period in 2016, when the Company purchased a total of $30.6 million of GSE MBSs.

SBA Commercial Loan Asset-Backed

As of June 30, 2017 and December 31, 2016, the Company owned six SBA securities with a total fair value of $0.1 million, which approximated amortized cost. As of June 30, 2017, four of the six securities in this portfolio were in an unrealized loss position. As of December 31, 2016, four of the six securities in this portfolio were in an unrealized loss position. All securities are performing and backed by the explicit guarantee of the U.S Government. During the six months ended June 30, 2017 and 2016, the Company did not purchase any SBA securities.

Corporate Obligations

From time to time, the Company may invest in high-quality corporate obligations to provide portfolio diversification and improve the overall yield on the portfolio. As of June 30, 2017, the Company held 18 corporate obligation securities with a total fair value of $58.9 million and a net unrealized gain of $0.2 million. As of December 31, 2016, the Company held 16 corporate obligation securities with a total fair value of $48.5 million and a net unrealized gain of $0.2 million. As of June 30, 2017, four of the eighteen securities in this portfolio were in an unrealized loss position. As of December 31, 2016, three of the sixteen securities in this portfolio were in an unrealized loss position. Full collection of the obligations is expected because the financial condition of the issuers is sound, they have not defaulted on scheduled payments, the obligations are rated investment grade, and the Company has the ability and intent to hold the obligations for a period of time to recover the amortized cost. During the six months ended June 30, 2017 and 2016, the Company purchased a total of $10.3 million and $2.6 million of corporate obligations, respectively.

U.S. Treasury Bonds

The Company invests in securities issued by the U.S. government. As of June 30, 2017, the Company owned one U.S. Treasury bond with a total fair value of $4.8 million and an unrealized loss of $11.0 thousand. This compares to one U.S. Treasury bond with a total fair value of $4.7 million and an unrealized loss of $0.1 million as of December 31, 2016. During the six months ended June 30, 2017 and 2016, the Company did not purchase any U.S. Treasury bonds.

Trust Preferred Securities

Trust preferred securities represent subordinated debt issued by financial institutions. As of June 30, 2017, the Company owned two trust preferred securities with a total fair value of $1.4 million and an unrealized loss of $0.1 million. This compares to two trust preferred securities with a total fair value of $1.4 million and an unrealized loss of $0.1 million as of December 31, 2016. As of June 30, 2017 and December 31, 2016, both of the securities in this portfolio were in unrealized loss positions. Full collection of the obligations is expected because the financial condition of the issuers is sound, neither 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 amortized cost.

Marketable Equity Securities

From time to time, the Company will invest in mutual funds for community reinvestment purposes. As of June 30, 2017 and December 31, 2016, the Company owned marketable equity securities with a fair value of $1.0 million, which approximated amortized cost. As of June 30, 2017 and December 31, 2016, one of the two securities in this portfolio was in an unrealized loss position. During the six months ended June 30, 2017 and 2016, the Company did not purchase any marketable equity securities.

Investment Securities Held-to-Maturity Impairment Analysis

The following discussion summarizes by investment security type, the basis for evaluating if the applicable investment securities within the Company's held-to-maturity portfolio were OTTI at June 30, 2017. Management has the ability and the intent to hold the securities until maturity.

U.S. Government-Sponsored Enterprises

As of June 30, 2017, the Company owned 13 GSE debentures with a total fair value of $38.1 million and a net unrealized loss of $0.5 million. As of December 31, 2016, the Company owned five GSE debentures with a total fair value of $14.1 million and an unrealized loss of $0.6 million. As of June 30, 2017, nine of the thirteen securities in this portfolio were in an unrealized loss position. At December 31, 2016, all five of the securities in this portfolio were in unrealized loss positions. All securities are performing and backed by the implicit (FHLB/FNMA/FHLMC) or explicit (GNMA) guarantee of the U.S Government. During the six months ended June 30, 2017 and 2016, the Company purchased a total of $23.9 million and $6.0 million in GSE debentures, respectively.

As of June 30, 2017, the Company owned 11 GSE MBSs with a total fair value of $15.8 million and an unrealized loss of $0.1 million. As of December 31, 2016, the Company owned 11 GSE MBSs with a total fair value of $17.5 million and an unrealized loss of $0.2 million. As of June 30, 2017 and December 31, 2016, eight of the eleven securities in this portfolio were in an unrealized loss position. All securities are performing and backed by the implicit (FHLB/FNMA/FHLMC) or explicit (GNMA) guarantee of the U.S Government. During the six months ended June 30, 2017, the Company did not purchase any GSE MBSs, as compared to the same period in 2016, when the Company purchased a total of $2.4 million of GSE MBSs.

Municipal Obligations

The Company invests in certain state and municipal securities with high credit ratings for portfolio diversification and tax planning purposes. As of June 30, 2017, the Company owned 100 municipal obligation securities with a total fair value of $54.1 million and and a net unrealized gain of $0.1 million. As of December 31, 2016, the Company owned 100 municipal obligation securities with a total fair value of $53.2 million and an unrealized loss of $1.0 million. As of June 30, 2017, 40 of the 100 securities in this portfolio were in an unrealized loss position as compared to December 31, 2016, when 93 of the 100 securities were in an unrealized loss position. During the six months ended

June 30, 2017, the Company did not purchase any municipal obligations, as compared to the same period in 2016, when the Company purchased a total of $4.4 million of municipal obligations.

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Foreign Government Obligations

The Company holds an investment in foreign government bonds. As of June 30, 2017 and December 31, 2016, the Company owned one foreign government obligation security with a fair value of $0.5 million, which approximated cost. As of June 30, 2017 and December 31, 2016 respectively, the security was in an unrealized loss position. During the six months ended June 30, 2017, the Company did not purchase any foreign government obligations, as compared to the same period in 2016, when the Company repurchased the foreign government obligation security that matured.

Portfolio Maturities

The final stated maturities of the debt securities are as follows for the periods indicated:

| | At June 30, 2017 | | | At December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | 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 | $9,406 | $9,472 | 2.44% | $13 | $13 | 0.17% |
| After 1 year through 5 years | 132,556 | 133,162 | 2.04% | 81,524 | 81,833 | 2.14% |
| After 5 years through 10 years | 120,257 | 119,760 | 2.07% | 128,956 | 127,952 | 2.03% |
| Over 10 years | 281,790 | 277,600 | 1.99% | 318,743 | 312,864 | 2.03% |
| | $544,009 | $539,994 | 2.03% | $529,236 | $522,662 | 2.04% |
| Investment securities held-to-maturity: | | | | | | |
| Within 1 year | $791 | $791 | 1.00% | $190 | $190 | 1.00% |
| After 1 year through 5 years | 47,513 | 47,575 | 1.69% | 23,012 | 22,750 | 1.30% |
| After 5 years through 10 years | 44,974 | 44,549 | 1.81% | 46,442 | 45,042 | 1.75% |
| Over 10 years | 15,685 | 15,555 | 1.89% | 17,476 | 17,289 | 2.11% |
| | $108,963 | $108,470 | 1.76% | $87,120 | $85,271 | 1.70% |

Actual maturities of debt securities will differ from those presented above since certain obligations amortize and may also provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty. MBSs and CMOs are included above based on their final stated maturities; the actual maturities, however, may occur earlier due to anticipated prepayments and stated amortization of cash flows.

As of June 30, 2017, issuers of debt securities with an estimated fair value of $30.0 million had the right to call or prepay the obligations. Of the $30.0 million, approximately $14.9 million matures in 1 - 5 years, $15.1 million matures in 6 - 10 years, and none mature after ten years. As of December 31, 2016, issuers of debt securities with an estimated fair value of approximately $27.9 million had the right to call or prepay the obligations. Of the $27.9 million, $3.0 million matures in 1-5 years, $23.5 million matures in 6-10 years, and $1.4 million matures after ten years.

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Security Sales

On February 3, 2017, the Company, through its wholly owned subsidiary, Brookline Securities Corp., received $319.04 in cash and 14.876 shares of Community Bank Systems, Inc. (“CBU”) common stock in exchange for each of the 9,721 shares of Northeast Retirement Services, Inc. (“NRS”) stock held by Brookline Securities Corp. The exchange was completed in accordance with the merger agreement entered into between NRS and CBU. As part of the merger agreement, the Company was restricted to selling 5,071 shares of CBU per day in the open market. During the quarter ended March 31, 2017, the Company completed the sale of all the CBU shares. When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on the sale. The table below summarizes the activity with respect to the sale of the CBU shares.

| | Six Months Ended June 30, 2017 (In Thousands) |
|---|---|
| Sales of marketable and restricted equity securities | 11,393 |
| | |
| Gross gains from sales | 11,612 |
| Gross losses from sales | (219 ) |
| Gain on sales of securities, net | $ 11,393 |

There were no security sales during the three month periods ended June 30, 2017 and 2016 and the six month period ended June 30, 2016.

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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 June 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $1,941,619 | 4.10% | $121,027 | 4.31% | $2,062,646 | 4.11% |
| Multi-family mortgage | 694,544 | 3.96% | 25,940 | 4.50% | 720,484 | 3.98% |
| Construction | 153,057 | 4.28% | — | —% | 153,057 | 4.28% |
| Total commercial real estate loans | 2,789,220 | 4.08% | 146,967 | 4.34% | 2,936,187 | 4.09% |
| Commercial loans and leases: | | | | | | |
| Commercial | 681,677 | 4.24% | 9,393 | 5.69% | 691,070 | 4.26% |
| Equipment financing | 834,771 | 7.18% | 5,161 | 5.89% | 839,932 | 7.17% |
| Condominium association | 58,130 | 4.37% | — | —% | 58,130 | 4.37% |
| Total commercial loans and leases | 1,574,578 | 5.80% | 14,554 | 5.76% | 1,589,132 | 5.80% |
| Consumer loans: | | | | | | |
| Residential mortgage | 585,092 | 3.74% | 61,587 | 4.06% | 646,679 | 3.77% |
| Home equity | 303,186 | 3.94% | 47,938 | 4.49% | 351,124 | 4.02% |
| Other consumer | 14,173 | 5.35% | 111 | 17.99% | 14,284 | 5.45% |
| Total consumer loans | 902,451 | 3.83% | 109,636 | 4.26% | 1,012,087 | 3.88% |
| Total loans and leases | $5,266,249 | 4.55% | $271,157 | 4.38% | $5,537,406 | 4.54% |

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| | At December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $1,907,254 | 3.95% | $143,128 | 4.24 % | $2,050,382 | 3.97% |
| Multi-family mortgage | 701,450 | 3.79% | 29,736 | 4.53 % | 731,186 | 3.82% |
| Construction | 136,785 | 3.79% | 214 | 3.67 % | 136,999 | 3.79% |
| Total commercial real estate loans | 2,745,489 | 3.90% | 173,078 | 4.29 % | 2,918,567 | 3.92% |
| Commercial loans and leases: | | | | | | |
| Commercial | 621,285 | 4.11% | 14,141 | 5.44 % | 635,426 | 4.14% |
| Equipment financing | 793,702 | 7.06% | 6,158 | 5.86 % | 799,860 | 7.05% |
| Condominium association | 60,122 | 4.39% | — | — % | 60,122 | 4.39% |
| Total commercial loans and leases | 1,475,109 | 5.71% | 20,299 | 5.57 % | 1,495,408 | 5.71% |
| Consumer loans: | | | | | | |
| Residential mortgage | 555,430 | 3.67% | 68,919 | 3.98 % | 624,349 | 3.70% |
| Home equity | 289,361 | 3.50% | 52,880 | 4.26 % | 342,241 | 3.62% |
| Other consumer | 18,171 | 5.48% | 128 | 17.92 % | 18,299 | 5.57% |
| Total consumer loans | 862,962 | 3.65% | 121,927 | 4.12 % | 984,889 | 3.71% |
| Total loans and leases | $5,083,560 | 4.38% | $315,304 | 4.31 % | $5,398,864 | 4.38% |

The net unamortized deferred loan origination fees and costs included in total loans and leases were $15 million and $14.2 million as of June 30, 2017 and December 31, 2016, respectively.

The Company's Banks and subsidiaries lend primarily in eastern Massachusetts, southern New Hampshire and Rhode Island, with the exception of equipment financing, 28.2% of which is in the greater New York and New Jersey metropolitan area and 71.8% of which is in other areas in the United States of America as of June 30, 2017.

Accretable Yield for the Acquired Loan Portfolio

The following table summarizes activity in the accretable yield for the acquired loan portfolio for the periods indicated:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In Thousands) | | | |
| Balance at beginning of period | $13,072 | $19,800 | $14,353 | $20,796 |
| Accretion | (2,325 ) | (1,251 ) | (3,732 ) | (2,435 ) |
| Reclassification from (to) nonaccretable difference as a result of changes in expected cash flows | 2,955 | (511 ) | 3,081 | (323 ) |
| Balance at end of period | $13,702 | $18,038 | $13,702 | $18,038 |

On a quarterly basis, subsequent to acquisition, management reforecasts the expected cash flows for acquired ASC 310-30 loans, taking into account prepayment speeds, probability of default and loss given defaults. Management compares cash flow projections per the reforecast to the original cash flow projections and determines whether any reduction in cash flow expectations are due to deterioration, or if the change in cash flow expectation is related to noncredit events. This cash flow analysis is used to evaluate the need for a provision for loan and lease losses and/or prospective yield adjustments. During the three months ended June 30, 2017 and 2016, accretable yield adjustments totaling $3.0 million and $0.5 million, respectively, were made for certain loan pools. During the six months ended

June 30, 2017 and 2016, accretable yield adjustments totaling

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$3.1 million and $0.3 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.

Loans and Leases Pledged as Collateral

As of June 30, 2017 and December 31, 2016, there were $1.9 billion and $2.1 billion, respectively, of loans and leases pledged as collateral for repurchase agreements; municipal deposits; treasury, tax and loan deposits; swap agreements; FRB borrowings; and FHLBB borrowings. The Banks did not have any outstanding FRB borrowings as of June 30, 2017 and December 31, 2016.

(5) Allowance for Loan and Lease Losses

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

| | Three Months Ended June 30, 2017 | | | |
|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Consumer | Total |
| | (In Thousands) | | | |
| Balance at March 31, 2017 | $27,988 | $ 33,283 | $ 4,862 | $66,133 |
| Charge-offs | (205) | (3,095) | (65) | (3,365) |
| Recoveries | 336 | 549 | 78 | 963 |
| (Credit) provision for loan and lease losses | (165) | 362 | 593 | 790 |
| Balance at June 30, 2017 | $27,954 | $ 31,099 | $ 5,468 | $64,521 |

| | Three Months Ended June 30, 2016 | | | |
|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Consumer | Total |
| | (In Thousands) | | | |
| Balance at March 31, 2016 | $30,984 | $ 22,978 | $ 4,644 | $58,606 |
| Charge-offs | (1,153) | (2,417) | (754) | (4,324) |
| Recoveries | — | 101 | 205 | 306 |
| Provision for loan and lease losses | 30 | 2,254 | 386 | 2,670 |
| Balance at June 30, 2016 | $29,861 | $ 22,916 | $ 4,481 | $57,258 |

| | Six Months Ended June 30, 2017 | | | |
|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Consumer | Total |
| | (In Thousands) | | | |
| Balance at December 31, 2016 | $27,645 | $ 20,906 | $ 5,115 | $53,666 |
| Charge-offs | (229) | (4,302) | (216) | (4,747) |
| Recoveries | 476 | 691 | 183 | 1,350 |
| Provision for loan and lease losses | 62 | 13,804 | 386 | 14,252 |
| Balance at June 30, 2017 | $27,954 | $ 31,099 | $ 5,468 | $64,521 |

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| | Six Months Ended June 30, 2016 | | | |
|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Consumer | Total |
| | (In Thousands) | | | |
| Balance at December 31, 2015 | $30,151 | $ 22,018 | $ 4,570 | $56,739 |
| Charge-offs | (1,484 ) | (2,705 ) | (1,010 ) | (5,199 ) |
| Recoveries | — | 325 | 456 | 781 |
| Provision for loan and lease losses | 1,194 | 3,278 | 465 | 4,937 |
| Balance at June 30, 2016 | $29,861 | $ 22,916 | $ 4,481 | $57,258 |

The liability for unfunded credit commitments, which is included in other liabilities, was $1.5 million, $1.5 million, and $1.3 million at June 30, 2017, December 31, 2016, and June 30, 2016, respectively. The changes in the liability for unfunded credit commitments reflect changes in the estimate of loss exposure associated with certain unfunded credit commitments. No credit commitments were charged off against the liability account in the six-month periods ended June 30, 2017 and 2016.

Provision for Credit Losses

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In Thousands) | | | |
| (Credit) provision for loan and lease losses: | | | | |
| Commercial real estate | $(165) | $30 | $62 | $1,194 |
| Commercial | 362 | 2,254 | 13,804 | 3,278 |
| Consumer | 593 | 386 | 386 | 465 |
| Total provision for loan and lease losses | 790 | 2,670 | 14,252 | 4,937 |
| Unfunded credit commitments | 83 | (125 ) | 23 | (14 ) |
| Total provision for credit losses | $873 | $2,545 | $14,275 | $4,923 |

Allowance for Loan and Lease Losses Methodology

Management has established a methodology to determine the adequacy of the allowance for loan and lease losses that assesses the risks and losses inherent in the loan and lease portfolio. Additions to the allowance for loan and lease losses are made by charges to the provision for credit losses. Losses on loans and leases are charged off against the allowance when all or a portion of a loan or lease is considered uncollectible. Subsequent recoveries on loans previously charged off, if any, are credited to the allowance when realized.

Management uses a consistent and systematic process and methodology to evaluate the adequacy of the allowance for loan and lease losses on a quarterly basis. For purposes of determining the allowance for loan and lease losses, the Company has segmented certain loans and leases in the portfolio by product type into the following segments: (1) commercial real estate loans, (2) commercial loans and leases, and (3) consumer loans. Portfolio segments are further disaggregated into classes based on the associated risks within the segments. Commercial real estate loans are divided into three classes: commercial real estate loans, multi-family mortgage loans, and construction loans. Commercial loans and leases are divided into three classes: commercial loans which include taxi medallion loans, equipment financing, and loans to condominium associations. Consumer loans are divided into three classes: residential mortgage loans, home equity loans, and other consumer loans. A formula-based credit evaluation approach is applied to each group, coupled with an analysis of certain loans for impairment. For each class of loan, management makes significant judgments in selecting the estimation method that fits the credit characteristics of its class and portfolio segment as set forth below.

The general allowance related to loans collectively evaluated for impairment is determined using a formula-based approach utilizing the risk ratings of individual credits and loss factors derived from historic portfolio loss rates, which include estimates of incurred losses over an estimated loss emergence period (“LEP”). The LEP was generated utilizing a charge-off look-back analysis which studied the time from the first indication of elevated risk of repayment (or other early event indicating a problem) to eventual charge-off to support the LEP considered in the allowance calculation. This reserving methodology established the approximate number of months of LEP that represents incurred losses for each portfolio. In addition to quantitative measures, relevant qualitative factors include, but are not limited to: (1) levels and trends in past due and impaired loans, (2) levels and trends in charge-offs, (3) changes in underwriting standards, policy exceptions, and credit policy, (4) experience of lending management and staff, (5) economic trends, (6) industry conditions, (7) effects of changes in credit concentrations, (8) interest rate environment, and (9) regulatory and other changes. The general allowance related to the acquired loans collectively evaluated for impairment is determined based upon the degree, if any, of deterioration in the pooled loans subsequent to acquisition. The qualitative factors used in the determination are the same as those used for originated loans.

Specific valuation allowances are established for impaired originated loans with book values greater than the discounted present value of expected future cash flows or, in the case of collateral-dependent impaired loans, for any excess of a loan's book balance and the fair value of its underlying collateral. Specific valuation allowances are established for acquired loans with deterioration in the discounted present value of expected future cash flows since acquisitions or, in the case of collateral dependent impaired loans, for any increase in the excess of a loan's book balance greater than the fair value of its underlying collateral. A specific valuation allowance for losses on troubled debt restructured ("TDR") loans is determined by comparing the net carrying amount of the troubled debt restructured loan with the restructured loan's cash flows discounted at the original effective rate. Impaired loans are reviewed quarterly with adjustments made to the calculated reserve as necessary.

As of June 30, 2017, management believes that the methodology for calculating the allowance is sound and that the allowance provides a reasonable basis for determining and reporting on probable losses in the Company’s loan portfolios.

As of June 30, 2017, the Company had a portfolio of approximately $30.4 million in loans secured by taxi medallions issued by the cities of Boston and Cambridge. As of December 31, 2016, this portfolio was approximately $31.1 million. Application-based mobile ride services, such as Uber and Lyft, have generated increased competition in the transportation sector, resulting in a reduction in taxi utilization and, as a result, a reduction in the collateral value and credit quality of taxi medallion loans. This has increased the likelihood that loans secured by taxi medallions may default, or that the borrowers may be unable to repay these loans at maturity, potentially resulting in an increase in past due loans, troubled debt restructurings, and charge-offs. The Company’s allowance calculation included a further segmentation of the commercial loans and leases to reflect the increased risk in the Company’s taxi medallion portfolio. This allowance calculation segmentation represents management’s estimations of the current risks associated with the portfolio.

As of June 30, 2017, the Company had an allowance for loan and lease losses associated with taxi medallion loans of $7.9 million of which $6.1 million were specific reserves and $1.8 million was a general reserve. As of December 31, 2016, the Company had an allowance for loan and lease losses associated with taxi medallion loans of $1.3 million of which $0.1 million were specific reserves and $1.2 million was a general reserve. The increase in the allowance for loan and leases associated with taxi medallion loans was primarily driven by the increase in specific reserves due to changes in the underlying collateral value of taxi medallions and the increase in general reserve due to the increase in the historical loss factor applied to the taxi medallion loans. The total troubled debt restructured loans and leases secured by taxi medallions increased by $1.6 million from $6.1 million at December 31, 2016 to $7.7 million at June 30, 2017 due to five taxi medallion relationships which were restructured during the period. The total loans and leases secured by taxi medallions that were placed on nonaccrual increased to $15.7 million at June 30, 2017 from

$13.4 million at December 31, 2016 due to the five restructured taxi medallion relationships mentioned above which were placed on nonaccrual status in. In addition, further declines in demand for taxi services or further deterioration in the value of taxi medallions may result in higher delinquencies and losses beyond that provided for in the allowance for loan and lease losses.

The general allowance for loan and lease losses was $56.0 million as of June 30, 2017, compared to $53.5 million as of December 31, 2016. The general portion of the allowance for loan and lease losses increased by $2.5 million during the six months ended June 30, 2017, as a result of the continued growth in the Company's loan portfolios and the increase in historical loss factors applied to taxi medallion and commercial real estate loan portfolios.

The specific allowance for loan and lease losses was $8.5 million as of June 30, 2017, compared to $0.2 million as of December 31, 2016. The specific allowance increased by $8.4 million during the six months ended June 30, 2017, primarily due to the reduction in collateral values for taxi medallion loans and the increase in specific reserves for two commercial loans.

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Credit Quality Assessment
At the time of loan origination, a rating is assigned based on the capacity to pay and general financial strength of the borrower, the value of assets pledged as collateral, and the evaluation of third party support such as a guarantor. The Company continually monitors the quality of the loan portfolio using all available information. The officer responsible for handling each loan is required to initiate changes to risk ratings when changes in facts and circumstances occur that warrant an upgrade or downgrade in a loan rating. Based on this information, loans demonstrating certain payment issues or other weaknesses may be categorized as delinquent, impaired, nonperforming and/or put on nonaccrual status. Additionally, in the course of resolving such loans, the Company may choose to restructure the contractual terms of certain loans to match the borrower's ability to repay the loan based on their current financial condition. If a restructured loan meets certain criteria, it may be categorized as a troubled debt restructuring.
The Company reviews numerous credit quality indicators when assessing the risk in its loan portfolio. For all loans, the Company utilizes an eight-grade loan rating system, which assigns a risk rating to each borrower based on a number of quantitative and qualitative factors associated with a loan transaction. Factors considered include industry and market conditions; position within the industry; earnings trends; operating cash flow; asset/liability values; debt capacity; guarantor strength; management and controls; financial reporting; collateral; and other considerations. In addition, the Company's independent loan review group evaluates the credit quality and related risk ratings in all loan portfolios. The results of these reviews are reported to the Risk Committee of the Board of Directors on a periodic basis and annually to the Board of Directors. For the consumer loans, the Company heavily relies on payment status for calibrating credit risk.
The ratings categories used for assessing credit risk in the commercial real estate, multi-family mortgage, construction, commercial, equipment financing, condominium association and other consumer loan and lease classes are defined as follows:
1 -4 Rating—Pass
Loan rating grades "1" through "4" are classified as "Pass," which indicates borrowers are performing in accordance with the terms of the loan and are less likely to result in loss due to the capacity of the borrower to pay and the adequacy of the value of assets pledged as collateral.
5 Rating—Other Assets Especially Mentioned ("OAEM")
Borrowers exhibit potential credit weaknesses or downward trends deserving management's attention. If not checked or corrected, these trends will weaken the Company's asset and position. While potentially weak, currently these borrowers are marginally acceptable; no loss of principal or interest is envisioned.
6 Rating—Substandard
Borrowers exhibit well defined weaknesses that jeopardize the orderly liquidation of debt. Substandard loans may be inadequately protected by the current net worth and paying capacity of the obligors or by the collateral pledged, if any. Normal repayment from the borrower is in jeopardy. Although no loss of principal is envisioned, there is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected. Collateral coverage may be inadequate to cover the principal obligation.
7 Rating—Doubtful
Borrowers exhibit well-defined weaknesses that jeopardize the orderly liquidation of debt with the added provision that the weaknesses make collection of the debt in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Serious problems exist to the point where partial loss of principal is likely.
8 Rating—Definite Loss
Borrowers deemed incapable of repayment. Loans to such borrowers are considered uncollectible and of such little value that continuation as active assets of the Company is not warranted.
Assets rated as "OAEM," "substandard" or "doubtful" based on criteria established under banking regulations are collectively referred to as "criticized" assets.

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Credit Quality Information
The following tables present the recorded investment in loans in each class as of June 30, 2017, by credit quality indicator.

| | At June 30, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Commercial Real Estate | Multi-Family Mortgage | Construction | Commercial | Equipment Financing | Condominium Association | Other Consumer |
| | (In Thousands) | | | | | | |
| Originated: | | | | | | | |
| Loan rating: | | | | | | | |
| Pass | $ 1,929,364 | $ 693,469 | $ 153,057 | $ 643,636 | $ 823,994 | $ 58,130 | $ 14,130 |
| OAEM | 5,201 | — | — | 12,489 | 782 | — | — |
| Substandard | 6,788 | 1,075 | — | 22,139 | 7,237 | — | 43 |
| Doubtful | 266 | — | — | 3,413 | 2,758 | — | — |
| Total originated | 1,941,619 | 694,544 | 153,057 | 681,677 | 834,771 | 58,130 | 14,173 |
| | | | | | | | |
| Acquired: | | | | | | | |
| Loan rating: | | | | | | | |
| Pass | 117,770 | 25,371 | — | 7,163 | 5,146 | — | 109 |
| OAEM | 1,262 | 267 | — | 278 | — | — | — |
| Substandard | 1,893 | 302 | — | 1,952 | 15 | — | 2 |
| Doubtful | 102 | — | — | — | — | — | — |
| Total acquired | 121,027 | 25,940 | — | 9,393 | 5,161 | — | 111 |
| | | | | | | | |
| Total loans | $ 2,062,646 | $ 720,484 | $ 153,057 | $ 691,070 | $ 839,932 | $ 58,130 | $ 14,284 |

As of June 30, 2017, there were no loans categorized as definite loss.

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| | At June 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Residential Mortgage | | | Home Equity | | |
| | ($ In Thousands) | | | | | |
| Originated: | | | | | | |
| Loan-to-value ratio: | | | | | | |
| Less than 50% | $143,443 | 22.2 | % | $147,860 | 42.1 | % |
| 50% - 69% | 246,057 | 38.0 | % | 72,015 | 20.5 | % |
| 70% - 79% | 169,578 | 26.2 | % | 59,328 | 16.9 | % |
| 80% and over | 24,770 | 3.8 | % | 23,939 | 6.8 | % |
| Data not available* | 1,244 | 0.2 | % | 44 | — | % |
| Total originated | 585,092 | 90.4 | % | 303,186 | 86.3 | % |
| Acquired: | | | | | | |
| Loan-to-value ratio: | | | | | | |
| Less than 50% | 17,483 | 2.7 | % | 29,466 | 8.6 | % |
| 50%—69% | 21,252 | 3.3 | % | 14,835 | 4.2 | % |
| 70%—79% | 13,100 | 2.0 | % | 2,242 | 0.6 | % |
| 80% and over | 8,775 | 1.4 | % | 873 | 0.2 | % |
| Data not available* | 977 | 0.2 | % | 522 | 0.1 | % |
| Total acquired | 61,587 | 9.6 | % | 47,938 | 13.7 | % |
| Total loans | $646,679 | 100.0 | % | $351,124 | 100.0 | % |

* Represents in process general ledger accounts for which data are not available.

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The following tables present the recorded investment in loans in each class as of December 31, 2016, by credit quality indicator.

| | At December 31, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Commercial Real Estate | Multi-Family Mortgage | Construction | Commercial | Equipment Financing | Condominium Association | Other Consumer |
| | (In Thousands) | | | | | | |
| Originated: | | | | | | | |
| Loan rating: | | | | | | | |
| Pass | $1,899,162 | $700,046 | $ 136,607 | $ 583,940 | $786,050 | $ 60,122 | $ 12,018 |
| OAEM | 1,538 | — | 178 | 8,675 | 824 | — | — |
| Substandard | 6,288 | 1,404 | — | 28,595 | 4,848 | — | 12 |
| Doubtful | 266 | — | — | 75 | 1,980 | — | — |
| Total originated | 1,907,254 | 701,450 | 136,785 | 621,285 | 793,702 | 60,122 | 12,030 |
| Acquired: | | | | | | | |
| Loan rating: | | | | | | | |
| Pass | 131,850 | 29,153 | 214 | 10,312 | 6,158 | — | 128 |
| OAEM | 1,408 | 270 | — | 249 | — | — | — |
| Substandard | 9,768 | 313 | — | 3,017 | — | — | — |
| Doubtful | 102 | — | — | 563 | — | — | — |
| Total acquired | 143,128 | 29,736 | 214 | 14,141 | 6,158 | — | 128 |
| Total loans | $2,050,382 | $731,186 | $ 136,999 | $ 635,426 | $799,860 | $ 60,122 | $ 12,158 |

As of December 31, 2016, there were no loans categorized as definite loss.

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| | At December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Residential Mortgage | | | Home Equity | | |
| | ($ In Thousands) | | | | | |
| Originated: | | | | | | |
| Loan-to-value ratio: | | | | | | |
| Less than 50% | $138,030 | 22.1 | % | $153,679 | 44.9 | % |
| 50%—69% | 229,799 | 36.9 | % | 61,553 | 18.1 | % |
| 70%—79% | 162,614 | 26.0 | % | 49,987 | 14.6 | % |
| 80% and over | 21,859 | 3.5 | % | 23,317 | 6.8 | % |
| Data not available* | 3,128 | 0.5 | % | 825 | 0.2 | % |
| Total originated | 555,430 | 89.0 | % | 289,361 | 84.6 | % |
| Acquired: | | | | | | |
| Loan-to-value ratio: | | | | | | |
| Less than 50% | 17,809 | 2.9 | % | 32,334 | 9.4 | % |
| 50%—69% | 24,027 | 3.8 | % | 15,059 | 4.4 | % |
| 70%—79% | 14,030 | 2.2 | % | 3,069 | 0.9 | % |
| 80% and over | 10,069 | 1.6 | % | 1,016 | 0.3 | % |
| Data not available* | 2,984 | 0.5 | % | 1,402 | 0.4 | % |
| Total acquired | 68,919 | 11.0 | % | 52,880 | 15.4 | % |
| Total loans | $624,349 | 100.0 | % | $342,241 | 100.0 | % |

* Represents in process general ledger accounts for which data are not available.

The following table presents information regarding foreclosed residential real estate property for the periods indicated:

| | At June 30, 2017 | At December 31, 2016 |
|---|---|---|
| | (In Thousands) | |
| Foreclosed residential real estate property held by the creditor | $ 149 | $ 251 |
| Recorded investment in mortgage loans collateralized by residential real estate property that are in the process of foreclosure | 1,536 | 1,213 |

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES
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Age Analysis of Past Due Loans and Leases
The following tables present an age analysis of the recorded investment in total loans and leases as of June 30, 2017 and December 31, 2016.

| | At June 30, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Past Due | | | | | | | |
| | 31-60 Days | 61-90 Days | Greater Than 90 Days | Total | Current | Total Loans and Leases | Loans and Leases Past Due Greater Than 90 Days and Accruing | Nonaccrual Loans and Leases |
| | (In Thousands) | | | | | | | |
| Originated: | | | | | | | | |
| Commercial real estate loans: | | | | | | | | |
| Commercial real estate | $1,326 | $874 | $1,081 | $3,281 | $1,938,338 | $1,941,619 | $— | $ 2,626 |
| Multi-family mortgage | — | 682 | — | 682 | 693,862 | 694,544 | — | 1,075 |
| Construction | 1,202 | — | — | 1,202 | 151,855 | 153,057 | — | — |
| Total commercial real estate loans | 2,528 | 1,556 | 1,081 | 5,165 | 2,784,055 | 2,789,220 | — | 3,701 |
| Commercial loans and leases: | | | | | | | | |
| Commercial | 2,884 | 3,631 | 15,036 | 21,551 | 660,126 | 681,677 | 50 | 22,608 |
| Equipment financing | 2,013 | 3,576 | 4,825 | 10,414 | 824,357 | 834,771 | 206 | 9,702 |
| Condominium association | 1,289 | — | — | 1,289 | 56,841 | 58,130 | — | — |
| Total commercial loans and leases | 6,186 | 7,207 | 19,861 | 33,254 | 1,541,324 | 1,574,578 | 256 | 32,310 |
| Consumer loans: | | | | | | | | |
| Residential mortgage | — | — | 3,189 | 3,189 | 581,903 | 585,092 | — | 3,189 |
| Home equity | 994 | 104 | 486 | 1,584 | 301,602 | 303,186 | 1 | 606 |
| Other consumer | 357 | 32 | 25 | 414 | 13,759 | 14,173 | — | 43 |
| Total consumer loans | 1,351 | 136 | 3,700 | 5,187 | 897,264 | 902,451 | 1 | 3,838 |
| Total originated loans and leases | $10,065 | $8,899 | $24,642 | $43,606 | $5,222,643 | $5,266,249 | $257 | $ 39,849 |

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| | At June 30, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Past Due | | | | | | | |
| | 31-60 Days | 61-90 Days | Greater Than 90 Days | Total | Current | Total Loans and Leases | Loans and Leases Past Due Greater Than 90 Days and Accruing | Nonaccrual Loans and Leases |
| | (In Thousands) | | | | | | | |
| Acquired: | | | | | | | | |
| Commercial real estate loans: | | | | | | | | |
| Commercial real estate | $149 | $499 | $295 | $943 | $120,084 | $121,027 | $ 225 | $ 140 |
| Multi-family mortgage | — | — | 3 | 3 | 25,937 | 25,940 | 3 | — |
| Total commercial real estate loans | 149 | 499 | 298 | 946 | 146,021 | 146,967 | 228 | 140 |
| Commercial loans and leases: | | | | | | | | |
| Commercial | 113 | 256 | 1,446 | 1,815 | 7,578 | 9,393 | 167 | 1,279 |
| Equipment financing | — | — | 15 | 15 | 5,146 | 5,161 | 15 | — |
| Total commercial loans and leases | 113 | 256 | 1,461 | 1,830 | 12,724 | 14,554 | 182 | 1,279 |
| Consumer loans: | | | | | | | | |
| Residential mortgage | 161 | 74 | 2,134 | 2,369 | 59,218 | 61,587 | 1,895 | 239 |
| Home equity | 268 | 382 | 247 | 897 | 47,041 | 47,938 | 142 | 760 |
| Other consumer | | — | 2 | 2 | 109 | 111 | 2 | — |
| Total consumer loans | 429 | 456 | 2,383 | 3,268 | 106,368 | 109,636 | 2,039 | 999 |
| Total acquired loans and leases | $691 | $1,211 | $4,142 | $6,044 | $265,113 | $271,157 | $ 2,449 | $ 2,418 |
| | | | | | | | | |
| Total loans and leases | $10,756 | $10,110 | $28,784 | $49,650 | $5,487,756 | $5,537,406 | $ 2,706 | $ 42,267 |

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| | At December 31, 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Past Due | | | | | | | |
| | 31-60 Days | 61-90 Days | Greater Than 90 Days | Total | Current | Total Loans and Leases | Loans and Leases Past Due Greater Than 90 Days and Accruing | Nonaccrual Loans and Leases |
| | (In Thousands) | | | | | | | |
| Originated: | | | | | | | | |
| Commercial real estate loans: | | | | | | | | |
| Commercial real estate | $1,525 | $2,075 | $429 | $4,029 | $1,903,225 | $1,907,254 | $2 | $ 5,035 |
| Multi-family mortgage | 2,296 | — | 291 | 2,587 | 698,863 | 701,450 | — | 1,404 |
| Construction | 547 | — | — | 547 | 136,238 | 136,785 | — | — |
| Total commercial real estate loans | 4,368 | 2,075 | 720 | 7,163 | 2,738,326 | 2,745,489 | 2 | 6,439 |
| Commercial loans and leases: | | | | | | | | |
| Commercial | 5,396 | 815 | 10,014 | 16,225 | 605,060 | 621,285 | — | 20,587 |
| Equipment financing | 2,983 | 1,444 | 5,341 | 9,768 | 783,934 | 793,702 | — | 6,758 |
| Condominium association | 266 | — | — | 266 | 59,856 | 60,122 | — | — |
| Total commercial loans and leases | 8,645 | 2,259 | 15,355 | 26,259 | 1,448,850 | 1,475,109 | — | 27,345 |
| Consumer loans: | | | | | | | | |
| Residential mortgage | 3,745 | 2,294 | 163 | 6,202 | 549,228 | 555,430 | — | 2,455 |
| Home equity | 25 | 219 | 5 | 249 | 289,112 | 289,361 | 3 | 128 |
| Other consumer | 549 | 87 | 16 | 652 | 17,519 | 18,171 | — | 149 |
| Total consumer loans | 4,319 | 2,600 | 184 | 7,103 | 855,859 | 862,962 | 3 | 2,732 |
| Total originated loans and leases | $17,332 | $6,934 | $16,259 | $40,525 | $5,043,035 | $5,083,560 | $5 | $ 36,516 |

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BROOKLINE BANCORP, INC. AND SUBSIDIARIES
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At and for the Six Months Ended June 30, 2017 and 2016

| | At December 31, 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Past Due | | | | | | | |
| | 31-60 Days | 61-90 Days | Greater Than 90 Days | Total | Current | Total Loans and Leases | Loans and Leases Past Due Greater Than 90 Days and Accruing | Nonaccrual Loans and Leases |
| | (In Thousands) | | | | | | | |
| Acquired: | | | | | | | | |
| Commercial real estate loans: | | | | | | | | |
| Commercial real estate | $925 | $— | $4,011 | $4,936 | $138,192 | $143,128 | $ 3,786 | $ 305 |
| Multi-family mortgage | — | — | — | — | 29,736 | 29,736 | — | — |
| Construction | — | — | — | — | 214 | 214 | — | — |
| Total commercial real estate loans | 925 | — | 4,011 | 4,936 | 168,142 | 173,078 | 3,786 | 305 |
| Commercial loans and leases: | | | | | | | | |
| Commercial | 306 | — | 2,651 | 2,957 | 11,184 | 14,141 | 264 | 2,387 |
| Equipment financing | — | — | — | — | 6,158 | 6,158 | — | — |
| Total commercial loans and leases | 306 | — | 2,651 | 2,957 | 17,342 | 20,299 | 264 | 2,387 |
| Consumer loans: | | | | | | | | |
| Residential mortgage | — | 318 | 2,865 | 3,183 | 65,736 | 68,919 | 2,820 | 46 |
| Home equity | 288 | 97 | 339 | 724 | 52,156 | 52,880 | 202 | 823 |
| Other consumer | — | 1 | — | 1 | 127 | 128 | — | — |
| Total consumer loans | 288 | 416 | 3,204 | 3,908 | 118,019 | 121,927 | 3,022 | 869 |
| Total acquired loans and leases | $1,519 | $416 | $9,866 | $11,801 | $303,503 | $315,304 | $ 7,072 | $ 3,561 |
| Total loans and leases | $18,851 | $7,350 | $26,125 | $52,326 | $5,346,538 | $5,398,864 | $ 7,077 | $ 40,077 |

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Commercial Real Estate Loans—As of June 30, 2017, loans outstanding in the three classes within this segment expressed as a percentage of total loans and leases outstanding were as follows: commercial real estate loans -- 37.2%; multi-family mortgage loans -- 13.0%; and construction loans -- 2.8%.

Loans in this portfolio that are on nonaccrual status and/or risk-rated "substandard" or worse are evaluated on an individual loan basis for impairment. For non-impaired commercial real estate loans, loss factors are applied to outstanding loans by risk rating for each of the three classes in the portfolio. The factors applied are based primarily on historic loan loss experience and an assessment of internal and external factors and other relevant information.

Commercial Loans and Leases—As of June 30, 2017, loans and leases outstanding in the three classes within this segment expressed as a percent of total loans and leases outstanding were as follows: commercial loans and leases -- 12.5%; equipment financing loans -- 15.2%; and loans to condominium associations -- 1.0%.

Loans and leases in this portfolio that are on nonaccrual status and/or risk-rated "substandard" or worse are evaluated on an individual basis for impairment. For non-impaired commercial loans and leases, loss factors are applied to outstanding loans by risk rating for each of the three classes in the portfolio.

Consumer Loans—As of June 30, 2017, loans outstanding within the four classes within this segment expressed as a percent of total loans and leases outstanding were as follows: residential mortgage loans -- 11.7%, home equity loans -- 6.3%, and other consumer loans -- 0.3%.

Significant risk characteristics related to the residential mortgage and home equity loan portfolios are the geographic concentration of the properties financed within selected communities in the greater Boston and Providence metropolitan areas. The payment status and loan-to-value ratio are the primary credit quality indicator used for residential mortgage loans and home equity loans. Generally, loans are not made when the loan-to-value ratio exceeds 80% unless private mortgage insurance is obtained and/or there is a financially strong guarantor. Consumer loans that become 90 days or more past due, or are placed on nonaccrual regardless of past due status, are reviewed on an individual basis for impairment by assessing the net realizable value of underlying collateral and the economic condition of the borrower.

Impaired Loans and Leases

A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both interest and principal) according to the contractual terms of the loan agreement. The Company has defined the population of impaired loans to include nonaccrual loans and troubled debt restructured loans.

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

The following tables include the recorded investment and unpaid principal balances of impaired loans and leases with the related allowance amount, if applicable, for the originated and acquired loan and lease portfolios at the dates indicated. Also presented are the average recorded investments in the impaired loans and leases and the related amount of interest recognized during the period that the impaired loans were impaired.

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| | At June 30, 2017 | | | At December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Recorded Investment (1) | Unpaid Principal Balance | Related Allowance | Recorded Investment (2) | Unpaid Principal Balance | Related Allowance |
| | (In Thousands) | | | | | |
| Originated: | | | | | | |
| With no related allowance recorded: | | | | | | |
| Commercial real estate | $9,449 | $9,441 | $ — | $9,113 | $9,104 | $ — |
| Commercial | 23,469 | 23,463 | — | 39,269 | 39,210 | — |
| Consumer | 5,217 | 5,207 | — | 4,823 | 4,815 | — |
| Total originated with no related allowance recorded | 38,135 | 38,111 | — | 53,205 | 53,129 | — |
| With an allowance recorded: | | | | | | |
| Commercial real estate | 3,065 | 3,065 | 1 | 3,984 | 3,984 | 28 |
| Commercial | 20,731 | 20,680 | 8,482 | 605 | 605 | 97 |
| Total originated with an allowance recorded | 23,796 | 23,745 | 8,483 | 4,589 | 4,589 | 125 |
| Total originated impaired loans and leases | 61,931 | 61,856 | 8,483 | 57,794 | 57,718 | 125 |
| Acquired: | | | | | | |
| With no related allowance recorded: | | | | | | |
| Commercial real estate | 2,515 | 2,515 | — | 10,400 | 10,400 | — |
| Commercial | 2,292 | 2,292 | — | 3,948 | 3,948 | — |
| Consumer | 5,668 | 5,668 | — | 6,384 | 6,399 | — |
| Total acquired with no related allowance recorded | 10,475 | 10,475 | — | 20,732 | 20,747 | — |
| With an allowance recorded: | | | | | | |
| Consumer | 171 | 171 | 20 | 253 | 253 | 27 |
| Total acquired with an allowance recorded | 171 | 171 | 20 | 253 | 253 | 27 |
| Total acquired impaired loans and leases | 10,646 | 10,646 | 20 | 20,985 | 21,000 | 27 |
| Total impaired loans and leases | $72,577 | $72,502 | $ 8,503 | $78,779 | $78,718 | $ 152 |

(1) Includes originated and acquired nonaccrual loans of $38.8 million and $2.5 million, respectively as of June 30, 2017.

(2) Includes originated and acquired nonaccrual loans of $34.1 million and $3.6 million, respectively as of December 31, 2016.

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At and for the Six Months Ended June 30, 2017 and 2016

| | Three Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2017 | | June 30, 2016 | |
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| | (In Thousands) | | | |
| Originated: | | | | |
| With no related allowance recorded: | | | | |
| Commercial real estate | $11,395 | $ 90 | $7,203 | $ 49 |
| Commercial | 25,230 | 185 | 14,557 | 115 |
| Consumer | 5,272 | 14 | 3,625 | 17 |
| Total originated with no related allowance recorded | 41,897 | 289 | 25,385 | 181 |
| With an allowance recorded: | | | | |
| Commercial real estate | 3,071 | 38 | 4,200 | 49 |
| Commercial | 21,782 | — | 13,376 | 1 |
| Total originated with an allowance recorded | 24,853 | 38 | 17,824 | 50 |
| Total originated impaired loans and leases | 66,750 | 327 | 43,209 | 231 |
| Acquired: | | | | |
| With no related allowance recorded: | | | | |
| Commercial real estate | 3,494 | 27 | 9,035 | 49 |
| Commercial | 2,691 | 8 | 4,357 | 19 |
| Consumer | 5,683 | 18 | 7,743 | 18 |
| Total acquired with no related allowance recorded | 11,868 | 53 | 21,135 | 86 |
| With an allowance recorded: | | | | |
| Commercial real estate | — | — | 1,767 | — |
| Commercial | — | — | 486 | — |
| Consumer | 169 | 1 | 523 | 2 |
| Total acquired with an allowance recorded | 169 | 1 | 2,776 | 2 |
| Total acquired impaired loans and leases | 12,037 | 54 | 23,911 | 88 |
| Total impaired loans and leases | $78,787 | $ 381 | $67,120 | $ 319 |

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At and for the Six Months Ended June 30, 2017 and 2016

| | Six Months Ended June 30, 2017 | | June 30, 2016 | |
|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| | (In Thousands) | | | |
| Originated: | | | | |
| With no related allowance recorded: | | | | |
| Commercial real estate | $10,379 | $ 122 | $5,164 | $ 56 |
| Commercial | 23,144 | 349 | 14,166 | 265 |
| Consumer | 5,289 | 30 | 4,057 | 37 |
| Total originated with no related allowance recorded | 38,812 | 501 | 23,387 | 358 |
| With an allowance recorded: | | | | |
| Commercial real estate | 3,535 | 86 | 5,161 | 98 |
| Commercial | 22,052 | 1 | 12,330 | 2 |
| Consumer | — | — | 124 | — |
| Total originated with an allowance recorded | 25,587 | 87 | 17,615 | 100 |
| Total originated impaired loans and leases | 64,399 | 588 | 41,002 | 458 |
| Acquired: | | | | |
| With no related allowance recorded: | | | | |
| Commercial real estate | 6,456 | 46 | 7,535 | 59 |
| Commercial | 2,813 | 18 | 4,317 | 37 |
| Consumer | 5,908 | 34 | 7,455 | 35 |
| Total acquired with no related allowance recorded | 15,177 | 98 | 19,307 | 131 |
| With an allowance recorded: | | | | |
| Commercial real estate | — | — | 2,187 | — |
| Commercial | — | — | 486 | — |
| Consumer | 168 | 2 | 524 | 4 |
| Total acquired with an allowance recorded | 168 | 2 | 3,197 | 4 |
| Total acquired impaired loans and leases | 15,345 | 100 | 22,504 | 135 |
| Total impaired loans and leases | $79,744 | $ 688 | $63,506 | $ 593 |

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

| | At June 30, 2017 | | | |
|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Consumer | Total |
| | (In Thousands) | | | |
| Allowance for Loan and Lease Losses: | | | | |
| Originated: | | | | |
| Individually evaluated for impairment | $1 | $ 8,482 | $ — | |