BERKSHIRE HILLS BANCORP INC
Form 10-Q
May 11, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: March 31, 2015

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

For the transition period from to

Commission File Number: 001-15781

BERKSHIRE HILLS BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**04-3510455**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
24 North Street, Pittsfield, Massachusetts	**01201**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(413) 443-5601**

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

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

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

Large Accelerated Filer o Accelerated Filer x Non-Accelerated Filer o Smaller Reporting Company o

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

The Registrant had 29,517,572 shares of common stock, par value $0.01 per share, outstanding as of May 6, 2015.

Table of Contents

BERKSHIRE HILLS BANCORP, INC.

FORM 10-Q

INDEX

			Page
PART I.	**FINANCIAL INFORMATION**		
Item 1.	Consolidated Financial Statements (unaudited)		
	Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014		4
	Consolidated Statements of Operations for the Three Months Ended March 31, 2015 and 2014		5
	Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2015 and 2014		6
	Consolidated Statements of Changes in Stockholders Equity for the Three Months Ended March 31, 2015 and 2014		7
	Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014		8
	Notes to Consolidated Financial Statements		
	Note 1	Basis of Presentation	10
	Note 2	Trading Security	12
	Note 3	Securities Available for Sale and Held to Maturity	13
	Note 4	Loans	17
	Note 5	Loan Loss Allowance	28
	Note 6	Deposits	32
	Note 7	Borrowed Funds	32
	Note 8	Stockholders Equity	33
	Note 9	Earnings per Share	36
	Note 10	Stock-Based Compensation Plans	36
	Note 11	Operating Segments	37
	Note 12	Derivative Financial Instruments and Hedging Activities	37
	Note 13	Fair Value Measurements	43
	Note 14	Net Interest Income after Provision for Loan Losses	51
	Note 15	Subsequent Events	51
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations		52
	Selected Financial Data		56
	Average Balances and Average Yields/Rates		57
	Non-GAAP Financial Measures		58
Item 3.	Quantitative and Qualitative Disclosures about Market Risk		68
Item 4.	Controls and Procedures		69

2

Table of Contents

PART II.	**OTHER INFORMATION**	
Item 1.	Legal Proceedings	70
Item 1A.	Risk Factors	70
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	70
Item 3.	Defaults Upon Senior Securities	71
Item 4.	Mine Safety Disclosures	71
Item 5.	Other Information	71
Item 6.	Exhibits	71
Signatures		73

Table of Contents

PART I

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	March 31, 2015	December 31, 2014
Assets		
Cash and due from banks	$ 43,089	$ 54,179
Short-term investments	19,125	17,575
Total cash and cash equivalents	62,214	71,754
Trading security	14,970	14,909
Securities available for sale, at fair value	1,099,656	1,091,818
Securities held to maturity (fair values of $44,744 and $44,997)	42,818	43,347
Federal Home Loan Bank stock and other restricted securities	58,734	55,720
Total securities	1,216,178	1,205,794
Loans held for sale, at fair value	29,305	19,493
Residential mortgages	1,473,239	1,496,204
Commercial real estate	1,672,099	1,611,567
Commercial and industrial loans	826,815	804,366
Consumer loans	756,510	768,463
Total loans	4,728,663	4,680,600
Less: Allowance for loan losses	(36,286)	(35,662)
Net loans	4,692,377	4,644,938
Premises and equipment, net	85,053	87,279
Other real estate owned	1,444	2,049
Goodwill	264,742	264,742
Other intangible assets	10,627	11,528
Cash surrender value of bank-owned life insurance policies	105,302	104,588
Deferred tax assets, net	26,828	28,776
Other assets	77,169	61,090
Total assets	$ 6,571,239	$ 6,502,031
Liabilities		
Demand deposits	$ 892,225	$ 869,302
NOW deposits	436,458	426,108
Money market deposits	1,372,924	1,407,179
Savings deposits	512,607	496,344
Time deposits	1,505,469	1,455,746
Total deposits	4,719,683	4,654,679
Short-term debt	894,500	900,900
Long-term Federal Home Loan Bank advances	61,618	61,676
Subordinated borrowings	89,765	89,747

Total borrowings		1,045,883		1,052,323
Other liabilities		89,443		85,742
Total liabilities		5,855,009		5,792,744
Stockholders equity				
Common stock ($.01 par value; 50,000,000 shares authorized and 26,525,466 shares issued and 25,252,635 shares outstanding in 2015; 26,525,466 shares issued and 25,182,566 shares outstanding in 2014)		265		265
Additional paid-in capital		585,307		587,289
Unearned compensation		(7,226)		(6,147)
Retained earnings		160,241		156,446
Accumulated other comprehensive income (loss)		9,068		6,579
Treasury stock, at cost (1,272,831 shares in 2015 and 1,342,900 shares in 2014)		(31,425)		(33,145)
Total stockholders equity		716,230		709,287
Total liabilities and stockholders equity	$	6,571,239	$	6,502,031

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)	Three Months Ended March 31, 2015	2014
Interest and dividend income		
Loans	$ 44,445	$ 42,494
Securities and other	8,306	7,301
Total interest and dividend income	52,751	49,795
Interest expense		
Deposits	4,949	4,721
Borrowings	2,309	2,308
Total interest expense	7,258	7,029
Net interest income	45,493	42,766
Non-interest income		
Loan related income	1,283	1,248
Mortgage banking income	1,253	372
Deposit related fees	5,677	5,439
Insurance commissions and fees	2,967	3,049
Wealth management fees	2,603	2,549
Total fee income	13,783	12,657
Other	(1,255)	524
Gain on sale of securities, net	34	34
Loss on termination of hedges		(8,792)
Total non-interest income	12,562	4,423
Total net revenue	58,055	47,189
Provision for loan losses	3,851	3,396
Non-interest expense		
Compensation and benefits	21,811	19,859
Occupancy and equipment	7,108	6,814
Technology and communications	3,593	3,778
Marketing and promotion	713	521
Professional services	1,272	1,152
FDIC premiums and assessments	1,129	1,009
Other real estate owned and foreclosures	251	523
Amortization of intangible assets	901	1,306
Acquisition, restructuring and conversion related expenses	4,421	6,301
Other	3,949	4,097
Total non-interest expense	45,148	45,360
Income before income taxes	9,056	(1,567)
Income tax expense (benefit)	297	(461)
Net income (loss)	$ 8,759	$ (1,106)
Earnings per share:		
Basic	$ 0.35	$ (0.04)
Diluted	$ 0.35	$ (0.04)
Weighted average common shares outstanding:		
Basic	24,803	24,698
Diluted	24,955	24,698

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	**Three Months Ended March 31, 2015**	**2014**
Net income (loss)	$ 8,759	$ (1,106)
Other comprehensive income, before tax:		
Changes in unrealized gain on securities available-for-sale	9,337	6,021
Changes in unrealized (loss) gain on derivative hedges	(3,901)	4,533
Changes in unrealized gain on terminated swaps		3,237
Changes in unrealized (loss) gain on pension	(1,531)	
Income taxes related to other comprehensive income:		
Changes in unrealized gain on securities available-for-sale	(3,605)	(2,221)
Changes in unrealized (loss) gain on derivative hedges	1,572	(1,832)
Changes in unrealized gain on terminated swaps		(1,312)
Changes in unrealized (loss) gain on pension	617	
Total other comprehensive income	2,489	8,426
Total comprehensive income	$ 11,248	$ 7,320

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In thousands)	**Common stock Shares**	**Common stock Amount**	**Additional paid-in capital**	**Unearned compensation**	**Retained earnings**	**Accumulated other comprehensive (loss) income**	**Treasury stock**	**Total**
Balance at December 31, 2013	25,036	$ 265	$ 587,247	$ (5,563)	$ 141,958	$ (9,057)	$ (36,788)	$ 678,062
Comprehensive income:								
Net loss					(1,106)			(1,106)
Other comprehensive income						8,426		8,426
Total comprehensive income								7,320
Cash dividends declared ($0.18 per share)					(4,561)			(4,561)
Treasury stock purchased	(100)						(2,467)	(2,467)
Forfeited shares	(1)		1	5			(6)	
Exercise of stock options	61				(793)		1,512	719
Restricted stock grants	126		37	(3,144)			3,107	
Stock-based compensation			41	891				932
Net tax benefit related to stock-based compensation			(1,984)					(1,984)
Other, net	(17)						(431)	(431)
Balance at March 31, 2014	25,105	$ 265	$ 585,342	$ (7,811)	$ 135,498	$ (631)	$ (35,073)	$ 677,590
Balance at December 31, 2014	25,183	$ 265	$ 585,289	$ (6,147)	$ 156,446	$ 6,579	$ (33,145)	$ 709,287
Comprehensive income:								
Net income					8,759			8,759
Other comprehensive income						2,489		2,489
Total comprehensive income								11,248
Cash dividends declared ($0.19 per share)					(4,799)			(4,799)
Treasury stock purchased								
Forfeited shares	(9)		22	214			(236)	
Exercise of stock options	11				(165)		281	116
Restricted stock grants	92		19	(2,286)			2,267	
Stock-based compensation				993				993
Net tax benefit related to stock-based compensation			(23)					(23)
Other, net	(24)						(592)	(592)
Balance at March 31, 2015	25,253	$ 265	$ 585,307	$ (7,226)	$ 160,241	$ 9,068	$ (31,425)	$ 716,230

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	**Three Months Ended March 31, 2015**	**2014**
Cash flows from operating activities:		
Net income (loss)	$ 8,759	$ (1,106)
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,851	3,396
Net amortization of securities	(317)	604
Change in unamortized net loan costs and premiums	398	64
Premises and equipment depreciation and amortization expense	2,096	1,944
Stock-based compensation expense	993	932
Accretion of purchase accounting entries, net	(367)	(1,999)
Amortization of other intangibles	901	1,306
Write down of other real estate owned		125
Excess tax loss from stock-based payment arrangements	23	(89)
Income from cash surrender value of bank-owned life insurance policies	(714)	(813)
Gain on sales of securities, net	(34)	(34)
Net (increase) decrease in loans held for sale	(9,812)	8,171
Loss on disposition of assets	1,136	834
Loss on sale of real estate	154	208
Loss on termination of hedges		3,237
Amortization of interest in tax-advantaged projects	2,882	421
Net change in other	(6,145)	(183)
Net cash provided by operating activities	3,804	17,018
Cash flows from investing activities:		
Net decrease in trading security	142	135
Proceeds from sales of securities available for sale	4,693	3,171
Proceeds from maturities, calls and prepayments of securities available for sale	40,552	25,440
Purchases of securities available for sale	(41,068)	(291,662)
Proceeds from maturities, calls and prepayments of securities held to maturity	729	1,762
Purchases of securities held to maturity	(200)	
Net change in loans	(68,671)	(59,851)
Purchases of bank owned life insurance		
Proceeds from sale of Federal Home Loan Bank stock	103	78
Purchase of Federal Home Loan Bank stock	(3,117)	(2,920)
Net investment in limited partnership tax credits		(2,500)
Proceeds from the sale of premises and equipment		
Purchase of premises and equipment, net	(946)	(3,130)
Acquisitions, net of cash paid		423,416
Proceeds from sale of other real estate	578	483
Net cash (used in) provided by investing activities	(67,205)	94,422

(continued)

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONCLUDED)

(In thousands)	**Three Months Ended March 31, 2015**	**2014**
Cash flows from financing activities:		
Net increase (decrease) in deposits	65,007	(70,422)
Proceeds from Federal Home Loan Bank advances and other borrowings	2,200,000	900,018
Repayments of Federal Home Loan Bank advances and other borrowings	(2,206,440)	(937,682)
Purchase of treasury stock		(2,467)
Exercise of stock options	116	719
Excess tax loss from stock-based payment arrangements	(23)	89
Common stock cash dividends paid	(4,799)	(4,561)
Net cash provided (used) by financing activities	53,861	(114,306)
Net change in cash and cash equivalents	(9,540)	(2,866)
Cash and cash equivalents at beginning of year	71,754	75,539
Cash and cash equivalents at end of year	$ 62,214	$ 72,673
Supplemental cash flow information:		
Interest paid on deposits	$ 4,902	$ 4,718
Interest paid on borrowed funds	2,306	3,145
Income taxes paid, net	274	146
Acquisition of non-cash assets and liabilities:		
Assets acquired		18,064
Liabilities assumed		(441,550)
Other non-cash changes:		
Other net comprehensive income	2,489	5,189
Real estate owned acquired in settlement of loans	127	476

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and contain all adjustments, consisting solely of normal, recurring adjustments, necessary for a fair presentation of results for such periods.

In addition, these interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X, and accordingly, certain information and footnote disclosures normally included in financial statements prepared according to U.S. GAAP have been omitted.

The results for any interim period are not necessarily indicative of results for the full year. These consolidated financial statements should be read in conjunction with the audited financial statements and note disclosures for Berkshire Hills Bancorp, Inc. (the Company) previously filed with the Securities and Exchange Commission in the Company s Annual Report on Form 10-K for the year ended December 31, 2014.

Reclassifications

Certain items in prior financial statements have been reclassified to conform to the current presentation.

Recently Adopted Accounting Standards

In January 2014, the Financial Accounting Standard Board FASB issued Accounting Standard Updated ASU ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. ASU No. 2014-01 permits reporting entities to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. This new guidance also requires new disclosures for all investors in these projects. ASU No. 2014-01 is effective for interim and annual reporting periods beginning after December 15, 2014. Upon adoption, the guidance must be applied retrospectively to all periods presented. However, entities that use the effective yield method to account for investments in these projects before adoption may continue to do so for these pre-existing investments. The Company has elected not to adopt the proportional amortization method, which had no impact on our consolidated financial statements.

Also in January 2014, the FASB issued ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The Company adopted the provisions of ASU No. 2014-04 effective January 1, 2015, which did not have a material effect on our consolidated financial statements. See Note 4 - Loans to the Consolidated Financial Statements for the disclosures required by ASU No. 2014-04.

In June 2014, the FASB issued ASU No. 2014-11 related to repurchase-to-maturity transactions, repurchase financing and disclosures. The pronouncement changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other

Table of Contents

repurchase agreements. The pronouncement also requires two new disclosures. The first disclosure requires an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. The second disclosure provides increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The pronouncement is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is not permitted. As of March 31, 2015 the Company did not have any repurchase transactions, and therefore the adoption of this pronouncement did not have an impact on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-14 related to classification of certain government-guaranteed mortgage loans upon foreclosure. The objective of this guidance is to reduce diversity in practice related to how creditors classify government-guaranteed mortgage loans, including FHA or VA guaranteed loans, upon foreclosure. Some creditors reclassify those loans to real estate consistent with other foreclosed loans that do not have guarantees; others reclassify the loans to other receivables. The amendments in this guidance require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) The loan has a government guarantee that is not separable from the loan before foreclosure; (2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The pronouncement is effective for interim and annual reporting periods beginning after December 15, 2014. The Company adopted the provisions of ASU No. 2014-14 effective January 1, 2015, which did not have a material effect on our consolidated financial statements.

Future Application of Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 related to the recognition of revenue from contracts with customers. The new revenue pronouncement creates a single source of revenue guidance for all companies in all industries and is more principles-based than current revenue guidance. The pronouncement provides a five-step model for a company to recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The five steps are (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations and (5) recognize revenue when each performance obligation is satisfied. The pronouncement is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016 using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. Early adoption is not permitted. The adoption of this pronouncement is not expected to have a material impact on our consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Amendments to the Consolidation Analysis. This ASU affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; (2) Eliminate the presumption that a general partner should consolidate a limited partnership; (3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is not permitted; however, the FASB has issued a proposal to extend the effective date by one year.

In April 2015, the FASB issued ASU No. 2015-05, Customer s Accounting for Fees Paid in a Cloud Computing Arrangement. This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a

Table of Contents

cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer s accounting for service contracts. ASU No. 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015. The adoption of this pronouncement is not expected to have a material impact on our consolidated financial statements.

NOTE 2. TRADING SECURITY

The Company holds a tax advantaged economic development bond that is being accounted for at fair value. The security had an amortized cost of $12.4 million and $12.6 million, and a fair value of $15.0 million and $14.9 million, at March 31, 2015 and December 31, 2014, respectively. As discussed further in Note 12 - Derivative Financial Instruments and Hedging Activities, the Company has entered into a swap contract to swap-out the fixed rate of the security in exchange for a variable rate. The Company does not purchase securities with the intent of selling them in the near term, and there are no other securities in the trading portfolio at March 31, 2015.

Table of Contents

NOTE 3. SECURITIES AVAILABLE FOR SALE AND HELD TO MATURITY

The following is a summary of securities available for sale and held to maturity:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2015				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$ 149,454	$ 6,391	$ (395)	$ 155,450
Government-guaranteed residential mortgage-backed securities	64,456	696	(113)	65,039
Government-sponsored residential mortgage-backed securities	750,730	13,157	(1,466)	762,421
Corporate bonds	55,560	411	(614)	55,357
Trust preferred securities	12,773	736	(82)	13,427
Other bonds and obligations	3,203		(7)	3,196
Total debt securities	1,036,176	21,391	(2,677)	1,054,890
Marketable equity securities	38,150	7,536	(920)	44,766
Total securities available for sale	1,074,326	28,927	(3,597)	1,099,656
Securities held to maturity				
Municipal bonds and obligations	4,847			4,847
Government-sponsored residential mortgage-backed securities	70	5		75
Tax advantaged economic development bonds	37,570	1,921		39,491
Other bonds and obligations	331			331
Total securities held to maturity	42,818	1,926		44,744
Total	$ 1,117,144	$ 30,853	$ (3,597)	$ 1,144,400
December 31, 2014				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$ 127,014	$ 6,859	$ (174)	$ 133,699
Government-guaranteed residential mortgage-backed securities	68,972	702	(206)	69,468
Government-sponsored residential mortgage-backed securities	755,893	7,421	(3,130)	760,184
Corporate bonds	55,134	120	(1,103)	54,151
Trust preferred securities	16,607	820	(1,212)	16,215
Other bonds and obligations	3,211		(52)	3,159
Total debt securities	1,026,831	15,922	(5,877)	1,036,876
Marketable equity securities	48,993	7,322	(1,373)	54,942
Total securities available for sale	1,075,824	23,244	(7,250)	1,091,818
Securities held to maturity				
Municipal bonds and obligations	4,997			4,997
Government-sponsored residential mortgage-backed securities	70	4		74
Tax advantaged economic development bonds	37,948	1,680	(34)	39,594

Other bonds and obligations		332						332
Total securities held to maturity		43,347		1,684		(34)		44,997
Total	$	1,119,171	$	24,928	$	(7,284)	$	1,136,815

Table of Contents

The amortized cost and estimated fair value of available for sale (AFS) and held to maturity (HTM) securities, segregated by contractual maturity at March 31, 2015 are presented below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are shown in total, as their maturities are highly variable. Equity securities have no maturity and are also shown in total.

	Available for sale		Held to maturity	
(In thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Within 1 year	$ 31,062	$ 30,557	$ 1,214	$ 1,214
Over 1 year to 5 years	1,256	1,264	16,802	17,774
Over 5 years to 10 years	17,319	17,698	12,232	12,532
Over 10 years	171,353	177,911	12,500	13,149
Total bonds and obligations	220,990	227,430	42,748	44,669
Marketable equity securities	38,150	44,766		
Residential mortgage-backed securities	815,186	827,460	70	75
Total	$ 1,074,326	$ 1,099,656	$ 42,818	$ 44,744

Table of Contents

Securities with unrealized losses, segregated by the duration of their continuous unrealized loss positions, are summarized as follows:

	Less Than Twelve Months		Over Twelve Months		Total	
(In thousands)	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**
March 31, 2015						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	$ 62	$ 19,756	$ 333	$ 11,796	$ 395	$ 31,552
Government-guaranteed residential mortgage-backed securities	11	5,638	102	6,701	113	12,339
Government-sponsored residential mortgage-backed securities			1,466	142,786	1,466	142,786
Corporate bonds	614	33,680			614	33,680
Trust preferred securities	82	2,192			82	2,192
Other bonds and obligations			7	2,057	7	2,057
Total debt securities	769	61,266	1,908	163,340	2,677	224,606
Marketable equity securities	636	7,364	284	4,576	920	11,940
Total securities available for sale	1,405	68,630	2,192	167,916	3,597	236,546
Securities held to maturity						
Tax advantaged economic development bonds						
Total securities held to maturity						
Total	$ 1,405	$ 68,630	$ 2,192	$ 167,916	$ 3,597	$ 236,546
December 31, 2014						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	$ 8	$ 1,001	$ 166	$ 7,206	$ 174	$ 8,207
Government guaranteed residential mortgage-backed securities	46	7,122	160	16,727	206	23,849
Government-sponsored residential mortgage-backed securities	236	30,672	2,894	167,473	3,130	198,145
Corporate bonds	1,103	39,571			1,103	39,571
Trust preferred securities	65	935	1,147	2,408	1,212	3,343
Other bonds and obligations			52	3,035	52	3,035
Total debt securities	1,458	79,301	4,419	196,849	5,877	276,150
Marketable equity securities	1,039	9,902	334	4,755	1,373	14,657
Total securities available for sale	2,497	89,203	4,753	201,604	7,250	290,807
Securities held to maturity						
Tax advantaged economic development bonds			34	7,972	34	7,972
Total securities held to maturity			34	7,972	34	7,972
Total	$ 2,497	$ 89,203	$ 4,787	$ 209,576	$ 7,284	$ 298,779

Debt Securities

The Company expects to recover its amortized cost basis on all debt securities in its AFS and HTM portfolios. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities in an unrealized loss position as of March 31, 2015, prior to this recovery. The Company s ability and intent to hold these securities until recovery is supported by the Company s strong capital and liquidity positions as well as its historically low portfolio turnover. The following summarizes, by investment security type, the basis for the conclusion that the debt securities in an unrealized loss position within the Company s AFS and HTM portfolios were not other-than-temporarily impaired at March 31, 2015:

Table of Contents

AFS municipal bonds and obligations

At March 31, 2015, 28 of the total 190 securities in the Company s portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 1.2% of the amortized cost of securities in unrealized loss positions. The Company continually monitors the municipal bond sector of the market carefully and periodically evaluates the appropriate level of exposure to the market. At this time, the Company feels the bonds in this portfolio carry minimal risk of default and the Company is appropriately compensated for that risk. There were no material underlying credit downgrades during the first quarter of 2015. All securities are performing.

AFS residential mortgage-backed securities

At March 31, 2015, 36 out of the total 198 securities in the Company s portfolios of AFS residential mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 1.0% of the amortized cost of securities in unrealized loss positions. The Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Government National Mortgage Association (GNMA) guarantee the contractual cash flows of all of the Company s residential mortgage-backed securities. The securities are investment grade rated and there were no material underlying credit downgrades during the past quarter. All securities are performing.

AFS corporate bonds

At March 31, 2015, 2 out of 6 securities in the Company s portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represents 1.8% of the amortized cost of bonds in unrealized loss positions. The Company reviews the financial strength of all of these bonds and has concluded that the amortized cost remains supported by the expected future cash flows of these securities. Neither bond is investment grade rated.

At March 31, 2015, $0.5 million of the total unrealized losses was attributable to a $31.1 million investment. The Company evaluated this security, with a Level 2 fair value of $30.6 million, for potential other-than-temporary impairment (OTTI) at March 31, 2015 and determined that OTTI was not evident based on both the Company s ability and intent to hold the security until the recovery of its remaining amortized cost.

AFS trust preferred securities

At March 31, 2015, 2 out of the 4 securities in the Company s portfolio of AFS trust preferred securities were in unrealized loss positions. Aggregate unrealized losses represented 3.6% of the amortized cost of securities in unrealized loss positions. The Company s evaluation of the present value of expected cash flows on these securities supports its conclusions about the recoverability of the securities amortized cost basis. Both securities are investment grade rated. The Company reviews the financial strength of all of the single issue trust issuers and has concluded that the amortized cost remains supported by the market value of these securities and they are performing.

AFS other bonds and obligations

At March 31, 2015, 4 of the total 8 securities in the Company s portfolio of other bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 0.4% of the amortized cost of securities in unrealized loss positions. The securities are investment grade rated and there were no material underlying credit downgrades during first quarter of 2015. All securities are performing.

Marketable Equity Securities

In evaluating its marketable equity securities portfolio for OTTI, the Company considers its ability to more likely than not hold an equity security to recovery. The Company additionally considers other various factors including the length of time and the extent to which the fair value has been less than cost and the financial condition and near term prospects of the issuer. Any OTTI is recognized immediately through earnings.

Table of Contents

At March 31, 2015, 6 out of the total 29 securities in the Company s portfolio of marketable equity securities were in an unrealized loss position. The unrealized loss represented 7.2% of the amortized cost of the securities. The Company has the ability and intent to hold the securities until recovery of their cost basis and does not consider the securities other-than-temporarily impaired at March 31, 2015. As new information becomes available in future periods, changes to the Company s assumptions may be warranted and could lead to a different conclusion regarding the OTTI of these securities.

NOTE 4. LOANS

The Company s loan portfolio is segregated into the following segments: residential mortgage, commercial real estate, commercial and industrial, and consumer. Residential mortgage loans include classes for 1- 4 family owner occupied and construction loans. Commercial real estate loans include construction, single and multi-family, and other commercial real estate classes. Commercial and industrial loans include asset based lending loans, lease financing and other commercial business loan classes. Consumer loans include home equity, direct and indirect auto and other. These portfolio segments each have unique risk characteristics that are considered when determining the appropriate level for the allowance for loan losses.

A substantial portion of the loan portfolio is secured by real estate in western Massachusetts, southern Vermont, northeastern New York, and in the Bank s other New England lending areas. The ability of many of the Bank s borrowers to honor their contracts is dependent, among other things, on the specific economy and real estate markets of these areas.

Total loans include business activity loans and acquired loans. Acquired loans are those loans acquired from the acquisitions of the 20 acquired branches, Beacon Federal Bancorp, Inc., The Connecticut Bank and Trust Company, Legacy Bancorp, Inc., and Rome Bancorp, Inc. The following is a summary of total loans:

	March 31, 2015			December 31, 2014		
(In thousands)	**Business Activities Loans**	**Acquired Loans**	**Total**	**Business Activities Loans**	**Acquired Loans**	**Total**
Residential mortgages:						
1-4 family	$ 1,188,018	$ 256,503	$ 1,444,521	$ 1,199,408	$ 268,734	$ 1,468,142
Construction	27,796	922	28,718	27,044	1,018	28,062
Total residential mortgages	1,215,814	257,425	1,473,239	1,226,452	269,752	1,496,204
Commercial real estate:						
Construction	182,800	4,046	186,846	169,189	4,201	173,390
Single and multi-family	142,297	48,429	190,726	140,050	53,168	193,218
Other commercial real estate	1,086,893	207,634	1,294,527	1,030,837	214,122	1,244,959
Total commercial real estate	1,411,990	260,109	1,672,099	1,340,076	271,491	1,611,567
Commercial and industrial loans:						
Asset based lending	354,106		354,106	341,246		341,246
Other commercial and industrial loans	424,565	48,144	472,709	411,945	51,175	463,120
	778,671	48,144	826,815	753,191	51,175	804,366

Total commercial and industrial loans												
Total commercial loans		2,190,661		308,253		2,498,914		2,093,267		322,666		2,415,933
Consumer loans:												
Home equity		255,368		62,247		317,615		252,681		65,951		318,632
Auto and other		351,826		87,069		438,895		346,480		103,351		449,831
Total consumer loans		607,194		149,316		756,510		599,161		169,302		768,463
Total loans	$	4,013,669	$	714,994	$	4,728,663	$	3,918,880	$	761,720	$	4,680,600

The carrying amount of the acquired loans at March 31, 2015 totaled $715 million. A subset of these loans was determined to have evidence of credit deterioration at acquisition date, which is accounted for in accordance with

Table of Contents

ASC 310-30. These purchased credit-impaired loans presently maintain a carrying value of $12.7 million (and a note balance of $23.9). These loans are evaluated for impairment through the periodic reforecasting of expected cash flows. Loans that were considered not impaired at the acquisition date had a carrying amount of $702 million.

The carrying amount of the acquired loans at December 31, 2014 totaled $762 million. A subset of these loans was determined to have evidence of credit deterioration at acquisition date, which is accounted for in accordance with ASC 310-30. These purchased credit-impaired loans presently maintain a carrying value of $13.8 million (and a note balance of $25.8). These loans are evaluated for impairment through the periodic reforecasting of expected cash flows. Loans that were considered not impaired at the acquisition date had a carrying amount of $747.9 million.

The following table summarizes activity in the accretable yield for the acquired loan portfolio that falls under the purview of ASC 310-30, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer.*

	Three Months Ended March 31,			
(In thousands)		**2015**		**2014**
Balance at beginning of period	$	2,541	$	2,559
Sales				
Reclassification form nonaccretable difference for loans with improved cash flows		1,330		1,540
Accretion		(440)		(945)
Balance at end of period	$	3,431	$	3,154

Table of Contents

The following is a summary of past due loans at March 31, 2015 and December 31, 2014:

Business Activities Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
March 31, 2015							
Residential mortgages:							
1-4 family	$ 1,888	$ 888	$ 4,066	$ 6,842	$ 1,181,176	$ 1,188,018	$ 1,699
Construction			414	414	27,382	27,796	414
Total	1,888	888	4,480	7,256	1,208,558	1,215,814	2,113
Commercial real estate:							
Construction			758	758	182,042	182,800	
Single and multi-family	245	247	406	898	141,399	142,297	
Other commercial real estate	1,900	330	9,202	11,432	1,075,461	1,086,893	266
Total	2,145	577	10,366	13,088	1,398,902	1,411,990	266
Commercial and industrial loans:							
Asset based lending					354,106	354,106	
Other commercial and industrial loans	1,371	150	725	2,246	422,319	424,565	
Total	1,371	150	725	2,246	776,425	778,671	
Consumer loans:							
Home equity	589	154	2,546	3,289	252,079	255,368	1,354
Auto and other	744	54	255	1,053	350,773	351,826	3
Total	1,333	208	2,801	4,342	602,852	607,194	1,357
Total	$ 6,737	$ 1,823	$ 18,372	$ 26,932	$ 3,986,737	$ 4,013,669	$ 3,736

Business Activities Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
December 31, 2014							
Residential mortgages:							
1-4 family	$ 5,580	$ 146	$ 4,053	$ 9,779	$ 1,189,629	$ 1,199,408	$ 1,527
Construction	666	410		1,076	25,968	27,044	
Total	6,246	556	4,053	10,855	1,215,597	1,226,452	1,527
Commercial real estate:							
Construction		2,000	720	2,720	166,469	169,189	
Single and multi-family	178	156	458	792	139,258	140,050	
Other commercial real estate	692	705	9,383	10,780	1,020,057	1,030,837	621
Total	870	2,861	10,561	14,292	1,325,784	1,340,076	621
Commercial and industrial loans:							
Asset based lending					341,246	341,246	
Other commercial and industrial loans	1,040	498	856	2,394	409,551	411,945	6
Total	1,040	498	856	2,394	750,797	753,191	6
Consumer loans:							

Home equity	333	1,000	1,387	2,720	249,961	252,681	230
Auto and other	831	65	315	1,211	345,269	346,480	10
Total	1,164	1,065	1,702	3,931	595,230	599,161	240
Total	$ 9,320	$ 4,980	$ 17,172	$ 31,472	$ 3,887,408	$ 3,918,880	$ 2,394

Table of Contents

Acquired Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Acquired Credit Impaired	Total Loans	Past Due > 90 days and Accruing
March 31, 2015							
Residential mortgages:							
1-4 family	$ 187	$ 592	$ 1,930	2,709	$ 361	$ 256,503	$ 144
Construction						922	
Total	187	592	1,930	2,709	361	257,425	144
Commercial real estate:							
Construction			676	676	1,281	4,046	
Single and multi-family	323	45	2,728	3,096	4,924	48,429	2,257
Other commercial real estate	1,116	116	2,269	3,501	5,222	207,634	
Total	1,439	161	5,673	7,273	11,427	260,109	2,257
Commercial and industrial loans:							
Asset based lending							
Other commercial and industrial loans	285		586	871	705	48,144	3
Total	285		586	871	705	48,144	3
Consumer loans:							
Home equity	209	228	1,118	1,555	170	62,247	242
Auto and other	1,394	23	731	2,148		87,069	19
Total	1,603	251	1,849	3,703	170	149,316	261
Total	$ 3,514	$ 1,004	$ 10,038	$ 14,556	$ 12,663	$ 714,994	$ 2,665

Acquired Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Acquired Credit Impaired	Total Loans	Past Due > 90 days and Accruing
December 31, 2014							
Residential mortgages:							
1-4 family	$ 1,133	$ 638	$ 1,651	$ 3,422	$ 375	$ 268,734	$ 269
Construction						1,018	
Total	1,133	638	1,651	3,422	375	269,752	269
Commercial real estate:							
Construction			691	691	1,296	4,201	
Single and multi-family	277		572	849	5,477	53,168	
Other commercial real estate		715	2,004	2,719	5,504	214,122	329
Total	277	715	3,267	4,259	12,277	271,491	329
Commercial and industrial loans:							
Asset based lending							
Other commercial and industrial loans	202	32	855	1,089	986	51,175	
Total	202	32	855	1,089	986	51,175	
Consumer loans:							
Home equity	176	95	1,049	1,320	171	65,951	466
Auto and other	1,170	944	1,363	3,477		103,351	194
Total	1,346	1,039	2,412	4,797	171	169,302	660
Total	$ 2,958	$ 2,424	$ 8,185	$ 13,567	$ 13,809	$ 761,720	$ 1,258

Table of Contents

The following is summary information pertaining to non-accrual loans at March 31, 2015 and December 31, 2014:

	March 31, 2015			December 31, 2014		
(In thousands)	Business Activities Loans	Acquired Loans (1)	Total	Business Activities Loans	Acquired Loans (2)	Total
Residential mortgages:						
1-4 family	$ 2,367	$ 1,786	$ 4,153	$ 2,526	$ 1,382	$ 3,908
Construction						
Total	2,367	1,786	4,153	2,526	1,382	3,908
Commercial real estate:						
Construction	758		758	720		720
Single and multi-family	406	471	877	458	141	599
Other commercial real estate	8,936	1,939	10,875	8,762	1,675	10,437
Total	10,100	2,410	12,510	9,940	1,816	11,756
Commercial and industrial loans:						
Other commercial and industrial loans	725	569	1,294	850	811	1,661
Total	725	569	1,294	850	811	1,661
Consumer loans:						
Home equity	1,192	876	2,068	1,157	583	1,740
Auto and other	252	712	964	305	1,169	1,474
Total	1,444	1,588	3,032	1,462	1,752	3,214
Total non-accrual loans	$ 14,636	$ 6,353	$ 20,989	$ 14,778	$ 5,761	$ 20,539

(1) At quarter end March 31, 2015, acquired credit impaired loans accounted for $1.0 million of non-accrual loans that are not presented in the above table.

(2) At year end 2014, acquired credit impaired loans accounted for $1.2 million of non-accrual loans that are not presented in the above table.

Table of Contents

Loans evaluated for impairment as of March 31, 2015 and December 31, 2014 were as follows:

Business Activities Loans

(In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Total
March 31, 2015					
Loans receivable:					
Balance at end of period					
Individually evaluated for impairment	$ 3,028	$ 22,342	$ 262	$ 448	$ 26,080
Collectively evaluated	1,212,786	1,389,648	778,409	606,746	3,987,589
Total	$ 1,215,814	$ 1,411,990	$ 778,671	$ 607,194	$ 4,013,669

Business Activities Loans

(In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Total
December 31, 2014					
Loans receivable:					
Balance at end of year					
Individually evaluated for impairment	$ 3,238	$ 22,015	$ 743	$ 452	$ 26,448
Collectively evaluated for impairment	1,223,214	1,318,061	752,448	598,709	3,892,432
Total	$ 1,226,452	$ 1,340,076	$ 753,191	$ 599,161	$ 3,918,880

Acquired Loans

(In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Total
March 31, 2015					
Loans receivable:					
Balance at end of Period					
Individually evaluated for impairment	$ 1,194	$ 6,203	$ 47	$ 546	$ 7,990
Collectively evaluated	256,231	253,906	48,097	148,770	707,004
Total	$ 257,425	$ 260,109	$ 48,144	$ 149,316	$ 714,994

Acquired Loans

(In thousands)	Residential mortgages	Commercial real estate	Commercial and industrial loans	Consumer	Total
December 31, 2014					
Loans receivable:					

Balance at end of year					
Individually evaluated for impairment	$ 695	$ 5,637	$ 39	$ 199	$ 6,570
Collectively evaluated for impairment	269,057	265,854	51,136	169,103	755,150
Total	$ 269,752	$ 271,491	$ 51,175	$ 169,302	$ 761,720

Table of Contents

The following is a summary of impaired loans at March 31, 2015:

Business Activities Loans

	At March 31, 2015		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$ 3,028	$ 3,028	$
Commercial real estate - single and multifamily	180	180	
Other commercial real estate loans	14,380	14,380	
Commercial real esate - construction	2,632	2,632	
Other commercial and industrial loans	262	262	
Consumer - home equity	334	334	
Consumer - other	114	114	
With an allowance recorded:			
Other commercial real estate loans	$ 4,064	$ 5,150	$ 1,086
Total			
Residential mortgages	$ 3,028	$ 3,028	$
Commercial real estate	21,256	22,342	1,086
Commercial and industrial loans	262	262	
Consumer	448	448	
Total impaired loans	$ 24,994	$ 26,080	$ 1,086

Acquired Loans

	At March 31, 2015		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Residential mortgages - 1-4 family	$ 625	$ 625	$
Commercial real estate - single and multifamily	2,857	2,857	
Other commercial real estate loans	1,649	1,649	
Other commercial and industrial loans	47	47	
Consumer - home equity	197	197	
With an allowance recorded:			
Residential mortgages - 1-4 family	$ 517	$ 569	$ 52
Commercial real estate - single and multifamily	318	330	12
Other commercial real estate loans	504	691	187
Commercial real esate - construction	420	676	256
Consumer - home equity	288	349	61
Total			
Residential mortgages	$ 1,142	$ 1,194	$ 52
Commercial real estate	5,748	6,203	455

Commercial and industrial loans		47		47		
Consumer		485		546		61
Total impaired loans	$	7,422	$	7,990	$	568

Table of Contents

The following is a summary of impaired loans at December 31, 2014:

Business Activities Loans

	At December 31, 2014		
(In thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance:			
Residential mortgages - 1-4 family	$ 2,528	$ 2,528	$
Commercial real estate - construction	16,990	16,990	
Commercial real estate - single and multifamily			
Other commercial real estate loans	102	102	
Other commercial and industrial loans	743	743	
Consumer - home equity	87	87	
Consumer - other			
With an allowance recorded:			
Residential mortgages - 1-4 family	$ 555	$ 710	$ 155
Commercial real estate - construction	3,511	4,431	920
Commercial real estate - single and multifamily	490	492	2
Other commercial real estate loans			
Other commercial and industrial loans			
Consumer - home equity	194	248	54
Consumer - other	105	117	12
Total			
Residential mortgages	$ 3,083	$ 3,238	$ 155
Commercial real estate	21,093	22,015	922
Commercial and industrial loans	743	743	
Consumer	386	452	66
Total impaired loans	$ 25,305	$ 26,448	$ 1,143

Acquired Loans

	At December 31, 2014		
(In thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance:			
Residential mortgages - 1-4 family	$ 189	$ 189	$
Other commercial real estate loans	5,206	5,206	
Other commercial and industrial loans	39	39	
Consumer - home equity			
With an allowance recorded:			
Residential mortgages - 1-4 family	$ 458	$ 506	$ 48
Other commercial real estate loans	383	431	48
Consumer - home equity	124	199	75

Total			
Residential mortgages	$ 647	$ 695	$ 48
Other commercial real estate loans	5,589	5,637	48
Other commercial and industrial loans	39	39	
Consumer - home equity	124	199	75
Total impaired loans	$ 6,399	$ 6,570	$ 171

Table of Contents

The following is a summary of the average recorded investment and interest income recognized on impaired loans as of March 31, 2015 and 2014:

Business Activities Loans

(in thousands)	Three Months Ended March 31, 2015 Average Recorded Investment	Three Months Ended March 31, 2015 Cash Basis Interest Income Recognized	Three Months Ended March 31, 2014 Average Recorded Investment	Three Months Ended March 31, 2014 Cash Basis Interest Income Recognized
With no related allowance:				
Residential mortgages - 1-4 family	$ 3,108	$ 28	$ 4,142	$ 23
Commercial real estate - construction	2,628	1	1,957	
Commercial real estate - single and multifamily	180			
Other commercial real estate loans	15,315	131	16,180	154
Commercial and industrial loans	578	3	1,337	7
Consumer - home equity	334		348	1
Consumer - other	115	1	124	1
With an allowance recorded:				
Residential mortgages - 1-4 family	$	$	$ 1,774	$ 16
Commercial real estate - construction			1,013	
Other commercial real estate loans	5,267		3,450	
Commercial and industrial loans			55	1
Consumer - home equity			41	
Total				
Residential mortgages	$ 3,108	$ 28	$ 5,916	$ 39
Commercial real estate	23,390	132	22,600	154
Commercial and industrial loans	578	3	1,392	8
Consumer loans	449	1	513	2
Total impaired loans	$ 27,525	$ 164	$ 30,421	$ 203

Acquired Loans

(in thousands)	Three Months Ended March 31, 2015 Average Recorded Investment	Three Months Ended March 31, 2015 Cash Basis Interest Income Recognized	Three Months Ended March 31, 2014 Average Recorded Investment	Three Months Ended March 31, 2014 Cash Basis Interest Income Recognized
With no related allowance:				
Residential mortgages - 1-4 family	$ 670	$ 3	$ 1,303	$ 5
Commercial real estate - single and multifamily	2,892	24		
Other commercial real estate loans	1,662	3	4,821	25
Other commercial and industrial loans	64	3		
Consumer - home equity	197	2	562	1
Consumer - other			154	
With an allowance recorded:				
Residential mortgages - 1-4 family	$ 569	$	$ 162	$

Commercial real estate - single and multifamily	397			
Other commercial real estate loans	691		1,577	46
Commercial real esate - construction	666	44		
Consumer - home equity	349			
Consumer - other			70	2
Total				
Residential mortgages	$ 1,239	$ 3	$ 1,465	$ 5
Other commercial real estate loans	6,308	71	6,398	71
Commercial and industrial loans	64	3	632	3
Consumer loans	546	2	154	
Total impaired loans	$ 8,157	$ 79	$ 8,649	$ 79

Table of Contents

Troubled Debt Restructuring Loans

The Company s loan portfolio also includes certain loans that have been modified in a Troubled Debt Restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company s loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower s sustained repayment performance for a reasonable period, generally six months. TDRs are evaluated individually for impairment and may result in a specific allowance amount allocated to an individual loan.

The following tables include the recorded investment and number of modifications identified during the three months ended March 31, 2015 and for the three months ended March 31, 2014, respectively. The table includes the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured. The modifications for the three months ending March 31, 2015 were attributable to interest rate concessions, maturity date extensions and released collateral. The modification for the three months ending March 31, 2014 was attributable to concessions granted as ordered by bankruptcy court.

(Dollars in thousands)	Number of Modifications	Modifications by Class Three months ending March 31, 2015 Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial - Construction	1	$ 123	$ 123
Commercial - Other	1	2,000	2,000
Commercial and industrial - Other	1	33	33
Total	3	$ 2,156	$ 2,156

(Dollars in thousands)	Number of Modifications	Modifications by Class Three months ending March 31, 2014 Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Residential - 1-4 Family	1	$ 122	$ 119

The following table discloses the recorded investment and number of modifications for TDRs within the last three months where a concession has been made, that then defaulted in the respective reporting period.

	Modifications that Subsequently Defaulted Three months ending March 31, 2015 Number of Contracts	Recorded Investment
Troubled Debt Restructurings		
Commercial - Other	1	$ 668

Table of Contents

For the three months ended March 31, 2014, there were no loans that were restructured within the last twelve months that have subsequently defaulted during the period.

The following table presents the Company s TDR activity for the three months ended March 31, 2015 and 2014:

	Three Months Ending March 31,	
(In thousands)	**2015**	**2014**
Balance at beginning of the period	$ 16,714	$ 10,822
Principal payments	(484)	(872)
TDR status change (1)		(52)
Other reductions/increases (2)	(1,182)	95
Newly identified TDRs	2,156	119
Balance at end of the period	$ 17,204	$ 10,112

(1) TDR status change classification represents TDR loans with a specified interest rate equal to or greater than the rate that the Company was willing to accept at the time of the restructuring for a new loan with comparable risk and the loan was on current payment status and not impaired based on the terms specified by the restructuring agreement.

(2) Other reductions classification consists of transfer to other real estate owned and charge-offs and advances to loans.

The evaluation of certain loans individually for specific impairment includes loans that were previously classified as TDRs or continue to be classified as TDRs.

As of March 31, 2015, the Company maintained foreclosed residential real estate property with a fair value of $653 thousand. Additionally, residential mortgage loans collateralized by real estate property that are in the process of foreclosure totaled $5.1 million. As of December 31, 2014, foreclosed residential real estate property totaled $1.3 million.

Table of Contents

NOTE 5. LOAN LOSS ALLOWANCE

Activity in the allowance for loan losses for the three months ended March 31, 2015 and 2014 was as follows:

Business Activities Loans (In thousands)	**Residential mortgages**	**Commercial real estate**	**Commercial and industrial loans**	**Consumer**	**Unallocated**	**Total**
March 31, 2015						
Balance at beginning of period	$ 6,836	$ 14,690	$ 5,206	$ 5,928	$ 135	$ 32,795
Charged-off loans	128	1,605	223	202		2,158
Recoveries on charged-off loans	67	3	5	61		136
Provision for loan losses	(702)	1,330	1,460	(751)	158	1,495
Balance at end of period	$ 6,073	$ 14,418	$ 6,448	$ 5,036	$ 293	$ 32,268
Individually evaluated for impairment		1,086				1,086
Collectively evaluated	6,073	13,332	6,448	5,036	293	31,182
Total	$ 6,073	$ 14,418	$ 6,448	$ 5,036	$ 293	$ 32,268

Business Activities Loans (In thousands)	**Residential mortgages**	**Commercial real estate**	**Commercial and industrial loans**	**Consumer**	**Unallocated**	**Total**
March 31, 2014						
Balance at beginning of period	$ 6,937	$ 13,705	$ 5,173	$ 3,644	$ 68	$ 29,527
Charged-off loans	706	660	189	429		1,984
Recoveries on charged-off loans	7	1	20	79		107
Provision for loan losses	(575)	1,900	(185)	836	(248)	1,728
Balance at end of period	$ 5,663	$ 14,946	$ 4,819	$ 4,130	$ (180)	$ 29,378
Individually evaluated for impairment	397	1,558	54	9		2,018
Collectively evaluated	5,266	13,388	4,765	4,121	(180)	27,360
Total	$ 5,663	$ 14,946	$ 4,819	$ 4,130	$ (180)	$ 29,378

Acquired Loans (In thousands)	**Residential mortgages**	**Commercial real estate**	**Commercial and industrial loans**	**Consumer**	**Unallocated**	**Total**
March 31, 2015						
Balance at beginning of period	$ 615	$ 790	$ 1,093	$ 369	$	$ 2,867
Charged-off loans	238	405	198	433		1,274
Recoveries on charged-off loans			41	28		69
Provision for loan losses	372	1,579	(11)	416		2,356
Balance at end of period	$ 749	$ 1,964	$ 925	$ 380	$	$ 4,018
Individually evaluated for impairment	52	455		61		568
Collectively evaluated	697	1,509	925	319		3,450
Total	$ 749	$ 1,964	$ 925	$ 380	$	$ 4,018

Acquired Loans (In thousands)	**Residential mortgages**	**Commercial real estate**	**Commercial and industrial loans**	**Consumer**	**Unallocated**	**Total**

March 31, 2014						
Balance at beginning of period	$ 625	$ 2,339	$ 597	$ 235	$	$ 3,796
Charged-off loans	429	447	52	405		1,333
Recoveries on charged-off loans	73	1	5	14		93
Provision for loan losses	401	231	548	488		1,668
Balance at end of period	$ 670	$ 2,124	$ 1,098	$ 332	$	$ 4,224
Individually evaluated for impairment	30	250	21			301
Collectively evaluated	640	1,874	1,077	332		3,923
Total	$ 670	$ 2,124	$ 1,098	$ 332	$	$ 4,224

Table of Contents

Credit Quality Information

Business Activities Loans Credit Quality Analysis

The Company monitors the credit quality of its portfolio by using internal risk ratings that are based on regulatory guidance. Loans that are given a Pass rating are not considered a problem credit. Loans that are classified as Special Mention loans are considered to have potential credit problems and are evaluated closely by management. Substandard and non-accruing loans are loans for which a definitive weakness has been identified and which may make full collection of contractual cash flows questionable. Doubtful loans are those with identified weaknesses that make full collection of contractual cash flows, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The Company assigns an internal risk rating at origination and reviews the rating annually, semiannually or quarterly depending on the risk rating. The rating is also reassessed at any point in time when management becomes aware of information that may affect the borrower s ability to fulfill their obligations.

The Company risk rates its residential mortgages, including 1-4 family and residential construction loans, based on a three rating system: Pass, Special Mention and Substandard. Loans that are current within 59 days are rated Pass. Residential mortgages that are 60-89 days delinquent are rated Special Mention. Loans delinquent for 90 days or greater are rated Substandard and generally placed on non-accrual status. Home equity loans are risk rated based on the same rating system as the Company s residential mortgages.

Ratings for other consumer loans, including auto loans, are based on a two rating system. Loans that are current within 119 days are rated Performing while loans delinquent for 120 days or more are rated Non-performing. Other consumer loans are placed on non-accrual at such time as they become Non-performing.

Acquired Loans Credit Quality Analysis

Upon acquiring a loan portfolio, our internal loan review function assigns risk ratings to the acquired loans, utilizing the same methodology as it does with business activities loans. This may differ from the risk rating policy of the predecessor bank. Loans which are rated Substandard or worse according to the rating process outlined below are deemed to be credit impaired loans accounted for under ASC 310-30, regardless of whether they are classified as performing or non-performing.

The Bank utilizes an eleven grade internal loan rating system for each of its acquired commercial real estate, construction and commercial loans as outlined in the Credit Quality Information section of this Note. The Company risk rates its residential mortgages, including 1-4 family and residential construction loans, based on a three rating system: Pass, Special Mention and Substandard. Residential mortgages that are current within 59 days are rated Pass. Residential mortgages that are 60 89 days delinquent are rated Special Mention. Residential mortgages delinquent for 90 days or greater are rated Substandard. Home equity loans are risk rated based on the same rating system as the Company s residential mortgages. Other consumer loans are rated based on a two rating system. Other consumer loans that are current within 119 days are rated Performing while loans delinquent for 120 days or more are rated Non-performing. Non-performing other consumer loans are deemed to be credit impaired loans accounted for under ASC 310-30.

The Company subjects loans that do not meet the ASC 310-30 criteria to ASC 450-20 by collectively evaluating these loans for an allowance for loan loss. The Company applies a methodology similar to the methodology prescribed for business activities loans, which includes the application of environmental factors to each category of loans. The methodology to collectively evaluate the acquired loans outside the scope of ASC 310-30 includes the application of a number of environmental factors that reflect management s best estimate of the level of incremental credit losses that might be recognized given current conditions. This is reviewed as part of the allowance for loan loss adequacy analysis. As the loan portfolio matures and environmental factors change, the loan portfolio will be reassessed each quarter to determine an appropriate reserve allowance.

Additionally, the Company considers the need for an additional reserve for acquired loans accounted for outside of the scope of ASC 310-30 under ASC 310-20. At acquisition date, the Bank determined a fair value mark with

Table of Contents

credit and interest rate components. Under the Company s model, the impairment evaluation process involves comparing the carrying value of acquired loans, including the entire unamortized premium or discount, to the recorded reserve allowance. If necessary, the Company books an additional reserve to account for shortfalls identified through this calculation. Fair value marks are not bifurcated when evaluating for impairment.

A decrease in the expected cash flows in subsequent periods requires the establishment of an allowance for loan losses at that time for ASC 310-30 loans. At March 31, 2015, the allowance for loan losses related to acquired loans was $4.0 million using the above mentioned criteria.

The Company presented several tables within this footnote separately for business activity loans and acquired loans in order to distinguish the credit performance of the acquired loans from the business activity loans.

The following table presents the Company s loans by risk rating at March 31, 2015 and December 31, 2014:

Business Activities Loans

Residential Mortgages

Credit Risk Profile by Internally Assigned Grade

	1-4 family		Construction		Total residential mortgages	
(In thousands)	Mar. 31, 2015	Dec. 31, 2014	Mar. 31, 2015	Dec. 31, 2014	Mar. 31, 2015	Dec. 31, 2014
Grade:						
Pass	$ 1,183,064	$ 1,195,209	$ 27,382	$ 26,634	$ 1,210,446	$ 1,221,843
Special mention	888	146		410	888	556
Substandard	4,066	4,053	414		4,480	4,053
Total	$ 1,188,018	$ 1,199,408	$ 27,796	$ 27,044	$ 1,215,814	$ 1,226,452

Commercial Real Estate

Credit Risk Profile by Creditworthiness Category

	Construction		Single and multi-family		Other		Total commercial real estate	
(In thousands)	Mar. 31, 2015	Dec. 31, 2014	Mar. 31, 2015	Dec. 31, 2014	Mar. 31, 2015	Dec. 31, 2014	Mar. 31, 2015	Dec. 31, 2014
Grade:								
Pass	$ 179,868	$ 166,295	$ 140,022	$ 137,533	$ 1,023,304	$ 959,836	$ 1,343,194	$ 1,263,664
Special mention					6,891	6,933	6,891	6,933

Substandard	2,932	2,894	2,275	2,517	56,625	63,995	61,832	69,406
Doubtful					73	73	73	73
Total	$ 182,800	$ 169,189	$ 142,297	$ 140,050	$ 1,086,893	$ 1,030,837	$ 1,411,990	$ 1,340,076

Commercial and Industrial Loans

Credit Risk Profile by Creditworthiness Category

	Asset based lending		Other		Total comm. and industrial loans	
(In thousands)	**Mar. 31, 2015**	**Dec. 31, 2014**	**Mar. 31, 2015**	**Dec. 31, 2014**	**Mar. 31, 2015**	**Dec. 31, 2014**
Grade:						
Pass	$ 354,106	$ 341,246	$ 410,699	$ 404,846	$ 764,805	$ 746,092
Special mention			187	560	187	560
Substandard			13,679	6,539	13,679	6,539
Total	$ 354,106	$ 341,246	$ 424,565	$ 411,945	$ 778,671	$ 753,191

Consumer Loans

Credit Risk Profile Based on Payment Activity

	Home equity		Auto and other		Total consumer loans	
(In thousands)	**Mar. 31, 2015**	**Dec. 31, 2014**	**Mar. 31, 2015**	**Dec. 31, 2014**	**Mar. 31, 2015**	**Dec. 31, 2014**
Performing	$ 254,176	$ 251,524	$ 351,574	$ 346,175	$ 605,750	$ 597,699
Nonperforming	1,192	1,157	252	305	1,444	1,462
Total	$ 255,368	$ 252,681	$ 351,826	$ 346,480	$ 607,194	$ 599,161

Table of Contents

Acquired Loans

Residential Mortgages

Credit Risk Profile by Internally Assigned Grade

	1-4 family		Construction		Total residential mortgages	
(In thousands)	Mar. 31, 2015	Dec. 31, 2014	Mar. 31, 2015	Dec. 31, 2014	Mar. 31, 2015	Dec. 31, 2014
Grade:						
Pass	$ 253,866	$ 266,445	$ 922	$ 1,018	$ 254,788	$ 267,463
Special mention	707	638			707	638
Substandard	1,930	1,651			1,930	1,651
Total	$ 256,503	$ 268,734	$ 922	$ 1,018	$ 257,425	$ 269,752

Commercial Real Estate

Credit Risk Profile by Creditworthiness Category

	Construction		Single and multi-family		Other		Total commercial real estate	
(In thousands)	Mar. 31, 2015	Dec. 31, 2014	Mar. 31, 2015	Dec. 31, 2014	Mar. 31, 2015	Dec. 31, 2014	Mar. 31, 2015	Dec. 31, 2014
Grade:								
Pass	$ 2,765	$ 2,904	$ 41,145	$ 44,497	$ 192,233	$ 195,681	$ 236,143	$ 243,082
Special mention			120	533	2,208	4,868	2,328	5,401
Substandard	1,281	1,297	7,164	8,138	13,193	13,573	21,638	23,008
Total	$ 4,046	$ 4,201	$ 48,429	$ 53,168	$ 207,634	$ 214,122	$ 260,109	$ 271,491

Commercial and Industrial Loans

Credit Risk Profile by Creditworthiness Category

	Asset based lending		Other		Total comm. and industrial loans	
(In thousands)	Mar. 31, 2015	Dec. 31, 2014	Mar. 31, 2015	Dec. 31, 2014	Mar. 31, 2015	Dec. 31, 2014
Grade:						
Pass	$	$	$ 44,922	$ 45,757	$ 44,922	$ 45,757
Special mention				1,723		1,723
Substandard			3,222	3,695	3,222	3,695
Total	$	$	$ 48,144	$ 51,175	$ 48,144	$ 51,175

Consumer Loans

Credit Risk Profile Based on Payment Activity

(In thousands)	Home equity Mar. 31, 2015	Home equity Dec. 31, 2014	Auto and other Mar. 31, 2015	Auto and other Dec. 31, 2014	Total consumer loans Mar. 31, 2015	Total consumer loans Dec. 31, 2014
Performing	$ 61,371	$ 65,368	$ 86,356	$ 102,182	$ 147,727	$ 167,550
Nonperforming	876	583	713	1,169	1,589	1,752
Total	$ 62,247	$ 65,951	$ 87,069	$ 103,351	$ 149,316	$ 169,302

The following table summarizes information about total loans rated Special Mention or lower as of March 31, 2015 and December 31, 2014. The table below includes consumer loans that are special mention and substandard accruing that are classified in the above table as performing based on payment activity.

	March 31, 2015			December 31, 2014		
(In thousands)	Business Activities Loans	Acquired Loans	Total	Business Activities Loans	Acquired Loans	Total
Non-Accrual	$ 14,636	$ 7,373	$ 22,009	$ 14,778	$ 6,927	$ 21,705
Substandard Accruing	68,228	21,266	89,494	66,995	23,839	90,834
Total Classified	82,864	28,639	111,503	81,773	30,766	112,539
Special Mention	8,175	3,286	11,461	9,113	8,800	17,913
Total Criticized	$ 91,039	$ 31,925	$ 122,964	$ 90,886	$ 39,566	$ 130,452

Table of Contents

NOTE 6. DEPOSITS

A summary of time deposits is as follows:

(In thousands)	March 31, 2015	December 31, 2014
Time less than $100,000	$ 506,577	$ 515,570
Time $100,000 or more	998,892	940,176
Total time deposits	$ 1,505,469	$ 1,455,746

Included in time deposits are brokered deposits of $478.8 million and $430.8 million at March 31, 2015 and December 31, 2014, respectively. Included in money market deposits presented on the consolidated balance sheet are reciprocal deposits of $7.4 million and $9.4 million at March 31, 2015 and December 31, 2014, respectively.

NOTE 7. BORROWED FUNDS

Borrowed funds at March 31, 2015 and December 31, 2014 are summarized, as follows:

	March 31, 2015		December 31, 2014	
(dollars in thousands)	Principal	Weighted Average Rate	Principal	Weighted Average Rate
Short-term borrowings:				
Advances from the FHLBB	$ 884,500	0.25%	$ 890,900	0.24%
Other Borrowings	10,000	1.83	10,000	1.80
Total short-term borrowings:	894,500	0.25	900,900	0.23
Long-term borrowings:				
Advances from the FHLBB	61,618	0.91	61,676	0.93
Subordinated borrowings	74,301	7.00	74,283	7.00
Junior subordinated borrowings	15,464	2.11	15,464	2.08
Total long-term borrowings:	151,383	4.02	151,423	4.03
Total	$ 1,045,883	0.80%	$ 1,052,323	0.79%

Short term debt includes Federal Home Loan Bank of Boston (FHLBB) advances with an original maturity of less than one year and a short-term line-of-credit drawdown through a correspondent bank. The Bank also maintains a $3.0 million secured line of credit with the FHLBB that bears a daily adjustable rate calculated by the FHLBB. There was no outstanding balance on the FHLBB line of credit for the periods ended March 31, 2015 and December 31, 2014.

The Bank is approved to borrow on a short-term basis from the Federal Reserve Bank of Boston as a non-member bank. The Bank has pledged certain loans and securities to the Federal Reserve Bank to support this arrangement. No borrowings with the Federal Reserve Bank of Boston took place for the periods ended March 31, 2015 and December 31, 2014.

Long-term FHLBB advances consist of advances with an original maturity of more than one year. The advances outstanding at March 31, 2015 include callable advances totaling $5.0 million, and amortizing advances totaling $5.1 million. The advances outstanding at December 31, 2014 include callable advances totaling $5.0 million, and amortizing advances totaling $5.1 million. All FHLBB borrowings, including the line of credit, are secured by a blanket security agreement on certain qualified collateral, principally all residential first mortgage loans and certain securities.

Table of Contents

A summary of maturities of FHLBB advances as of March 31, 2015 and December 31, 2014 is as follows:

	March 31, 2015			December 31, 2014		
(in thousands, except rates)		Principal	Weighted Average Rate		Principal	Weighted Average Rate
Fixed rate advances maturing:						
2015	$	934,500	0.25%	$	940,900	0.24%
2016		1,503	0.03		1,519	0.88
2017		5,000	4.33		5,000	4.33
2018			0.00			0.00
2019 and beyond		5,115	3.91		5,157	3.85
Total FHLBB advances	$	946,118	0.29%	$	952,576	0.28%

The Company does not have variable-rate debt for the periods ended March 31, 2015 and December 31, 2014.

In September 2012, the Company issued fifteen year subordinated notes in the amount of $75.0 million at a discount of 1.15%. The interest rate is fixed at 6.875% for the first ten years. After ten years, the notes become callable and convert to an interest rate of three-month LIBOR rate plus 511.3 basis points.

The Company holds 100% of the common stock of Berkshire Hills Capital Trust I (Trust I) which is included in other assets with a cost of $0.5 million. The sole asset of Trust I is $15.5 million of the Company s junior subordinated debentures due in 2035. These debentures bear interest at a variable rate equal to LIBOR plus 1.85% and had a rate of 2.11% and 2.08% at March 31, 2015 and December 31, 2014, respectively. The Company has the right to defer payments of interest for up to five years on the debentures at any time, or from time to time, with certain limitations, including a restriction on the payment of dividends to stockholders while such interest payments on the debentures have been deferred. The Company has not exercised this right to defer payments. The Company has the right to redeem the debentures at par value. Trust I is considered a variable interest entity for which the Company is not the primary beneficiary. Accordingly, Trust I is not consolidated into the Company s financial statements.

NOTE 8. STOCKHOLDERS EQUITY

The actual and required capital ratios were as follows:

	March 31, 2015	Regulatory Minimum to be Well Capitalized	December 31, 2014	Regulatory Minimum to be Well Capitalized
Company (consolidated)				
Total capital to risk weighted assets	11.4	10.0%	11.4%	10.0%
Common Equity Tier 1 Capital to risk weighted assets	9.1	6.5	N/A	N/A
Tier 1 capital to risk weighted assets	9.2	8.0	9.0	6.0

Tier 1 capital to average assets	7.1	5.0	7.0	5.0
Bank				
Total capital to risk weighted assets	10.8	10.0%	10.8%	10.0%
Common Equity Tier 1 Capital to risk weighted assets	9.4	6.5	N/A	N/A
Tier 1 capital to risk weighted assets	9.4	8.0	9.3	6.0
Tier 1 capital to average assets	7.3	5.0	7.2	5.0

At each date shown, the Company and the Bank met the conditions to be classified as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table above.

Table of Contents

Effective January 1, 2015, the Company and the Bank became subject to the Basel III rule that requires the Company and the Bank to assess their Common Equity Tier 1 Capital to risk weighted assets and the Company and the Bank each exceed the minimum to be well capitalized.

Accumulated other comprehensive income (loss)

Components of accumulated other comprehensive income is as follows:

(In thousands)	March 31, 2015	December 31, 2014
Other accumulated comprehensive income, before tax:		
Net unrealized holding gain on AFS securities	$ 25,330	$ 15,993
Net loss on effective cash flow hedging derivatives	(7,200)	(3,299)
Net unrealized holding (loss) on pension plans	(3,822)	(2,291)
Income taxes related to items of accumulated other comprehensive income:		
Net unrealized holding gain on AFS securities	(9,682)	(6,077)
Net loss on effective cash flow hedging derivatives	2,902	1,330
Net unrealized holding (loss) on pension plans	1,540	923
Accumulated other comprehensive income	$ 9,068	$ 6,579

The following table presents the components of other comprehensive income for the three months ended March 31, 2015 and 2014:

(In thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended March 31, 2015			
Net unrealized holding gains on AFS securities:			
Net unrealized gains arising during the period	$ 9,371	$ (3,617)	$ 5,754
Less: reclassification adjustment for (gains) realized in net income	(34)	12	(22)
Net unrealized holding gain on AFS securities	9,337	(3,605)	5,732
Net loss on cash flow hedging derivatives:			
Net unrealized loss arising during the period	(3,901)	1,572	(2,329)
Less: reclassification adjustment for gains (losses) realized in net income			
Net loss on cash flow hedging derivatives	(3,901)	1,572	(2,329)
Net unrealized holding loss on pension plans			
Net unrealized loss arising during the period	(1,596)	643	(953)
Less: reclassification adjustment for gains (losses) realized in net income	65	(26)	39
Net unrealized holding loss on pension plans	(1,531)	617	(914)
Other comprehensive income	$ 3,905	$ (1,416)	$ 2,489
Three Months Ended March 31, 2014			
Net unrealized holding loss on AFS securities:			

Net unrealized loss arising during the period	$ 6,055	$ (2,233)	$ 3,822
Less: reclassification adjustment for (gains) realized in net income	(34)	12	(22)
Net unrealized holding gain on AFS securities	6,021	(2,221)	3,800
Net loss on cash flow hedging derivatives:			
Net unrealized loss arising during the period	(860)	368	(492)
Less: reclassification adjustment for (gains) realized in net income	5,393	(2,200)	3,193
Net gain on cash flow hedging derivatives	4,533	(1,832)	2,701
Net gain on terminated swap:			
Net unrealized loss arising during the period			
Less: reclassification adjustment for losses realized in net income	3,237	(1,312)	1,925
Net gain on terminated swap	3,237	(1,312)	1,925
Other comprehensive income	$ 13,791	$ (5,365)	$ 8,426

Table of Contents

The following table presents the changes in each component of accumulated other comprehensive income (loss), for the three months ended March 31, 2015 and 2014:

(in thousands)	Net unrealized holding (loss) gain on AFS Securities	Net loss on effective cash flow hedging derivatives	Net loss on terminated swap	Net unrealized holding loss on pension plans	Total
Three Months Ended March 31, 2015					
Balance at Beginning of Period	$ 9,916	$ (1,969)	$	$ (1,368)	$ 6,579
Other Comprehensive Gain (Loss) Before reclassifications	5,754	(2,329)		(953)	2,472
Amounts Reclassified from Accumulated other comprehensive income	(22)			39	17
Total Other Comprehensive Income (Loss)	5,732	(2,329)		(914)	2,489
Balance at End of Period	$ 15,648	$ (4,298)	$	$ (2,282)	$ 9,068
Three Months Ended March 31, 2014					
Balance at Beginning of Period	$ (5,776)	$ (1,366)	$ (1,925)	$ (1,368)	$ (10,435)
Other Comprehensive Gain (Loss) Before reclassifications	3,822	(492)			3,330
Amounts Reclassified from Accumulated other comprehensive income	(22)	3,193	1,925		5,096
Total Other Comprehensive Income (Loss)	3,800	2,701	1,925		8,426
Balance at End of Period	$ (1,976)	$ 1,335	$	$ (1,368)	$ (2,009)

The following table presents the amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three months ended March 31, 2015 and 2014:

[redacted]			
Realized (gains) on AFS securities:			
	$ (34)	$ (34)	Non-interest income
	12	12	Tax expense
	(22)	(22)	Net of tax
Realized losses on cash flow hedging derivatives:			
		5,393	Non-interest income
		(2,200)	Tax expense
		3,193	Net of tax
Amortization of realized gains on terminated swap:			
		3,237	Non-interest income
		(1,312)	Tax expense
		1,925	Net of tax
Realized loss on pension plans:			
	65		Non-interest income
	(26)		Tax expense

	39	Net of tax

Table of Contents

NOTE 9. EARNINGS PER SHARE

Earnings per share have been computed based on the following (average diluted shares outstanding are calculated using the treasury stock method):

(In thousands, except per share data)	Three Months Ended March 31, 2015		2014	
Net income/(loss)	$	8,759	$	(1,106)
Average number of common shares issued		26,525		26,525
Less: average number of treasury shares		1,295		1,425
Less: average number of unvested stock award shares		427		402
Average number of basic common shares outstanding		24,803		24,698
Plus: dilutive effect of unvested stock award shares		89		
Plus: dilutive effect of stock options outstanding		63		
Average number of diluted common shares outstanding		24,955		24,698
Earnings per share:				
Basic	$	0.35	$	(0.04)
Diluted	$	0.35	$	(0.04)

For the three months ended March 31, 2015, 338 thousand shares of restricted stock and 210 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations. For the three months ended March 31, 2014, 335 thousand shares of restricted stock and 321 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations.

NOTE 10. STOCK-BASED COMPENSATION PLANS

A combined summary of activity in the Company s stock award and stock option plans for the three months ended March 31, 2015 is presented in the following table:

(Shares in thousands)	Non-vested Stock Awards Outstanding Number of Shares		Weighted-Average Grant Date Fair Value	Stock Options Outstanding Number of Shares		Weighted-Average Exercise Price
Balance, December 31, 2014	424	$	24.33	282	$	20.42
Granted	92		24.90			
Stock options exercised				(11)		10.52
Stock awards vested	(82)		24.22			
Forfeited	(10)		23.50			
Expired						
Balance, March 31, 2015	424	$	24.48	271	$	21.12

Exercisable options, March 31, 2015	271	$	21.12

During the three months ended March 31, 2015 and 2014, proceeds from stock option exercises totaled $116 thousand and totaled $718 thousand, respectively. During the quarter ended March 31, 2015, there were 82 thousand

Table of Contents

shares issued in connection with vested stock awards. During the three months ended March 31, 2014, there were 62 thousand shares issued in connection with vested stock awards. All of these shares were issued from available treasury stock. Stock-based compensation expense totaled $993 thousand and $932 thousand during the quarters ended March 31, 2015 and 2014, respectively. Stock-based compensation expense is recognized ratably over the requisite service period for all awards.

NOTE 11. OPERATING SEGMENTS

The Company has two reportable operating segments, Banking and Insurance, which are delineated by the consolidated subsidiaries of Berkshire Hills Bancorp, Inc. Banking includes the activities of the Bank and its subsidiaries, which provide retail and commercial banking, along with wealth management and investment services. Insurance includes the activities of Berkshire Insurance Group, Inc. (BIG), which provides retail and commercial insurance services. The only other consolidated financial activity of the Company is the Parent, which consists of the transactions of Berkshire Hills Bancorp, Inc. Management fees for corporate services provided by the Bank to BIG and the Parent are eliminated.

The accounting policies of each reportable segment are the same as those of the Company. The Insurance segment and the Parent reimburse the Bank for administrative services provided to them. Income tax expense for the individual segments is calculated based on the activity of the segments, and the Parent records the tax expense or benefit necessary to reconcile to the consolidated total. The Parent does not allocate capital costs. Average assets include securities available-for-sale based on amortized cost.

A summary of the Company s operating segments was as follows:

(In thousands)	**Banking**	**Insurance**	**Parent**	**Eliminations**	**Total Consolidated**
Three months ended March 31, 2015					
Net interest income	$ 46,339	$	$ 5,154	$ (6,000)	$ 45,493
Provision for loan losses	3,851				3,851
Non-interest income	9,413	2,967	3,785	(3,603)	12,562
Non-interest expense	42,494	1,939	715		45,148
Income before income taxes	9,407	1,028	8,224	(9,603)	9,056
Income tax expense (benefit)	433	399	(535)		297
Net income	$ 8,974	$ 629	$ 8,759	$ (9,603)	$ 8,759
Average assets (in millions)	$ 6,479	$ 28	$ 757	$ (767)	$ 6,497
Three months ended March 31, 2014					
Net interest income (expense)	$ 43,712	$	$ (946)	$	$ 42,766
Provision for loan losses	3,396				3,396
Non-interest income	1,374	3,049	(252)	252	4,423
Non-interest expense	42,574	2,322	464		45,360
Income before income taxes	(884)	727	(1,662)	252	(1,567)
Income tax expense (benefit)	(192)	287	(556)		(461)
Net income	$ (692)	$ 440	$ (1,106)	$ 252	$ (1,106)
Average assets (in millions)	$ 5,829	$ 26	$ 722	$ (726)	$ 5,851

NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

As of March 31, 2015, the Company held derivatives with a total notional amount of $1.1 billion. That amount included $300.0 million in forward starting interest rate swap derivatives that were designated as cash flow hedges for accounting purposes. The Company also had economic hedges and non-hedging derivatives totaling $724.1 million and $68.4 million, respectively, which are not designated as hedges for accounting purposes and are therefore recorded at fair value. Economic hedges included interest rate swaps totaling $585.6 million, risk participation agreements with dealer banks of $49.0 million, and $89.4 million in forward commitment contracts.

As part of the Company s risk management strategy, the Company enters into interest rate swap agreements to mitigate the interest rate risk inherent in certain of the Company s assets and liabilities. Interest rate swap

Table of Contents

agreements involve the risk of dealing with both Bank customers and institutional derivative counterparties and their ability to meet contractual terms. The agreements are entered into with counterparties that meet established credit standards and contain master netting and collateral provisions protecting the at-risk party. The derivatives program is overseen by the Risk Management Committee of the Company s Board of Directors. Based on adherence to the Company s credit standards and the presence of the netting and collateral provisions, the Company believes that the credit risk inherent in these contracts was not significant at March 31, 2015.

The Company pledged collateral to derivative counterparties in the form of cash totaling $5.3 million and securities with an amortized cost of $27.5 million and a fair value of $27.7 million as of March 31, 2015. The Company does not typically require its commercial customers to post cash or securities as collateral on its program of back-to-back economic hedges. However certain language is written into the International Swaps Dealers Association, Inc. (ISDA) and loan documents where, in default situations, the Bank is allowed to access collateral supporting the loan relationship to recover any losses suffered on the derivative asset or liability. The Company may need to post additional collateral in the future in proportion to potential increases in unrealized loss positions.

Information about derivative assets and liabilities at March 31, 2015, follows:

	Notional Amount (In thousands)	Weighted Average Maturity (In years)	Weighted Average Rate Received	Weighted Average Rate Contract pay rate	Estimated Fair Value Asset (Liability) (In thousands)
Cash flow hedges:					
Forward-starting interest rate swaps on FHLBB borrowings	$ 300,000	4.0	0.00%	2.29%	$ (7,200)
Total cash flow hedges	300,000				(7,200)
Economic hedges:					
Interest rate swap on tax advantaged economic development bond	12,412	14.7	0.52%	5.09%	(2,799)
Interest rate swaps on loans with commercial loan customers	286,590	6.0	2.19%	4.59%	(15,405)
Reverse interest rate swaps on loans with commercial loan customers	286,590	6.0	4.59%	2.19%	15,444
Risk Participation Agreements with Dealer Banks	49,038	15.9			(100)
Forward sale commitments	89,432	0.2			(388)
Total economic hedges	724,062				(3,248)
Non-hedging derivatives:					
Interest rate lock commitments	68,374	0.2			977
Total non-hedging derivatives	68,374				977
Total	$ 1,092,436				$ (9,471)

Table of Contents

Information about derivative assets and liabilities at December 31, 2014, follows:

	Notional Amount (In thousands)	Weighted Average Maturity (In years)	Weighted Average Rate Received	Weighted Average Rate Contract pay rate	Estimated Fair Value Asset (Liability) (In thousands)
Cash flow hedges:					
Forward-starting interest rate swaps on FHLBB borrowings	$ 300,000	4.3	0.00%	2.29%	$ (3,299)
Total cash flow hedges	300,000				(3,299)
Economic hedges:					
Interest rate swap on tax advantaged economic development bond	12,554	14.9	0.52%	5.09%	(2,578)
Interest rate swaps on loans with commercial loan customers	297,158	6.0	2.23%	4.54%	(12,183)
Reverse interest rate swaps on loans with commercial loan customers	297,158	6.0	4.54%	2.23%	12,221
Risk participation agreements with dealer banks	45,842	16.6			(91)
Forward sale commitments	42,366	0.2			(510)
Total economic hedges	695,078				(3,141)
Non-hedging derivatives:					
Interest rate lock commitments	39,589	0.2			625
Total non-hedging derivatives	39,589				625
Total	$ 1,034,667				$ (5,815)

Cash flow hedges

The effective portion of unrealized changes in the fair value of derivatives accounted for as cash flow hedges is reported in other comprehensive income and subsequently reclassified to earnings in the same period or periods during which the hedged transaction is forecasted to affect earnings. Each quarter, the Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged item or transaction. The ineffective portion of changes in the fair value of the derivatives is recognized directly in earnings.

The Company has entered into six forward-starting interest rate swap contracts with a combined notional value of $300.0 million as of March 31, 2015. The six forward starting swaps will become effective in 2016. All have durations of three years. This hedge strategy converts the one month rolling FHLBB borrowings based on the FHLBB s one month fixed interest rate to fixed interest rates, thereby protecting the Company from floating interest rate variability.

Table of Contents

Amounts included in the Consolidated Statements of Income and in the other comprehensive income section of the Consolidated Statements of Comprehensive Income (related to interest rate derivatives designated as hedges of cash flows), were as follows:

(In thousands)	Three Months Ended March 31, 2015	2014
Interest rate swaps on FHLBB borrowings:		
Unrealized (loss) recognized in accumulated other comprehensive loss	$ (3,901)	$ (785)
Reclassification of unrealized loss from accumulated other comprehensive income to other non-interest income for termination of swaps		8,630
Reclassification of unrealized deferred tax benefit from accumulated other comprehensive income to tax expense for terminated swaps		(3,611)
Net tax benefit on items recognized in accumulated other comprehensive income	1,572	314
Interest rate swaps on junior subordinated debentures:		
Unrealized loss recognized in accumulated other comprehensive income		(1)
Reclassification of unrealized loss from accumulated other comprehensive income to interest expense		129
Net tax expense on items recognized in accumulated other comprehensive income		(51)
Other comprehensive loss recorded in accumulated other comprehensive income, net of reclassification adjustments and tax effects	$ (2,329)	$ (3,815)
Net interest expense recognized in interest expense on junior subordinated notes	$	$ 129

Hedge ineffectiveness on interest rate swaps designated as cash flow hedges was immaterial to the Company s financial statements during the three months ended March 31, 2015 and 2014.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company s variable-rate liabilities. During the next twelve months, the Company does not anticipate any such reclassifications.

As a result of the branch acquisition, in the first quarter of 2014, the Company initiated and subsequently terminated all of its interest rate swaps, with various institutions, associated with FHLB advances with 3-month LIBOR based floating interest rates with an aggregate notional amount of $30 million, all of its interest rate swaps associated with 90 day rolling FHLB advances issued using the FHLB s 3-month fixed interest rate with an aggregate notional amount of $145 million and all of its forward-starting interest rate swaps associated with 90 day rolling FHLB advances issued using the FHLB s 3-month fixed interest rate with an aggregate notional amount of $235 million. In the first quarter of 2014, the Company elected to extinguish $215 million of FHLB advances related to the terminated swaps. As a result the Company reclassified $8.6 million of losses from the effective portion of the unrealized changes in the fair value of the terminated derivatives from other comprehensive income to non-interest income as the forecasted transactions to the related FHLB advances will not occur.

Economic hedges

As of March 31, 2015, the Company has an interest rate swap with a $12.4 million notional amount to swap out the fixed rate of interest on an economic development bond bearing a fixed rate of 5.09%, currently within the Company s trading portfolio under the fair value option, in exchange for a LIBOR-based floating rate. The intent of the economic hedge is to improve the Company s asset sensitivity to changing interest rates in anticipation of favorable average floating rates of interest over the 21-year life of the bond. The fair value changes of the economic development bond are mostly offset by fair value changes of the related interest rate swap.

Table of Contents

The Company also offers certain derivative products directly to qualified commercial borrowers. The Company economically hedges derivative transactions executed with commercial borrowers by entering into mirror-image, offsetting derivatives with third-party financial institutions. The transaction allows the Company s customer to convert a variable-rate loan to a fixed rate loan. Because the Company acts as an intermediary for its customer, changes in the fair value of the underlying derivative contracts mostly offset each other in earnings. Credit valuation adjustments arising from the difference in credit worthiness of the commercial loan and financial institution counterparties totaled $38.6 thousand as of March 31, 2015. The interest income and expense on these mirror image swaps exactly offset each other.

The Company has risk participation agreements with dealer banks. Risk participation agreements occur when the Company participates on a loan and a swap where another bank is the lead. The Company gets paid a fee to take on the risk associated with having to make the lead bank whole on Berkshire s portion of the pro-rated swap should the borrower default. Changes in fair value are recorded in current period earnings.

The Company utilizes forward sale commitments to hedge interest rate risk and the associated effects on the fair value of interest rate lock commitments and loans held for sale. The forward sale commitments are accounted for as derivatives with changes in fair value recorded in current period earnings.

The Company uses the following types of forward sale commitments contracts:

- Best efforts loan sales,
- Mandatory delivery loan sales, and
- To Be Announced (TBA) mortgage-backed securities sales.

A best efforts contract refers to a loan sale agreement where the Company commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. The Company may enter into a best efforts contract once the price is known, which is shortly after the potential borrower s interest rate is locked.

A mandatory delivery contract is a loan sale agreement where the Company commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. Generally, the Company may enter into mandatory delivery contracts shortly after the loan closes with a customer.

The Company may sell TBA mortgage-backed securities to hedge the changes in fair value of interest rate lock commitments and held for sale loans, which do not have corresponding best efforts or mandatory delivery contracts. These security sales transactions are closed once mandatory contracts are written. On the closing date the price of the security is locked-in, and the sale is paired-off with a purchase of the same security. Settlement of the security purchase/sale transaction is done with cash on a net-basis.

Non-hedging derivatives

The Company enters into interest rate lock commitments (IRLCs) for residential mortgage loans, which commit the Company to lend funds to a potential borrower at a specific interest rate and within a specified period of time. IRLCs that relate to the origination of mortgage loans that will be held for sale are considered derivative financial instruments under applicable accounting guidance. Outstanding IRLCs expose the Company to the risk that the price of the mortgage loans underlying the commitments may decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. The IRLCs are free-standing derivatives which are carried at fair value with changes recorded in noninterest income in the Company s consolidated statements of income. Changes in the fair value of IRLCs subsequent to inception are based on changes in the fair value of the underlying loan resulting from the fulfillment of the commitment and changes in the probability that the loan will fund within the terms of the commitment, which is affected primarily by changes in interest rates and the passage of time.

Table of Contents

Amounts included in the Consolidated Statements of Income related to economic hedges and non-hedging derivatives were as follows:

(In thousands)	Three Months Ended March 31, 2015	2014
Economic hedges		
Interest rate swap on industrial revenue bond:		
Unrealized (loss) gain recognized in other non-interest income	$ (271)	$ (381)
Interest rate swaps on loans with commercial loan customers:		
Unrealized (loss) gain recognized in other non-interest income	(3,114)	187
Reverse interest rate swaps on loans with commercial loan customers:		
Unrealized loss recognized in other non-interest income	3,114	(187)
Favorable (Unfavorable) change in credit valuation adjustment recognized in other non-interest income	1	7
Risk Participation Agreements:		
Unrealized loss recognized in other non-interest income	(9)	
Forward Commitments:		
Unrealized loss recognized in other non-interest income	(388)	(108)
Realized loss in other non-interest income	(91)	(164)
Non-hedging derivatives		
Interest rate lock commitments		
Unrealized gain recognized in other non-interest income	$ 977	$ 377
Realized gain in other non-interest income	755	469

Assets and Liabilities Subject to Enforceable Master Netting Arrangements

Interest Rate Swap Agreements (Swap Agreements   )

The Company enters into swap agreements to facilitate the risk management strategies for commercial banking customers. The Company mitigates this risk by entering into equal and offsetting swap agreements with highly rated third party financial institutions. The swap agreements are free-standing derivatives and are recorded at fair value in the Company   s consolidated statements of condition. The Company is party to master netting arrangements with its financial institution counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Collateral generally in the form of marketable securities is received or posted by the counterparty with net liability positions, respectively, in accordance with contract thresholds. The Company had net asset positions with its commercial banking counterparties totaling $15.4 million and $12.3 million as of March 31, 2015 and December 31, 2014, respectively. The Company had net liability positions with its financial institution counterparties totaling $25.5 million and $18.2 million as of March 31, 2015 and December 31, 2014, respectively. At March 31, 2015, the Company did not have a net liability position with its commercial banking counterparties, compared to a $0.1 million liability at December 31, 2014. The collateral posted by the Company that covered liability positions was $25.5 million and $18.2 million as of March 31, 2015 and December 31, 2014, respectively.

42

Table of Contents

The following table presents the assets and liabilities subject to an enforceable master netting arrangement as of March 31, 2015 and December 31, 2014:

Offsetting of Financial Assets and Derivative Assets

(in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statements of Condition	Net Amounts of Assets Presented in the Statements of Condition	Gross Amounts Not Offset in the Statements of Condition Financial Instruments	Cash Collateral Received	Net Amount
As of March 31, 2015						
Interest Rate Swap Agreements:						
Institutional counterparties	$ 42	$	$ 42	$	$	$ 42
Commercial counterparties	15,444		15,444			15,444
Total	$ 15,486	$	$ 15,486	$	$	$ 15,486

Offsetting of Financial Liabilities and Derivative Liabilities

(in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statements of Condition	Net Amounts of Liabilities Presented in the Statements of Condition	Gross Amounts Not Offset in the Statements of Condition Financial Instruments	Cash Collateral Pledged	Net Amount
As of March 31, 2015						
Interest Rate Swap Agreements:						
Institutional counterparties	$ (25,546)	$	$ (25,546)	$ 20,456	$ 5,090	$
Commercial counterparties						
Total	$ (25,546)	$	$ (25,546)	$ 20,456	$ 5,090	$

Offsetting of Financial Assets and Derivative Assets

(in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statements of Condition	Net Amounts of Assets Presented in the Statements of Condition	Gross Amounts Not Offset in the Statements of Condition Financial Instruments	Cash Collateral Received	Net Amount
As of December 31, 2014						
Interest Rate Swap Agreements:						
Institutional counterparties	$ 23	$	$ 23	$	$	$ 23
Commercial counterparties	12,270		12,270			12,270
Total	$ 12,293	$	$ 12,293	$	$	$ 12,293

Offsetting of Financial Liabilities and Derivative Liabilities

(in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statements of Condition	Net Amounts of Liabilities Presented in the Statements of Condition	Gross Amounts Not Offset in the Statements of Condition: Financial Instruments	Gross Amounts Not Offset in the Statements of Condition: Cash Collateral Pledged	Net Amount
As of December 31, 2014						
Interest Rate Swap Agreements:						
Institutional counterparties	$ (18,232)	$ 58	$ (18,174)	$ 14,984	$ 3,190	$
Commercial counterparties	(50)		(50)			(50)
Total	$ (18,282)	$ 58	$ (18,224)	$ 14,984	$ 3,190	$ (50)

NOTE 13. FAIR VALUE MEASUREMENTS

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company s financial assets and financial liabilities that are carried at fair value.

Recurring Fair Value Measurements

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2015 and December 31, 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

Table of Contents

(In thousands)	March 31, 2015 Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Trading security	$	$	$ 14,970	$ 14,970
Available-for-sale securities:				
Municipal bonds and obligations		155,450		155,450
Governmentguaranteed residential mortgage-backed securities		65,039		65,039
Government-sponsored residential mortgage-backed securities		762,421		762,421
Corporate bonds		55,357		55,357
Trust preferred securities		13,427		13,427
Other bonds and obligations		3,196		3,196
Marketable equity securities	43,690	357	719	44,766
Loans held for sale		29,305		29,305
Derivative assets		15,444	977	16,421
Derivative liabilities	295	25,504	93	25,892

(In thousands)	December 31, 2014 Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Trading security	$	$	$ 14,909	$ 14,909
Available-for-sale securities:				
Municipal bonds and obligations		133,699		133,699
Government guaranteed residential mortgage-backed securities		69,468		69,468
Government-sponsored residential mortgage-backed securities		760,184		760,184
Corporate bonds		54,151		54,151
Trust preferred securities		14,667	1,548	16,215
Other bonds and obligations		3,159		3,159
Marketable equity securities	53,806	358	778	54,942
Loans Held for Sale		19,493		19,493
Derivative assets		12,328	625	12,953
Derivative liabilities	417	18,259	93	18,769

There were no transfers between levels during the three months ended March 31, 2015 or 2014.

Trading Security at Fair Value. The Company holds one security designated as a trading security. It is a tax advantaged economic development bond issued to the Company by a local nonprofit which provides wellness and health programs. The determination of the fair value for this security is determined based on a discounted cash flow methodology. Certain inputs to the fair value calculation are unobservable and there is little to no market activity in the security; therefore, the security meets the definition of a Level 3 security. The discount rate used in the valuation of the security is sensitive to movements in the 3-month LIBOR rate.

Securities Available for Sale. AFS securities classified as Level 1 consist of publicly-traded equity securities for which the fair values can be obtained through quoted market prices in active exchange markets. AFS securities classified as Level 2 include most of the Company s debt securities. The pricing on Level 2 was primarily sourced from third party pricing services, overseen by management, and is based on models that consider standard input factors such as dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and condition, among other things. The Company owns one privately owned equity security classified as Level 3. The security s fair value is determined through unobservable issuer-provided financial information and a pricing model utilizing peer data.

Loans held for sale. The Company elected the fair value option for all loans held for sale (HFS) originated on or after May 1, 2012. Loans HFS are classified as Level 2 as the fair value is based on input factors such as quoted prices for similar loans in active markets.

Table of Contents

March 31, 2015 (In thousands)	**Aggregate Fair Value**	**Aggregate Unpaid Principal**	**Aggregate Fair Value Less Aggregate Unpaid Principal**
Loans Held for Sale	$ 29,305	$ 28,483	$ 822

December 31, 2014 (In thousands)	**Aggregate Fair Value**	**Aggregate Unpaid Principal**	**Aggregate Fair Value Less Aggregate Unpaid Principal**
Loans Held for Sale	$ 19,493	$ 18,885	$ 608

The changes in fair value of loans held for sale for the three months ended March 31, 2015 and December 31, 2014, were gains of $214 thousand and $409 thousand, respectively. The changes in fair value are included in mortgage banking income in the Consolidated Statements of Income.

Derivative Assets and Liabilities.

Interest Rate Swap. The valuation of the Company s interest rate swaps is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves.

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings.

Although the Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2015, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Interest Rate Lock Commitments. The Company enters into IRLCs for residential mortgage loans, which commit the Company to lend funds to a potential borrower at a specific interest rate and within a specified period of time. The estimated fair value of commitments to originate residential mortgage loans for sale is based on quoted prices for similar loans in active markets. However, this value is adjusted by a factor which considers the likelihood that the loan in a lock position will ultimately close, and by the non-refundable costs of originating the loan. The closing ratio is derived from the Bank s internal data and is adjusted using significant management judgment. The costs to originate are primarily based on the Company s internal commission rates that are not observable. As such, IRLCs are classified as Level 3 measurements.

Forward Sale Commitments. The Company utilizes forward sale commitments as economic hedges against potential changes in the values of the IRLCs and loans held for sale. To Be Announced (TBA) mortgage-backed securities forward commitment sales are used as the hedging instrument, are classified as Level 1, and consist of publicly-traded debt securities for which identical fair values can be obtained through quoted market prices in active exchange markets. The fair values of the Company s best efforts and mandatory delivery loan sale commitments are determined similarly to the IRLCs using quoted prices in the market place that are observable. However, costs to originate and closing ratios included in the calculation are internally generated and are based on management s judgment and prior experience, which are considered factors that are not observable. As such, best efforts and mandatory forward commitments are classified as Level 3 measurements.

Table of Contents

The table below presents the changes in Level 3 assets and liabilities that were measured at fair value on a recurring basis for the three months ended March 31, 2015 and 2014.

	Assets (Liabilities)			
(In thousands)	**Trading Security**	**Securities Available for Sale**	**Interest Rate Lock Commitments**	**Forward Commitments**
Three Months Ended March 31, 2015				
Balance as of December 31, 2014	$ 14,909	$ 2,326	$ 625	$ (93)
Sale of AFS Security		(1,327)		
Unrealized (loss) gain, net recognized in other non-interest income	203		1,730	
Unrealized gain included in accumulated other comprehensive loss		(280)		
Paydown of trading security	(142)			
Transfers to held for sale loans			(1,378)	
Balance as of March 31, 2015	$ 14,970	$ 719	$ 977	$ (93)
Unrealized gains (losses) relating to instruments still held at March 31, 2015	$ 2,558	$ (51)	$ 977	$ (93)

	Assets (Liabilities)			
(In thousands)	**Trading Security**	**Securities Available for Sale**	**Interest Rate Lock Commitments**	**Forward Commitments**
Three Months Ended March 31, 2014				
Balance as of December 31, 2013	$ 14,840	$ 1,964	$ 258	$ 19
Purchase of Marketable Equity Security				
Unrealized (loss) gain, net recognized in other non-interest income	218		719	(115)
Unrealized gain included in accumulated other comprehensive loss		82		
Paydown of trading account security	(135)			
Transfers to held for sale loans			(600)	
Balance as of March 31, 2014	$ 14,923	$ 2,046	$ 377	$ (96)
Unrealized gains (losses) relating to instruments still held at March 31, 2014	$ 1,962	$ (1,288)	$ 377	$ (96)

Table of Contents

Quantitative information about the significant unobservable inputs within Level 3 recurring assets and liabilities is as follows:

(In thousands)	Fair Value March 31, 2015	Valuation Techniques	Unobservable Inputs	Significant Unobservable Input Value
Assets (Liabilities)				
Trading Security	$ 14,970	Discounted Cash Flow	Discount Rate	2.34%
AFS Securities	719	Pricing Model	Median Peer Price/Tangible Book Value Percentage Multiple	93.35%
Forward Commitments	(93)	Historical Trend	Closing Ratio	89.54%
		Pricing Model	Origination Costs, per loan	$ 2,500
Interest Rate Lock Commitment	977	Historical Trend	Closing Ratio	89.54%
		Pricing Model	Origination Costs, per loan	$ 2,500
Total	$ 16,573			

(In thousands)	Fair Value December 31, 2014	Valuation Techniques	Unobservable Inputs	Significant Unobservable Input Value
Assets (Liabilities)				
Trading Security	$ 14,909	Discounted Cash Flow	Discount Rate	2.60%
AFS Securities	2,326	Discounted Cash Flow	Discount Rate	13.74%
			Credit Spread	11.06%
Forward Commitments	(93)	Historical Trend	Closing Ratio	91.07%
		Pricing Model	Origination Costs, per loan	$ 2,500
Interest Rate Lock Commitment	625	Historical Trend	Closing Ratio	91.07%
		Pricing Model	Origination Costs, per loan	$ 2,500
Total	$ 17,767			

Non-Recurring Fair Value Measurements

The Company is required, on a non-recurring basis, to adjust the carrying value or provide valuation allowances for certain assets using fair value measurements in accordance with GAAP. The following is a summary of applicable non-recurring fair value measurements. There are no liabilities measured at fair value on a non-recurring basis.

(In thousands)	March 31, 2015 Level 3 Inputs	December 31, 2014 Level 3 Inputs	Three months ended March 31, 2015 Total Gains (Losses)
Assets			

Impaired loans	$	6,111	$	5,820	$	292
Capitalized mortgage servicing rights		3,871		3,757		
Other real estate owned		1,444		2,049		(155)
Total	$	11,426	$	11,626	$	137

Table of Contents

Quantitative information about the significant unobservable inputs within Level 3 non-recurring assets is as follows:

(in thousands)		Fair Value March 31, 2015	Valuation Techniques	Unobservable Inputs	Range (Weighted Average) (a)
Assets					
Impaired loans	$	6,111	Fair value of collateral	Loss severity	3.78% to 53.08% (23.5%)
				Appraised value	$139.5 to $1,600.0 ($981.7)
Capitalized mortgage servicing rights		3,871	Discounted cash flow	Constant prepayment rate (CPR)	8.2% to 19.85% (11.05%)
				Discount rate	10.00% to 13.00% (10.42%)
Other real estate owned		1,444	Fair value of collateral	Appraised value	$57 to $700.0 ($470.7)
Total	$	11,426			

(a) Where dollar amounts are disclosed, the amounts represent the lowest and highest fair value of the respective assets in the population except for adjustments for market/property conditions, which represents the range of adjustments to individuals properties.

(in thousands)		Fair Value December 31, 2014	Valuation Techniques	Unobservable Inputs	Range (Weighted Average) (a)
Assets					
Impaired loans	$	5,820	Fair value of collateral	Loss severity	0.31% to 38.7% (12.65%)
				Appraised value	$5 to $1,600.0 ($912.7)
Capitalized mortgage servicing rights		3,757	Discounted cash flow	Constant prepayment rate (CPR)	7.83% to 19.00% (9.92%)
				Discount rate	10.00% to 13.00% (10.43%)
Other real estate owned		2,049	Fair value of collateral	Appraised value	$57 to $700.0 ($462.6)
Total	$	11,626			

(a) Where dollar amounts are disclosed, the amounts represent the lowest and highest fair value of the respective assets in the population except for adjustments for market/property conditions, which represents the range of adjustments to individuals properties.

There were no Level 1 or Level 2 nonrecurring fair value measurements for the periods ended March 31, 2015 and December 31, 2014.

Impaired Loans. Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records non-recurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Non-recurring adjustments can also include certain impairment amounts for collateral-dependent loans calculated when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace. However, the choice of observable data is subject to significant judgment, and there are often adjustments based on judgment in order to make observable data comparable and to consider the impact of time, the condition of properties, interest rates, and other market factors on current values. Additionally, commercial real estate appraisals frequently involve discounting of projected cash flows, which relies inherently on unobservable data. Therefore, nonrecurring fair value measurement adjustments that relate to real estate collateral have generally been classified as Level 3. Estimates of fair value for other collateral that supports commercial loans are generally based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3.

Capitalized mortgage loan servicing rights. A loan servicing right asset represents the amount by which the present value of the estimated future net cash flows to be received from servicing loans exceed adequate compensation for performing the servicing. The fair value of servicing rights is estimated using a present value cash flow model. The most important assumptions used in the valuation model are the anticipated rate of the loan prepayments and discount rates. Adjustments are only recorded when the discounted cash flows derived from the valuation model are less than the carrying value of the asset. Although some assumptions in determining fair value are based on standards used by market participants, some are based on unobservable inputs and therefore are classified in Level 3 of the valuation hierarchy.

Table of Contents

Other real estate owned (OREO   ). OREO results from the foreclosure process on residential or commercial loans issued by the Bank. Upon assuming the real estate, the Company records the property at the fair value of the asset less the estimated sales costs. Thereafter, OREO properties are recorded at the lower of cost or fair value less the estimated sales costs. OREO fair values are primarily determined based on Level 3 data including sales comparables and appraisals.

Summary of Estimated Fair Values of Financial Instruments

The estimated fair values, and related carrying amounts, of the Company   s financial instruments follow. Certain financial instruments and all non-financial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the Company.

	March 31, 2015				
(In thousands)	**Carrying Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets					
Cash and cash equivalents	$ 62,214	$ 62,214	$ 62,214	$	$
Trading security	14,970	14,970			14,970
Securities available for sale	1,099,656	1,099,656	43,690	1,055,247	719
Securities held to maturity	42,818	44,744			44,744
FHLB bank stock and restricted securities	58,734	58,734		58,734	
Net loans	4,692,377	4,736,177			4,736,177
Loans held for sale	29,305	29,305		29,305	
Accrued interest receivable	17,786	17,786		17,786	
Cash surrender value of bank-owned life insurance policies	105,302	105,302		105,302	
Derivative assets	16,421	16,421		15,444	977
Assets held for sale	1,266	1,266		1,266	
Financial Liabilities					
Total deposits	$ 4,719,683	$ 4,720,914		$ 4,720,914	$
Short-term debt	894,500	894,675		894,675	
Long-term Federal Home Loan Bank advances	61,618	63,273		63,273	
Subordinated borrowings	89,765	94,062		94,062	
Derivative liabilities	25,892	25,892	295	25,504	93

Table of Contents

	December 31, 2014				
(In thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and cash equivalents	$ 71,754	$ 71,754	$ 71,754	$	$
Trading security	14,909	14,909			14,909
Securities available for sale	1,091,818	1,091,818	5,806	1,035,686	2,326
Securities held to maturity	43,347	44,997			44,997
FHLB bank stock and restricted securities	55,720	55,720		55,720	
Net loans	4,644,938	4,695,256			4,695,256
Loans held for sale	19,493	19,493		19,493	
Accrued interest receivable	17,274	17,274		17,274	
Cash surrender value of bank-owned life insurance policies	104,588	104,588		104,588	
Derivative assets	12,953	12,953		12,328	625
Assets held for sale	1,280	1,280		1,280	
Financial Liabilities					
Total deposits	$ 4,654,679	$ 4,655,234	$	$ 4,655,234	$
Short-term debt	900,900	900,983		900,983	
Long-term Federal Home Loan Bank advances	61,676	63,283		63,283	
Subordinated borrowings	89,747	93,441		93,441	
Derivative liabilities	18,769	18,769	417	18,259	93

Other than as discussed above, the following methods and assumptions were used by management to estimate the fair value of significant classes of financial instruments for which it is practicable to estimate that value.

Cash and cash equivalents. Carrying value is assumed to represent fair value for cash and cash equivalents that have original maturities of ninety days or less.

FHLB bank stock and restricted securities. Carrying value approximates fair value based on the redemption provisions of the issuers.

Cash surrender value of life insurance policies. Carrying value approximates fair value.

Loans, net. The carrying value of the loans in the loan portfolio is based on the cash flows of the loans discounted over their respective loan origination rates. The origination rates are adjusted for substandard and special mention loans to factor the impact of declines in the loan s credit standing. The fair value of the loans is estimated by discounting future cash flows using the current interest rates at which similar loans with similar terms would be made to borrowers of similar credit quality.

Accrued interest receivable. Carrying value approximates fair value.

Deposits. The fair value of demand, non-interest bearing checking, savings and money market deposits is determined as the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting the estimated future cash flows using market rates offered for deposits of similar remaining maturities.

Borrowed funds. The fair value of borrowed funds is estimated by discounting the future cash flows using market rates for similar borrowings. Such funds include all categories of debt and debentures in the table above.

Table of Contents

Subordinated borrowings. The Company utilizes a pricing service along with internal models to estimate the valuation of its junior subordinated debentures. The junior subordinated debentures re-price every ninety days.

Off-balance-sheet financial instruments. Off-balance-sheet financial instruments include standby letters of credit and other financial guarantees and commitments considered immaterial to the Company s financial statements.

NOTE 14. NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES

Presented below is net interest income after provision for loan losses for the three months ended March 31, 2015 and 2014, respectively.

	Three Months Ended March 31,	
(In thousands)	**2015**	**2014**
Net interest income	$ 45,493	$ 42,766
Provision for loan losses	3,851	3,396
Net interest income after provision for loan losses	$ 41,642	$ 39,370

NOTE 15. SUBSEQUENT EVENTS

On April 17, 2015, the Company acquired all of the outstanding common shares of Hampden Bancorp, Inc. (Hampden). Hampden Bank, the wholly owned subsidiary of Hampden, had 10 banking offices providing a range of services in the Springfield area and has merged with and into Berkshire Hills Bancorp, Inc.

Excluding Hampden shares held by Berkshire, Hampden shareholders received 4.2 million shares of the Company s common stock. As of April 17, 2015, Hampden, on a consolidated basis, had assets with a carrying value of approximately $687.8 million, including loans outstanding with a carrying value of approximately $501.0 million, as well as deposits with a carrying value of approximately $482.1 million. The results of Hampden s operations will be included in the Company s Consolidated Statement of Income from the date of acquisition. The Company incurred $3.3 million of merger and acquisition expenses related to the Hampden and Hampden Bank merger for the three months ended March 31, 2015. Excluding the $3.3 million of merger and acquisition expenses, this merger agreement had no significant effect on the Company s financial statements for the periods presented

As a result of the proximity of the closing of the merger with Hampden to the date these consolidated financial statements are available to be issued, the Company is still evaluating the estimated fair values of the assets acquired and the liabilities assumed. Accordingly, the amount of any goodwill and other intangible assets to be recognized in connection with this transaction is also yet to be determined.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Management s discussion and analysis of financial condition and results of operations is intended to assist in understanding the financial condition and results of operations of the Company. The following discussion and analysis should be read in conjunction with the Company s consolidated financial statements and the notes thereto appearing in Part I, Item 1 of this document and with the Company s consolidated financial statements and the notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in the 2014 Annual Report on Form 10-K. In the following discussion, income statement comparisons are against the same period of the previous year and balance sheet comparisons are against the previous fiscal year-end, unless otherwise noted. Operating results discussed herein are not necessarily indicative of the results for the year 2015 or any future period. In management s discussion and analysis of financial condition and results of operations, certain reclassifications have been made to make prior periods comparable. Tax-equivalent adjustments are the result of increasing income from tax-advantaged securities by an amount equal to the taxes that would be paid if the income were fully taxable based on a 40.5% marginal income tax rate. In the discussion, references to earnings per share refer to diluted earnings per share unless otherwise specified.

Berkshire Hills Bancorp (Berkshire or the Company) is a Delaware corporation headquartered in Pittsfield, Massachusetts and the holding company for Berkshire Bank (the Bank) and Berkshire Insurance Group. Established in 1846, the Bank operates as a commercial bank under a Massachusetts trust company charter. The Bank is one of Massachusetts oldest and largest independent banks and is the largest banking institution based in Western Massachusetts. Berkshire Bank operates under the brand America s Most Exciting Bank®.

On April 17, 2015 Berkshire completed the acquisition of Springfield, MA. based Hampden Bancorp, Inc. (Hampden). Hampden s operations will be included with Berkshire s results following the acquisition date. As of March 31, 2015, Hampden had $710 million in total assets, $508 million in loans, and $501 million in deposits. For the quarter ended March 31, 2015, Hampden s unaudited results of operations included $5.27 million in net interest income, $0.80 million in non-interest income, and $4.17 million in operating non-interest expense. Hampden operated ten branches in the Springfield area and it is planned that three of these branches will be consolidated with existing Berkshire branches when the systems integration is completed in the latter part of June. On completion of these consolidations, the Company expects to have 17 total branches in the Springfield area, including existing Berkshire branches. The Company issued approximately 4.2 million net shares as merger consideration, bringing its total shares outstanding to approximately 29.5 million shares.

Berkshire is a regional financial services company that seeks to distinguish itself over the long term based on the following attributes:

- Strong growth from organic, de novo, product, and acquisition strategies
- Solid capital, core funding, and risk management culture
- Experienced executive team focused on earnings and stockholder value
- Distinctive brand and culture as America s Most Exciting Bank®

- Diversified integrated financial service revenues
- Positioned to be regional consolidator in attractive markets

Shown below is a profile of the Company including Hampden Bancorp, which was acquired on April 17, 2015.

Table of Contents

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document that are not historical facts may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (referred to as the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (referred to as the Securities Exchange Act), and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. You can identify these statements from the use of the words may, will, should, could, would, pla potential, estimate, project, believe, intend, anticipate, expect, target and similar expressions. These forward-looking statements are significant risks, assumptions and uncertainties, including among other things, changes in general economic and business conditions, increased competitive pressures, changes in the interest rate environment, legislative and regulatory change, changes in the financial markets, and other risks and uncertainties disclosed from time to time in documents that Berkshire Hills Bancorp files with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended December 31, 2014 and the Risk Factors in Item 1A of this report. Because of these and other uncertainties, Berkshire s actual results, performance or achievements, or industry results, may be materially different from the results indicated by these forward-looking statements. In addition, Berkshire s past results of operations do not necessarily indicate Berkshire s combined future results. You should not place undue reliance on any of the forward-looking statements, which speak only as of the dates on which they were made. Berkshire is not undertaking an obligation to update forward-looking statements, even though its situation may change in the future, except as required under federal securities law. Berkshire qualifies all of its forward-looking statements by these cautionary statements.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES, AND RECENT ACCOUNTING PRONOUNCEMENTS

The Company s significant accounting policies are described in Note 1 to the consolidated financial statements in this Form 10-Q and in the most recent Form 10-K. Please see those policies in conjunction with this discussion. The accounting and reporting policies followed by the Company conform, in all material respects, to accounting principles generally accepted in the United States and to general practices within the financial services industry. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. While the Company bases estimates on historical experience, current information and other factors deemed to be relevant, actual results could differ from those estimates.

The SEC defines critical accounting policies as those that require application of management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods. Please see those policies in conjunction with this

Table of Contents

discussion. Management believes that the following policies would be considered critical under the SEC s definition:

Allowance for Loan Losses. The allowance for loan losses represents probable credit losses that are inherent in the loan portfolio at the financial statement date and which may be estimated. Management uses historical information, as well as current economic data, to assess the adequacy of the allowance for loan losses as it is affected by changing economic conditions and various external factors, which may impact the portfolio in ways currently unforeseen. Although management believes that it uses appropriate available information to establish the allowance for loan losses, future additions to the allowance may be necessary if certain future events occur that cause actual results to differ from the assumptions used in making the evaluation. Conditions in the local economy and real estate values could require the Company to increase provisions for loan losses, which would negatively impact earnings.

Acquired Loans. Loans that the Company acquired in business combinations are initially recorded at fair value with no carryover of the related allowance for credit losses. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows initially expected to be collected on the loans and discounting those cash flows at an appropriate market rate of interest. Going forward, the Company continues to evaluate reasonableness of expectations for the timing and the amount of cash to be collected. Subsequent decreases in expected cash flows may result in changes in the amortization or accretion of fair market value adjustments, and in some cases may result in the loan being considered impaired. For collateral dependent loans with deteriorated credit quality, the Company estimates the fair value of the underlying collateral of the loans. These values are discounted using market derived rates of return, with consideration given to the period of time and costs associated with the foreclosure and disposition of the collateral.

Income Taxes. Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities. The Company uses the asset and liability method of accounting for income taxes in which deferred tax assets and liabilities are established for the temporary differences between the financial reporting basis and the tax basis of the Company s assets and liabilities. The realization of the net deferred tax asset generally depends upon future levels of taxable income and the existence of prior years taxable income, to which carry back refund claims could be made. A valuation allowance is maintained for deferred tax assets that management estimates are more likely than not to be unrealizable based on available evidence at the time the estimate is made. In determining the valuation allowance, the Company uses historical and forecasted future operating results, based upon approved business plans, including a review of the eligible carry-forward periods, tax planning opportunities and other relevant considerations. These underlying assumptions can change from period to period. For example, tax law changes or variances in future projected operating performance could result in a change in the valuation allowance. Should actual factors and conditions differ materially from those considered by management, the actual realization of the net deferred tax asset could differ materially from the amounts recorded in the financial statements. If the Company is not able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset valuation allowance would be charged to income tax expense in the period such determination is made.

Goodwill and Identifiable Intangible Assets. Goodwill and identifiable intangible assets are recorded as a result of business acquisitions and combinations. These assets are evaluated for impairment annually or whenever events or changes in circumstances indicate the carrying value of these assets may not be recoverable. When these assets are evaluated for impairment, if the carrying amount exceeds fair value, an impairment charge is recorded to income. The fair value is based on observable market prices, when practicable. Other valuation techniques may be used when market prices are unavailable, including estimated discounted cash flows and analysis of market pricing multiples. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies. In the event of future changes in fair value, the Company may be exposed to an impairment charge that could be material.

Determination of Other-Than-Temporary Impairment of Securities. The Company evaluates debt and equity securities within the Company s available for sale and held to maturity portfolios for other-than-temporary impairment (OTTI), at least quarterly. If the fair value of a debt security is below the amortized cost basis of the security, OTTI is required to be recognized if any of the following are met: (1) the Company intends to sell the security; (2) it is more likely than not that the Company will be required to sell the security before recovery of

Table of Contents

its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For all impaired debt securities that the Company intends to sell, or more likely than not will be required to sell, the full amount of the loss is recognized as OTTI through earnings. Credit-related OTTI for all other impaired debt securities is recognized through earnings. Noncredit related OTTI for such debt securities is recognized in other comprehensive income, net of applicable taxes. In evaluating its marketable equity securities portfolios for OTTI, the Company considers its intent and ability to hold an equity security to recovery of its cost basis in addition to various other factors, including the length of time and the extent to which the fair value has been less than cost and the financial condition and near term prospects of the issuer. Any OTTI on marketable equity securities is recognized immediately through earnings. Should actual factors and conditions differ materially from those expected by management, the actual realization of gains or losses on investment securities could differ materially from the amounts recorded in the financial statements.

Fair Value of Financial Instruments. The Company uses fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. Trading assets, securities available for sale, and derivative instruments are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, or to establish a loss allowance or write-down based on the fair value of impaired assets. Further, the notes to financial statements include information about the extent to which fair value is used to measure assets and liabilities, the valuation methodologies used and its impact to earnings. For financial instruments not recorded at fair value, the notes to financial statements disclose the estimate of their fair value. Due to the judgments and uncertainties involved in the estimation process, the estimates could result in materially different results under different assumptions and conditions.

Table of Contents

SELECTED FINANCIAL DATA

The following summary data is based in part on the consolidated financial statements and accompanying notes and other information appearing elsewhere in this or prior Form 10-Qs.

	At or for the Three Months Ended March 31, 2015	2014
PER COMMON SHARE DATA		
Net earnings, diluted	$ 0.35	$ (0.04)
Adjusted earnings, diluted (1)	0.50	0.42
Total common book value	28.36	26.99
Dividends	0.19	0.18
Common stock price:		
High	27.92	27.28
Low	24.27	23.95
Close	27.70	25.88
PERFORMANCE RATIOS (2)		
Return on average assets	0.54%	(0.08)%
Return on average common equity	5.00	(0.64)
Net interest margin, fully taxable equivalent	3.18	3.35
Fee income/Net interest and fee income	23.25	22.84
ASSET QUALITY RATIOS (3)		
Net charge-offs (period annualized)/average loans	0.28%	0.30%
Allowance for loan losses/total loans	0.77	0.79
CONDITION RATIOS		
Stockholders equity to total assets	10.90%	11.27%
Investments to total assets	18.51	19.05
Loans/deposits	100	101
FINANCIAL DATA: *(In millions)*		
Total assets	$ 6,571	$ 6,010
Total earning assets	5,993	5,408
Total investments	1,216	1,145
Total loans	4,729	4,243
Allowance for loan losses	36	34
Total intangible assets	275	280
Total deposits	4,720	4,219
Total borrowings	1,046	1,026
Total common stockholders equity	716	678
FOR THE PERIOD: *(In thousands)*		
Net interest income	$ 45,493	$ 42,766
Non-interest income	12,562	4,423
Provision for loan losses	3,851	3,396
Non-interest expense	45,148	45,360
Net income (loss)	8,759	(1,106)

Adjusted income (1)	12,374	10,412

(1) Adjusted income and adjusted earnings are non-GAAP financial measures that the Company believes provide investors with information that is useful in understanding our financial performance and condition.

(2) All performance ratios are annualized and are based on average balance sheet amounts, where applicable.

(3) Generally accepted accounting principles require that loans acquired in a business combination be recorded at fair value, whereas loans from business activities are recorded at cost. The fair value of loans acquired in a business combination includes expected loan losses, and there is no loan loss allowance recorded for these loans at the time of acquisition. Accordingly, the ratio of the loan loss allowance to total loans is reduced as a result of the existence of such loans, and this measure is not directly comparable to prior periods. Similarly, net loan charge-offs are normally reduced for loans acquired in a business combination since these loans are recorded net of expected loan losses. Therefore, the ratio of net loan charge-offs to average loans is reduced as a result of the existence of such loans, and this measure is not directly comparable to prior periods. Other institutions may have loans acquired in a business combination, and therefore there may be no direct comparability of these ratios between and among other institutions.

Table of Contents

AVERAGE BALANCES AND AVERAGE YIELDS/RATES

The following table presents average balances and an analysis of average rates and yields on an annualized fully taxable equivalent basis for the periods included.

	Three Months Ended March 31,			
	2015		2014	
($ In millions)	Average Balance	Yield/Rate (FTE basis)	Average Balance	Yield/Rate (FTE basis)
Assets				
Loans:				
Residential mortgages	$ 1,470	3.94%	$ 1,379	4.12%
Commercial real estate	1,647	4.12	1,420	4.44
Commercial and industrial loans	807	3.70	685	3.97
Consumer loans	765	3.23	700	3.56
Total loans (1)	4,689	3.86	4,184	4.13
Investment securities (2)	1,177	3.10	1,048	3.04
Short term investments and loans held for sale (3)	55	1.40	28	1.51
Total interest-earning assets	5,921	3.67	5,260	3.89
Intangible assets	276		278	
Other non-interest earning assets	300		313	
Total assets	$ 6,497		$ 5,851	
Liabilities and stockholders equity				
Deposits:				
NOW	$ 423	0.14%	$ 410	0.15%
Money market	1,409	0.40	1,490	0.37
Savings	502	0.15	464	0.16
Time	1,420	0.92	1,070	1.15
Total interest-bearing deposits	3,754	0.53	3,434	0.56
Borrowings and notes (4)	1,107	0.85	912	1.03
Total interest-bearing liabilities	4,861	0.61	4,346	0.66
Non-interest-bearing demand deposits	870		750	
Other non-interest earning liabilities	65		63	
Total liabilities	5,796		5,159	
Total stockholders equity (2)	701		692	
Total liabilities and stockholders equity	$ 6,497		$ 5,851	
Net interest spread		3.06%		