BERKSHIRE HILLS BANCORP INC
Form 10-Q
August 09, 2012
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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: June 30, 2012

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: 000-51584

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 22,208,105 shares of common stock, par value $0.01 per share, outstanding as of August 3, 2012.

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PART I

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	June 30, 2012	December 31, 2011
Assets		
Cash and due from banks	$ 44,696	$ 46,713
Short-term investments	21,790	28,646
Total cash and cash equivalents	66,486	75,359
Trading security	17,365	17,395
Securities available for sale, at fair value	471,368	419,756
Securities held to maturity (fair values of $43,285 and $60,395)	41,822	58,912
Federal Home Loan Bank stock and other restricted securities	37,174	37,118
Total securities	567,729	533,181
Loans held for sale	59,280	1,455
Residential mortgages	1,193,447	1,020,435
Commercial mortgages	1,281,058	1,156,241
Commercial business loans	519,684	410,292
Consumer loans	371,430	369,602
Total loans	3,365,619	2,956,570
Less: Allowance for loan losses	(32,868)	(32,444)
Net loans	3,332,751	2,924,126
Premises and equipment, net	68,569	60,139
Other real estate owned	827	1,900
Goodwill	220,360	202,391
Other intangible assets	19,505	20,973
Cash surrender value of bank-owned life insurance policies	76,290	75,009
Other assets	95,926	91,309
Assets from discontinued operations		5,362
Total assets	$ 4,507,723	$ 3,991,204
Liabilities		
Demand deposits	$ 535,472	$ 447,414
NOW deposits	298,236	272,204
Money market deposits	1,158,562	1,055,306
Savings deposits	371,668	350,517
Time deposits	1,045,767	975,734
Total deposits	3,409,705	3,101,175
Short-term debt	239,030	10,000
Long-term Federal Home Loan Bank advances	213,497	211,938
Junior subordinated debentures	15,464	15,464
Total borrowings	467,991	237,402

Other liabilities		46,757		43,758
Liabilities from discontinued operations				55,504
Total liabilities		3,924,453		3,437,839
Stockholders equity				
Common stock ($.01 par value; 50,000,000 shares authorized and 23,824,972 shares issued and 22,169,157 shares outstanding in 2012; 22,860,368 shares issued and 21,147,736 shares outstanding in 2011)		238		229
Additional paid-in capital		516,183		494,304
Unearned compensation		(3,200)		(2,790)
Retained earnings		115,871		109,477
Accumulated other comprehensive loss		(4,336)		(4,885)
Treasury stock, at cost (1,655,815 shares in 2012 and 1,712,632 shares in 2011)		(41,486)		(42,970)
Total stockholders equity		583,270		553,365
Total liabilities and stockholders equity	$	4,507,723	$	3,991,204

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

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Interest and dividend income				
Loans	$ 38,787	$ 28,607	$ 73,838	$ 53,213
Securities and other	3,869	3,446	7,490	6,753
Total interest and dividend income	42,656	32,053	81,328	59,966
Interest expense				
Deposits	5,482	5,768	10,984	11,483
Borrowings and junior subordinated debentures	2,121	2,084	4,146	4,136
Total interest expense	7,603	7,852	15,130	15,619
Net interest income	35,053	24,201	66,198	44,347
Non-interest income				
Loan related fees	3,524	780	4,897	1,371
Deposit related fees	3,963	3,366	7,463	5,907
Insurance commissions and fees	2,768	2,782	5,514	6,512
Wealth management fees	1,757	1,389	3,657	2,581
Total fee income	12,012	8,317	21,531	16,371
Other	269	(277)	510	(197)
Gain on borrowings		124	42	124
Gain on sale of securities, net	7	6	7	6
Total non-interest income	12,288	8,170	22,090	16,304
Total net revenue	47,341	32,371	88,288	60,651
Provision for loan losses	2,250	1,500	4,250	3,100
Non-interest expense				
Compensation and benefits	15,638	12,027	29,227	23,178
Occupancy and equipment	4,490	3,546	8,885	6,981
Technology and communications	2,258	1,531	4,216	2,997
Marketing and promotion	778	341	1,129	622
Professional services	1,493	1,216	2,858	2,148
FDIC premiums and assessments	870	741	1,551	1,768
Other real estate owned and foreclosures	(6)	700	173	1,309
Amortization of intangible assets	1,357	935	2,668	1,651
Merger, acquisition and conversion related expenses	4,085	5,451	8,308	7,159
Other	3,221	2,135	5,363	3,999
Total non-interest expense	34,184	28,623	64,378	51,812
Income from continuing operations before income taxes	10,907	2,248	19,660	5,739
Income tax expense	2,921	371	5,193	1,027
Net income from continuing operations	7,986	1,877	14,467	4,712
Loss from discontinued operations before income taxes (including gain on disposal of $63)			(261)	
Income tax expense			376	
Net loss from discontinued operations			(637)	
Net income	$ 7,986	$ 1,877	$ 13,830	$ 4,712
Basic and diluted earnings per share:				
Continuing operations	$ 0.37	$ 0.11	$ 0.68	$ 0.31

Discontinued operations			(0.03)	
Total basic and diluted earnings per share	$ 0.37	$ 0.11	$ 0.65	$ 0.31
Weighted average common shares outstanding:				
Basic	21,742	16,580	21,349	15,269
Diluted	21,806	16,601	21,434	15,299

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

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2012	**2011**	**2012**	**2011**
Net income	$ 7,986	$ 1,877	$ 13,830	$ 4,712
Other comprehensive income				
Changes in unrealized gainson securities available-for-sale	1,394	878	2,687	1,894
Changes in unrealized (losses) gains on derivative hedges	(2,488)	(816)	(2,204)	436
Changes in unrealized gains on terminated swaps	235	235	471	471
Changes in unrealized losses on pension	(257)		(257)	
Income taxes related to other comprehensive income	672	(103)	(148)	(1,085)
Total other comprehensive (loss) income	(444)	194	549	1,716
Total comprehensive income	$ 7,542	$ 2,071	$ 14,379	$ 6,428

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

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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	Treasury stock	Total
Balance at December 31, 2010	14,076	$ 158	$ 337,537	$ (1,776)	$ 103,972	$ (6,410)	$ (44,834)	$ 388,647
Comprehensive income:								
Net income					4,712			4,712
Other comprehensive income						1,716		1,716
Total comprehensive income								6,428
Acquisition of Rome Bancorp, Inc.	2,661	27	55,463					55,490
Rome ESOP loan repayment	(44)						(943)	(943)
Cash dividends declared ($0.32 per share)					(4,930)			(4,930)
Forfeited shares	(21)		33	426			(459)	
Exercise of stock options	13				(112)		326	214
Restricted stock grants	59		(242)	(1,261)			1,503	
Stock-based compensation			2	471				473
Net tax expense related to stock-based compensation			66					66
Other, net	(23)						(475)	(475)
Balance at June 30, 2011	16,721	$ 185	$ 392,859	$ (2,140)	$ 103,642	$ (4,694)	$ (44,882)	$ 444,970
Balance at December 31, 2011	21,148	$ 229	$ 494,304	$ (2,790)	$ 109,477	$ (4,885)	$ (42,970)	$ 553,365
Comprehensive income:								
Net income					13,830			13,830
Other comprehensive income						549		549
Total comprehensive income								14,379
Acquisition of The Connecticut Bank and Trust Company	965	9	21,981					21,990
Cash dividends declared ($0.34 per share)					(7,372)			(7,372)
Forfeited shares	(8)		11	169			(180)	
Exercise of stock options	13				(64)		335	271
Restricted stock grants	64		(148)	(1,476)			1,624	
Stock-based compensation				897				897
Net tax benefit related to stock-based compensation			35					35
Other, net	(13)						(295)	(295)
Balance at June 30, 2012	22,169	$ 238	$ 516,183	$ (3,200)	$ 115,871	$ (4,336)	$ (41,486)	$ 583,270

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

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
(In thousands)	**2012**	**2011**
Cash flows from operating activities:		
Net income	$ 13,830	$ 4,712
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,250	3,100
Net amortization of securities	986	595
Change in unamortized net loan costs and premiums	(461)	475
Premises depreciation and amortization expense	2,921	2,159
Write down of other real estate owned		1,200
Stock-based compensation expense	895	473
(Accretion)/Amortization of purchase accounting entries	(3,541)	(468)
Amortization of other intangibles	2,668	1,651
Excess tax loss from stock-based payment arrangements	(35)	
Income from cash surrender value of bank-owned life insurance policies	(1,281)	(872)
Gain on sales of securities, net	(48)	(253)
Net (increase) decrease in loans held for sale	(9,561)	1,043
Loss on disposition of assets	1,527	
Loss on sale of other real estate	28	104
Net change in other	3,925	2,792
Net cash provided by operating activities	**16,103**	**16,711**
Cash flows from investing activities:		
Net decrease in trading security	240	130
Proceeds from sales of securities available for sale	32,440	3,525
Proceeds from maturities, calls and prepayments of securities available for sale	47,006	70,196
Purchases of securities available for sale	(89,843)	(68,360)
Proceeds from maturities, calls and prepayments of securities held to maturity	25,775	6,058
Purchases of securities held to maturity	(8,685)	(4,683)
Net change in loans	(200,668)	(55,391)
Net cash used for Divestiture	(48,890)	
Proceeds from sale of Federal Home Loan Bank stock	1,861	3,571
Proceeds from sale of other real estate	1,872	382
Acquisitions, net of cash paid	(58,150)	10,849
Purchase of premises and equipment, net	(11,604)	(2,907)
Net cash (used) by investing activities	**(308,646)**	**(36,630)**
Cash flows from financing activities:		
Net increase in deposits	98,609	51,984
Proceeds from Federal Home Loan Bank advances and other borrowings	231,595	105,480
Repayments of Federal Home Loan Bank advances and other borrowings	(39,891)	(135,118)
Net proceeds from reissuance of treasury stock	271	214
Excess tax loss from stock based payment arrangements	35	66
Common stock cash dividends paid	(7,372)	(4,930)
Net cash provided by financing activities	**283,247**	**17,696**
Net change in cash and cash equivalents	(9,296)	(2,223)
Cash and cash equivalents at beginning of period	75,782	44,140
Cash and cash equivalents at end of period	**$ 66,486**	**$ 41,917**

Supplemental cash flow information:		
Interest paid on deposits	10,984	11,536
Interest paid on borrowed funds	4,146	4,045
Income taxes (refunded) paid, net	(965)	55
Acquisition of non-cash assets and liabilities:		
Assets acquired	342,786	322,305
Liabilities assumed	(253,155)	(259,524)
Rome stock owned by the Company		668
Other non-cash changes:		
Other net comprehensive income	549	1,716
Real estate owned acquired in settlement of loans	(320)	

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

Note: The Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and the cash and cash equivalents at beginning of period includes the cash flows from activities associated with discontinued operations.

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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 statement 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, 2011.

Election of the use of the Fair Value Option

In connection with the Company s purchase of Greenpark Mortgage Corporation (Greenpark) as described in Note 3, the Company elected the applicable accounting guidance for the fair value option as it relates to loans held for sale (HFS). This election allows for a more effective matching of the fair value changes that flow through earnings from the interest rate lock commitment (IRLC) stage to the funded HFS loan stage, and forward commitments used to economically hedge the changes in fair value of the IRLC and HFS loans. The election was applied on a prospective basis starting with all HFS loans originated after April 30, 2012. See Note 13 for the HFS loans fair value recorded in the Company s Consolidated Balance Sheet and unrealized gain recorded in the Company s Consolidated Statement of Income as of and for the period ended June 30, 2012.

Out of Period Adjustments

For the three months and six months ended June 30, 2012, the Company recorded a correction of an immaterial error relating to prior years that increased net income by $0.5 million and $0.7 million, respectively. The correction represents a prior period tax related over-accrual. While these adjustments were noteworthy for the quarter, after evaluating the quantitative and qualitative aspects of these adjustments, the Company concluded that its prior period financial statements were not materially misstated and, therefore, no restatement was required.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. In May 2011, the FASB issued ASU 2011-04 to provide a consistent definition of fair value and common requirements for the measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). The changes to U.S. GAAP as a result of ASU No. 2011-04 are as follows: (1) The concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets; (2) U.S. GAAP currently prohibits application of a blockage factor in valuing financial instruments with quoted prices in active markets. ASU No. 2011-04 extends that prohibition to all fair value measurements; (3) An exception is provided to the basic fair value measurement principles for an entity that holds a group of financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk that are managed on the basis of the entity s net exposure to either of those risks. This exception allows the entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position; (4) The fair value measurement of instruments classified within an entity s shareholders equity is aligned with the guidance for liabilities; and (5) Disclosure requirements have been enhanced for Level 3 fair value measurements to disclose quantitative information about unobservable inputs and assumptions used, to describe the valuation processes used by the entity, and to qualitatively describe the sensitivity of fair value measurements to changes in unobservable inputs and the interrelationships between those inputs. In addition, entities must report the level in the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value must be disclosed. The Company adopted the provisions of ASU No. 2011-04 effective January 1, 2012.

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The fair value measurement provisions of ASU No. 2011-04 had no impact on the Company s financial statements. The required disclosures are incorporated in Note 14 to the Company s financial statements.

ASU 2011-05, Comprehensive Income (Topic 220) - Presentation of Comprehensive Income. ASU 2011-05 amends Topic 220, Comprehensive Income, to require that all non-owner changes in stockholders equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders equity was eliminated. ASU 2011-05 is effective for annual and interim periods beginning after December 15, 2011; however, certain provisions related to the presentation of reclassification adjustments have been deferred by ASU 2011-12 Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, as further discussed below. The Company adopted the new guidance by reporting the components of comprehensive income in two separate but consecutive statements.

ASU No. 2011-08, Testing Goodwill for Impairment . In September 2011, the FASB issued ASU 2011-08 which will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount . The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. In July 2012, the FASB issued ASU 2012-02 that amends ASU 2011-08 to simplify how entities test indefinite-lived intangible assets other than goodwill for impairment. After an assessment of certain qualitative factors, if it is determined to be more likely than not that an indefinite-lived asset is impaired, entities must perform the quantitative impairment test. Otherwise, the quantitative test is optional. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on the Company s financial statements.

ASU 2011-11, Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 amends Topic 210, Balance Sheet, to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. ASU 2011-11 is effective for annual and interim periods beginning on January 1, 2013, and is limited to matters of presentation with no impact expected on the Company s financial statements.

ASU 2011-12 Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. ASU 2011-12 defers changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to redeliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12. ASU 2011-12 is effective for annual and interim periods beginning after December 15, 2011. The required disclosures required are incorporated in Note 8 and do not have a significant impact on the Company s financial statements.

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NOTE 3. ACQUISITIONS

The Connecticut Bank and Trust Company

On April 20, 2012, the Company acquired all of the outstanding common shares of The Connecticut Bank and Trust Company (CBT). CBT operated eight banking offices serving the Greater Hartford area and was merged with and into Berkshire Bank, a wholly owned subsidiary of the Company. This business combination is an extension of the Berkshire franchise and the goodwill recognized results from the expected synergies and earnings accretion from this combination, including future cost savings related to CBT s operations. The combination was negotiated between the companies and was approved unanimously by their boards of directors.

CBT shareholders received 965 thousand shares of the Company common stock and $9.0 million in cash. On the acquisition date, CBT had 3.617 million outstanding common shares. Through a cash/share election procedure, the Company paid $8.25 per share for 30% of the outstanding common shares. For 70% of the outstanding shares, the Company exchanged its stock in a ratio of 0.381 shares of the Company s common stock for each share of CBT stock. The 965 thousand shares of Company common stock issued in this exchange were valued at $22.80 per share based on its closing price on April 19, 2012. Berkshire paid $0.2 million in cash consideration to settle all outstanding CBT options. The Company issued no new Berkshire options in connection with the merger.

As of April 20, 2012, CBT had assets with a carrying value of approximately $268.8 million, including loans outstanding with a carrying value of approximately $215.8 million, as well as deposits with a carrying value of approximately $209.7 million. The results of CBT s operations are included in the Consolidated Statement of Income from the date of acquisition. As part of the acquisition, the Company repurchased and retired from the United States Department of Treasury (Treasury) each share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A, of CBT stock issued and outstanding for $5.4 million and the outstanding warrant issued to the Treasury to purchase CBT common stock for $0.8 million.

The assets and liabilities in the CBT acquisition were recorded at their fair value based on management s best estimate using information available at the date of acquisition. Consideration paid, and fair values of CBT s assets acquired and liabilities assumed as of April 20, 2012 are summarized in the following table:

Consideration Paid:		
Berkshire Hills Bancorp common stock issued to CBT common stockholders	$	21,992
Cash consideration paid to CBT common shareholders		8,952
Repurchase of CBT s preferred stock and warrant		6,290
Cash consideration paid for CBT employee stock options		150
Total consideration paid	$	37,384

Recognized Amounts of Identifiable Assets Aquired and (Liabilities Assumed), At Fair Value:		**As Acquired**		**Fair Value Adjustments**		**As Recorded at Acquisition**
Cash and short term investments	$	10,568	$		$	10,567
Investment securities		41,428		(46)(a)		41,382
Loans		215,773		(6,181)(b)		209,592
Premises and equipment		1,393				1,393

Core deposit intangibles		1,200(c)	1,200
Other intangibles		(238)(d)	(238)
Other assets	3,081	7,795(e)	10,877
Deposits	(209,707)	(428)(f)	(210,135)
Borrowings	(35,865)	(3,020)(g)	(38,885)
Other liabilities	(1,978)	(209)(h)	(2,187)
Total identifiable net assets	$ 24,693	$ (1,127)	$ 23,566
Goodwill			$ 13,818

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Explanation of Certain Fair Value Adjustments

(a) The adjustment represents the write down of the book value of investments to their estimated fair value based on fair values on the date of acquisition.

(b) The adjustment represents the write down of the book value of loans to their estimated fair value based on current interest rates and expected cash flows, which includes an estimate of expected loan loss inherent in the portfolio. Loans that met the criteria and are being accounted for in accordance with ASC 310-30 had a carrying amount of $15.3 million. Non-impaired loans not accounted for under 310-30 had a carrying value of $194.2 million.

(c) The adjustment represents the value of the core deposit base assumed in the acquisition. The core deposit asset was recorded as an identifiable intangible asset and will be amortized over the average life of the deposit base.

(d) The adjustment represents an intangible liability related to assumed leases, which was recorded as an identifiable intangible and will be amortized over the remaining life of the leases.

(e) This amount primarily consists of adjustments in the net deferred tax assets resulting from the fair value adjustments related to the acquired assets and liabilities, identifiable intangibles, and other deferred tax items including recognition of a $4.8 million deferred tax asset related to operating losses, which CBT had a full valuation allowance against.

(f) The adjustment is necessary because the weighted average interest rate of deposits exceeded the cost of similar funding at the time of acquisition.

(g) The adjustment represents a write up of the book value of borrowings to their estimated fair value calculated based on interest rates of similar borrowings available on the date of acquisition.

(h) The adjustment represents a write up of the book value of other liabilities to their estimated fair value at the acquisition date.

Except for collateral dependent loans with deteriorated credit quality, the fair values for loans acquired from CBT were estimated using cash flow projections based on the remaining maturity and repricing terms. Cash flows were adjusted by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value using a risk-adjusted market rate for similar loans. To estimate the fair value of collateral dependent loans with deteriorated credit quality, we analyzed the value of the underlying collateral of the loans, assuming the fair values of the loans were derived from the eventual sale of the collateral. We discounted those values 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. There was no carryover of CBT s allowance for credit losses associated with the loans that were acquired as the loans were initially recorded at fair value.

Information about the acquired loan portfolio subject to ASC 310-30 as of April 20, 2012 is as follows (in thousands):

		ASC 310-30 Loans
Contractually required principal and interest at acquisition	$	23,726
Contractual cash flows not expected to be collected (nonaccretable discount)		(5,563)
Expected cash flows at acquisition		18,163
Interest component of expected cash flows (accretable discount)		(2,816)
Fair value of acquired loans	$	15,347

The core deposit intangible asset recognized as part of the CBT merger is being amortized over its estimated useful life of approximately eight years utilizing an accelerated method. Other intangibles consist of leasehold intangible liabilities, which are amortized over the life of each respective lease using a straight-line method.

The goodwill, which is not amortized for book purposes, was assigned to our banking segment and is not deductible for tax purposes.

The fair value of savings and transaction deposit accounts acquired from CBT was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. The fair value of time deposits was estimated by discounting the contractual future cash flows using market rates offered for time deposits of similar remaining maturities. The fair value of borrowed funds was estimated by discounting the future cash flows using market rates for similar borrowings.

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Direct merger and acquisition integration-related costs related to the CBT acquisition were expensed as incurred and totaled $2.7 million for the first six months of 2012, and none in 2011.

Greenpark Mortgage Corporation

On April 30, 2012, Berkshire Bank acquired the operations, and purchased certain assets and assumed certain limited liabilities of Greenpark Mortgage Corporation (Greenpark), as contemplated by the Asset Purchase Agreement dated February 2, 2012, by and between Berkshire Bank and Greenpark. The purchase of Greenpark s operations increases the Company s consumer lending capabilities, and expands the Company s geographical footprint into eastern Massachusetts along with broadening its sources of fee-based income.

The purchase price for Greenpark s operations was $4.0 million, but additional consideration of $0.1 million was paid for certain prepaid assets. $46.5 million was paid to retire outstanding bank loans, recently originated loans, along with $2.8 million in premiums on those loans representing the sellers income on those loans had they been sold prior to April 30, 2012. Additionally, a $1.1 million liability was recorded for contingent consideration representing the fair value of earn-out payments to the sellers of Greenpark over a five year period of time after the purchase date. While the earn-out payments are based on production of loan originations, which can vary from year to year, management calculated an expected range of $0.2 million to $0.3 million in annual payments using the Black Scholes model to estimate the fair value of the contingent liability. Direct acquisition and integration costs of Greenpark s operations were expensed as incurred, and totaled $0.3 million during the first six months of 2012. The results of Greenpark s operations are included in the Consolidated Statements of Income from the date of acquisition.

The assets and liabilities in the Greenpark transaction were recorded at their fair value based on management s best estimate using information available at the date of purchase. The Greenpark transaction is an asset purchase for legal purposes, which limits the Company s exposure to the assumption of liabilities as defined in the purchase agreement, and to any potential unknown liabilities that result from operations that occur subsequent to the purchase date. The transaction is also considered an asset purchase for tax purposes, which results in a step-up in tax basis of assets acquired and liabilities assumed along with tax deductible goodwill. For book purposes, the Company will account for the transaction as a business combination in accordance with applicable accounting guidance, as it represents an acquisition of a business with a distinct set of inputs and processes to produce outputs. The goodwill, representing the excess of consideration paid over the net fair value of assets and liabilities acquired, is not amortized for book purposes, and is assigned to our banking segment.

The assets and liabilities in the Greenpark transaction were recorded at their fair value based on management s best estimate using information available at the date of acquisition. Consideration paid, and fair values of Greenpark s assets acquired and liabilities assumed, are summarized in the following table:

Consideration Paid:		
Cash purchase price	$	4,000
Cash paid for certain prepaid assets		58
Payoff of Greenpark s lines of credit		46,496
Premiums paid for loans, and loan commitments		2,770
Contingent purchase price		1,087
Total consideration paid		54,411
Recognized Amounts of Identifiable Assets Aquired and (Liabilities Assumed), At Fair Value:		

Loans held for sale		48,408(a)
Other assets		2,621(b)
Premises and equipment		98(c)
Other liabilities		(862)(d)
Total identifiable net assets		50,265
Goodwill	$	4,146

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Explanation of Certain Fair Values

(a) Includes a portion of the cash consideration paid for premiums as described above, which adjusts the loans to fair value.

(b) Represents the fair value of the acquired derivative associated with commitments to originate loans at a specified locked-rate (interest rate lock commitments).

(c) Represents the fair value of certain acquired office equipment.

(d) Consists of forward contracts acquired at fair value, which serves to hedge the movements in fair value of the interest rate lock commitments.

The adjustment of loans from Greenpark s carrying value of $46.5 million to fair value of $48.4 million represents a portion of the cash consideration paid for premiums as described above.

The following table presents selected unaudited pro forma financial information reflecting the CBT and Greenpark transactions assuming they were completed as of January 1, 2011. The unaudited pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the financial results of the combined companies had these acquisitions actually been completed at the beginning of the periods presented, nor does it indicate future results for any other interim or full-year period. Pro forma basic and diluted earnings per common share were calculated using Berkshire s actual weighted-average shares outstanding for the periods presented, plus the incremental shares issued, assuming the CBT and Greenpark transactions occurred at the beginning of the periods presented. The unaudited pro forma information is based on the actual financial statements of Berkshire for the periods shown, and on the actual financial statements of CBT and Greenpark for the 2011 period shown and in 2012 until the date of acquisition, at which time their operations became included in Berkshire s financial statements.

The unaudited pro forma information, for the six months ended June 30, 2012 and 2011, set forth below reflects adjustments related to (a) purchase accounting fair value adjustments; (b) amortization of core deposit and other intangibles; and (c) adjustments to interest income and expense due to investment sales and additional borrowings as a result of the CBT and Greenpark transactions. Direct merger and acquisition integration-related costs incurred by the Company during 2012 are reversed, as those expenses are assumed to have occurred prior to 2011. Furthermore, the unaudited pro forma information does not reflect management s estimate of any revenue-enhancing opportunities or anticipated cost savings.

Information in the following table is shown in thousands, except earnings per share:

	Pro Forma Six months ended June 30, 2012		Pro Forma Six months ended June 30, 2011	
Net interest income	$	69,958	$	50,753
Non-interest income		30,892		25,421
Net income		13,984		6,451
Pro forma earnings per share from continuing operations:				

Basic	$	0.68	$	0.40
Diluted	$	0.68	$	0.40

On May 31, 2012, the Company entered into a merger agreement with Beacon Federal Bancorp, Inc. (Beacon Federal), the parent company of Beacon Federal (Beacon Bank), pursuant to which Beacon Federal will merge with and into the Company in a transaction to be accounted for as a business combination. It is expected that Beacon Bank will also merge with and into Berkshire Bank. Located in East Syracuse, New York, Beacon Federal had $1 billion in total assets at March 31, 2012 (unaudited) and, through Beacon Bank, operates 7 banking offices providing a range of banking services in New York, Massachusetts, and Tennessee.

Under the terms of this merger agreement, 50% of the outstanding shares of Beacon Federal common stock will be converted into the right to receive 0.9200 of a share of Company common stock and the remaining 50% of outstanding shares of Beacon Federal common stock will be exchanged for $20.50 in cash.

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The transaction is subject to closing conditions, including the receipt of regulatory approvals and approval by the shareholders of Beacon Federal. The merger is currently expected to be completed in the fourth quarter of 2012. If the merger is not consummated under specified circumstances, Beacon Federal has agreed to pay the Company a termination fee of $5.28 million.

The Company incurred $0.4 million of merger and acquisition expenses related to the Beacon Federal merger for the six months ended June 30, 2012.

NOTE 4. TRADING ACCOUNT 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 $13.9 million and $14.1 million, and a fair value of $17.4 million and $17.4 million, at June 30, 2012 and December 31, 2011, respectively. As discussed further in Note 13 - 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 June 30, 2012.

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NOTE 5. 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
June 30, 2012				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$ 73,801	$ 5,136	$ (29)	$ 78,908
Government guaranteed residential mortgage-backed securities	43,225	826		44,051
Government-sponsored residential mortgage-backed securities	287,191	2,773	(329)	289,635
Corporate bonds	9,997		(431)	9,566
Trust preferred securities	20,008	701	(2,239)	18,470
Other bonds and obligations	738	1		739
Total debt securities	434,960	9,437	(3,028)	441,369
Equity securities:				
Marketable equity securities	27,422	2,954	(377)	29,999
Total securities available for sale	462,382	12,391	(3,405)	471,368
Securities held to maturity				
Municipal bonds and obligations	7,400			7,400
Government-sponsored residential mortgage-backed securities	77	7		84
Tax advantaged economic development bonds	33,732	1,456		35,188
Other bonds and obligations	613			613
Total securities held to maturity	41,822	1,463		43,285
Total Securities	$ 504,204	$ 13,854	$ (3,405)	$ 514,653
December 31, 2011				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$ 73,436	$ 4,418	$	$ 77,854
Government guaranteed residential mortgage-backed securities	44,051	1,045		45,096
Government-sponsored residential mortgage-backed securities	245,033	2,990	(412)	247,611
Corporate bonds	9,996		(269)	9,727
Trust preferred securities	20,064	343	(2,592)	17,815
Other bonds and obligations	642	2		644
Total debt securities	393,222	8,798	(3,273)	398,747
Equity securities:				
Marketable equity securities	20,236	1,555	(782)	21,009
Total securities available for sale	413,458	10,353	(4,055)	419,756
Securities held to maturity				
Municipal bonds and obligations	10,349			10,349
	79	4		83

Government-sponsored residential mortgage-backed securities				
Tax advantaged economic development bonds	47,869	1,479		49,348
Other bonds and obligations	615			615
Total securities held to maturity	58,912	1,483		60,395
Total	$ 472,370	$ 11,836	$ (4,055)	$ 480,151

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The amortized cost and estimated fair value of available for sale (AFS) and held to maturity (HTM) securities, segregated by contractual maturity at June 30, 2012 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	$	$	$ 3,677	$ 3,677
Over 1 year to 5 years	9,949	9,733	3,725	3,790
Over 5 years to 10 years	15,518	16,087	16,033	17,103
Over 10 years	79,077	81,863	18,310	18,631
Total bonds and obligations	104,544	107,683	41,745	43,201
Marketable equity securities	27,422	29,999		
Residential mortgage-backed securities	330,416	333,686	77	84
Total	$ 462,382	$ 471,368	$ 41,822	$ 43,285

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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
June 30, 2012						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	$ 29	$ 2,325	$	$	$ 29	$ 2,325
Government-guaranteed residential mortgage-backed securities	24	10,165			24	10,165
Government-sponsored residential mortgage-backed securities	274	88,650	31	5,866	305	94,516
Corporate bonds			431	9,566	431	9,566
Trust preferred securities			2,239	3,395	2,239	3,395
Total debt securities	327	101,140	2,701	18,827	3,028	119,967
Marketable equity securities	143	7,484	234	1,765	377	9,249
Total securities available for sale	470	108,624	2,935	20,592	3,405	129,216
Securities held to maturity						
Tax advantaged economic development bonds						
Total securities held to maturity						
Total	$ 470	$ 108,624	$ 2,935	$ 20,592	$ 3,405	$ 129,216
December 31, 2011						
Securities available for sale						
Debt securities:						
Government guaranteed residential mortgage-backed securities	$ 1	$ 48	$	$	$ 1	$ 48
Government-sponsored residential mortgage-backed securities	375	76,278	36	5,766	411	82,044
Corporate bonds	224	6,776	45	2,951	269	9,727
Trust preferred securities	20	2,541	2,572	3,065	2,592	5,606
Total debt securities	620	85,643	2,653	11,782	3,273	97,425
Marketable equity securities	782	6,229			782	6,229
Total securities available for sale	$ 1,402	$ 91,872	$ 2,653	$ 11,782	$ 4,055	$ 103,654

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 June 30, 2012, 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 June 30, 2012:

AFS municipal bonds and obligations

At June 30, 2012, 3 out of a total of 128 securities in the Company s portfolio of AFS municipal bonds and obligations were in unrealized loss positions. The aggregate unrealized losses represented 1% of the amortized cost of the securities in unrealized loss positions. The Company has the intent to hold these securities until recovery. There were no material underlying credit downgrades during the past quarter. All securities are considered performing.

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AFS residential mortgage-backed securities

At June 30, 2012, 18 out of a total of 167 securities in the Company s portfolios of AFS residential mortgage-backed were in unrealized loss positions. Aggregate unrealized losses represented less than 1% of the amortized cost of securities in unrealized loss positions within the AFS portfolio. 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 considered performing.

AFS corporate bonds

At June 30, 2012, all securities in the Company s portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represented 4% of the amortized cost of the securities. 2 of the securities were downgraded by Moody s in the past quarter, but all 3 remain investment grade rated and the market value of the securities supports the Company s amortized value. The securities are considered performing.

AFS trust preferred securities

At June 30, 2012, 3 out of a total of 6 securities in the Company s portfolio of AFS trust preferred securities were in unrealized loss positions. Aggregate unrealized losses represented 40% 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 bases. 3 of the securities in the AFS trust preferred portfolio were downgraded by Moody s during the past quarter and 4 of the 6 securities contain at least one below investment grade ratings. Berkshire 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 considered performing.

At June 30, 2012, $2.0 million of the total unrealized losses was attributable to a $2.6 million investment in a Mezzanine Class B tranche of a $360 million pooled trust preferred security issued by banking and insurance entities. The Company evaluated the security, with a Level 3 fair value of $0.6 million, for potential other-than-temporary-impairment (OTTI) at June 30, 2012 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 and the protection from credit loss afforded by $33 million in excess subordination above current and projected losses. The security is considered performing.

Marketable Equity Securities

In evaluating its marketable equity securities portfolio for OTTI, the Company considers its ability and intent to hold an equity security to recovery of its cost basis. In addition, various other factors are considered, 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.

At June 30, 2012, 6 out of a total of 22 securities in the Company s portfolio of marketable equity securities were in an unrealized loss position. The unrealized loss represented 4% of the amortized cost of the securities. The Company has the ability and intent to hold the securities until a recovery of their cost bases and does not consider the securities other-than-temporarily impaired at June 30, 2012. 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.

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NOTE 6. LOANS

Total loans include loans from business activities and loans acquired from business combinations. Loans from business combinations are those loans acquired from the acquisitions of The Connecticut Bank and Trust Company, Legacy Bancorp, Inc., and Rome Bancorp, Inc. The following is a summary of total loans:

	June 30, 2012		
(In thousands)	**Loans from Business Activities**	**Loans Acquired from Business Combinations**	**Total**
Residential mortgages			
1-4 family	$ 850,734	$ 306,554	$ 1,157,288
Construction	28,059	8,100	36,159
Total residential mortgages	878,793	314,654	1,193,447
Commercial mortgages:			
Construction	146,649	14,155	160,804
Single and multi-family	71,861	32,475	104,336
Commercial real estate	747,877	268,041	1,015,918
Total commercial mortgages	966,387	314,671	1,281,058
Commercial business loans:			
Asset based lending	177,763	2,495	180,258
Other commercial business loans	244,176	95,250	339,426
Total commercial business loans	421,939	97,745	519,684
Total commercial loans	1,388,326	412,416	1,800,742
Consumer loans:			
Home equity	226,680	75,840	302,520
Other	37,712	31,198	68,910
Total consumer loans	264,392	107,038	371,430
Total loans	$ 2,531,511	$ 834,108	$ 3,365,619

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	December 31, 2011		
(In thousands)	**Loans from Business Activities**	**Loans Acquired from Business Combinations**	**Total**
Residential mortgages:			
1-4 family	$ 649,467	$ 329,407	$ 978,874
Construction	32,191	9,370	41,561
Total residential mortgages	681,658	338,777	1,020,435
Commercial mortgages:			
Construction	117,492	6,726	124,218
Single and multi-family	89,401	16,398	105,799
Commercial real estate	746,545	179,679	926,224
Total commercial mortgages	953,438	202,803	1,156,241
Commercial business loans:			
Asset based lending	151,065	2,206	153,271
Other commercial business loans	210,701	46,320	257,021
Total commercial business loans	361,766	48,526	410,292
Total commercial loans	1,315,204	251,329	1,566,533
Consumer loans:			
Home equity	226,369	71,827	298,196
Other	39,020	32,386	71,406
Total consumer loans	265,389	104,213	369,602
Total loans	$ 2,262,251	$ 694,319	$ 2,956,570

The carrying amount of the acquired loans at June 30, 2012 totaled $834.1 million. These loans consisted of loans determined to be impaired at the time of acquisition, which are accounted for in accordance with ASC Topic 310-30, with a carrying amount of $30.5 million and loans that were considered not impaired at the acquisition date with a carrying amount of $803.6 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.*

(In thousands)	**2012**
Three months ended June 30, 2012	
Balance at beginning of period	$ 668
Acquisitions	2,816
Sales	
Reclassification from nonaccretable difference for loans with improved cash flows	
Changes in expected cash flows that do not affect nonaccretable difference	
Accretion	(930)
Balance at end of period	$ 2,554

(In thousands)	**2012**
Six months ended June 30, 2012	
Balance at beginning of period	$ 1,277

Acquisitions		2,816
Sales		
Reclassification from nonaccretable difference for loans with improved cash flows		
Changes in expected cash flows that do not affect nonaccretable difference		
Accretion		(1,539)
Balance at end of period	$	2,554

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The following is a summary of past due loans at June 30, 2012 and December 31, 2011:

Loans from Business Activities

(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
June 30, 2012							
Residential mortgages:							
1-4 family	$ 2,340	$ 465	$ 11,599	$ 14,404	$ 836,330	$ 850,734	$ 4,622
Construction	465			465	27,594	28,059	
Total	2,805	465	11,599	14,869	863,924	878,793	4,622
Commercial mortgages:							
Construction	350		5,811	6,161	140,488	146,649	
Single and multi-family	251	66	704	1,021	70,840	71,861	309
Commercial real estate	1,097	504	8,704	10,305	737,572	747,877	
Total	1,698	570	15,219	17,487	948,900	966,387	309
Commercial business loans:							
Asset based lending					177,763	177,763	
Other commercial business loans	487	26	1,986	2,499	241,677	244,176	969
Total	487	26	1,986	2,499	419,440	421,939	969
Consumer loans:							
Home equity	760	81	1,318	2,159	224,521	226,680	376
Other	445	160	76	681	37,031	37,712	28
Total	1,205	241	1,394	2,840	261,552	264,392	404
Total	$ 6,195	$ 1,302	$ 30,198	$ 37,695	$ 2,493,816	$ 2,531,511	$ 6,304

Loans Acquired from Business Combinations

(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
June 30, 2012							
Residential mortgages:							
1-4 family	$ 1,895	$ 115	$ 2,373	$ 4,383	$ 302,171	$ 306,554	$ 825
Construction					8,100	8,100	
Total	1,895	115	2,373	4,383	310,271	314,654	825
Commercial mortgages:							
Construction		199	1,616	1,815	12,340	14,155	1,616
Single and multi-family	571	593	322	1,486	30,989	32,475	322
Commercial real estate	747	1,120	4,483	6,350	261,691	268,041	4,057
Total	1,318	1,912	6,421	9,651	305,020	314,671	5,995

Commercial business loans:							
Asset based lending					2,495	2,495	
Other commercial business loans	503	112	3,804	4,419	90,831	95,250	3,774
Total	503	112	3,804	4,419	93,326	97,745	3,774
Consumer loans:							
Home equity	95		78	173	75,667	75,840	
Other	242	38	298	578	30,620	31,198	157
Total	337	38	376	751	106,287	107,038	157
Total	$ 4,053	$ 2,177	$ 12,974	$ 19,204	$ 814,904	$ 834,108	$ 10,751

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Loans from Business Activities

(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, 2011							
Residential mortgages:							
1-4 family	$ 2,045	$ 877	$ 11,479	$ 14,401	$ 635,066	$ 649,467	$ 5,123
Construction					32,191	32,191	
Total	2,045	877	11,479	14,401	667,257	681,658	5,123
Commercial mortgages:							
Construction			8,650	8,650	108,842	117,492	
Single and multi-family	70		676	746	88,655	89,401	314
Commercial real estate	746	8,019	5,258	14,023	732,522	746,545	
Total	816	8,019	14,584	23,419	930,019	953,438	314
Commercial business loans							
Asset based lending					151,065	151,065	
Other commercial business loans	369	781	1,156	2,306	208,395	210,701	178
Total	369	781	1,156	2,306	359,460	361,766	178
Consumer loans:							
Home equity	430	257	1,692	2,379	223,990	226,369	
Other	311	148	148	607	38,413	39,020	100
Total	741	405	1,840	2,986	262,403	265,389	100
Total	$ 3,971	$ 10,082	$ 29,059	$ 43,112	$ 2,219,139	$ 2,262,251	$ 5,715

Loans Acquired from Business Combinations

(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, 2011							
Residential mortgages:							
1-4 family	$ 663	$ 242	$ 1,450	$ 2,355	$ 327,052	$ 329,407	$ 796
Construction			165	165	9,205	9,370	165
Total	663	242	1,615	2,520	336,257	338,777	961
Commercial mortgages:							
Construction			606	606	6,120	6,726	606
Single and multi-family			703	703	15,695	16,398	703
Commercial real estate	68	102	1,923	2,093	177,586	179,679	1,913
Total	68	102	3,232	3,402	199,401	202,803	3,222

Commercial business loans:							
Asset based lending					2,206	2,206	
Other commercial business loans	349	235	258	842	45,478	46,320	245
Total	349	235	258	842	47,684	48,526	245
Consumer loans:							
Home equity	284		75	359	71,468	71,827	
Other	239	69	179	487	31,899	32,386	41
Total	523	69	254	846	103,367	104,213	41
Total	$ 1,603	$ 648	$ 5,359	$ 7,610	$ 686,709	$ 694,319	$ 4,469

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Activity in the allowance for loan losses for the six months ended June 30, 2012 and December 31, 2011 was as follows:

Loans from Business Activities

(In thousands)	Residential mortgages	Commercial mortgages	Commercial business	Consumer	Unallocated	Total
June 30, 2012						
Balance at beginning of year	$ 3,150	$ 22,095	$ 4,540	$ 2,203	$ (90)	$ 31,898
Charged-off loans	1,340	1,499	27	1,158		4,024
Recoveries on charged-off loans	72	5	23	99		199
Provision for loan losses	4,237	236	(217)	(285)	(92)	3,879
Balance at end of period	$ 6,119	$ 20,837	$ 4,319	$ 859	$ (182)	$ 31,952
Individually evaluated for impairment	692	2,114	142			2,948
Collectively evaluated for impairment	5,427	18,723	4,177	859	(182)	29,004
Total	$ 6,119	$ 20,837	$ 4,319	$ 859	$ (182)	$ 31,952
Loans receivable:						
Balance at end of period						
Individually evaluated for impairment	6,536	33,205	492	577		40,810
Collectively evaluated for impairment	872,257	933,182	421,447	263,815		2,490,701
Total	$ 878,793	$ 966,387	$ 421,939	$ 264,392		$ 2,531,511

Loans Acquired from Business Combinations

(In thousands)	Residential mortgages	Commercial mortgages	Commercial business	Consumer	Unallocated	Total
June 30, 2012						
Balance at beginning of year	$ 281	$ 158	$ 38	$ 87	$ (18)	$ 546
Charged-off loans						
Recoveries on charged-off loans						
Provision for loan losses	58	158	61	29	64	370
Balance at end of period	$ 339	$ 316	$ 99	$ 116	$ 46	$ 916
Individually evaluated for impairment						
Collectively evaluated for impairment	339	316	99	116	46	916
Total	$ 339	$ 316	$ 99	$ 116	$ 46	$ 916
Loans receivable:						
Balance at end of Period						
Individually evaluated for impairment	859	410		38		1,307
	313,795	314,261	97,745	107,000		832,801

Collectively evaluated for impairment										
Total	$	314,654	$	314,671	$	97,745	$	107,038	$	834,108

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Loans from Business Activities

(In thousands)	Residential mortgages	Commercial mortgages	Commercial business	Consumer	Unallocated	Total
December 31, 2011						
Balance at beginning of year	$ 3,077	$ 19,461	$ 6,038	$ 2,099	$ 1,223	$ 31,898
Charged-off loans	1,322	4,047	1,443	884		7,696
Recoveries on charged-off loans	231	189	109	150		679
Provision for loan losses	1,164	6,492	(164)	838	(1,313)	7,017
Balance at end of year	$ 3,150	$ 22,095	$ 4,540	$ 2,203	$ (90)	$ 31,898
Individually evaluated for impairment	449	1,722	116	488		2,775
Collectively evaluated for impairment	2,701	20,373	4,424	1,715	(90)	29,123
Total	$ 3,150	$ 22,095	$ 4,540	$ 2,203	$ (90)	$ 31,898
Loans receivable:						
Balance at end of year						
Individually evaluated for impairment	5,655	34,074	564	1,190		41,483
Collectively evaluated for impairment	676,003	919,364	361,202	264,199		2,220,768
Total	$ 681,658	$ 953,438	$ 361,766	$ 265,389		$ 2,262,251

Loans Acquired from Business Combinations

(In thousands)	Residential mortgages	Commercial mortgages	Commercial business	Consumer	Unallocated	Total
December 31, 2011						
Balance at beginning of year	$	$	$	$	$	$
Charged-off loans						
Recoveries on charged-off loans						
Provision for loan losses	281	158	38	87	(18)	546
Balance at end of year	$ 281	$ 158	$ 38	$ 87	$ (18)	$ 546
Individually evaluated for impairment						
Collectively evaluated for impairment	281	158	38	87	(18)	546
Total	$ 281	$ 158	$ 38	$ 87	$ (18)	$ 546
Loans receivable:						
Balance at end of year						
Individually evaluated for impairment						
Collectively evaluated for impairment	338,777	202,803	48,526	104,213		694,319
Total	$ 338,777	$ 202,803	$ 48,526	$ 104,213		$ 694,319

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The following is a summary of impaired loans at June 30, 2012:

Loans from Business Activities

	At June 30, 2012		
(In thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance:			
Residential mortgages - 1-4 family	$ 2,102	$ 2,102	$
Commercial mortgages - single and multifamily	164	164	
Commercial mortgages - real estate	4,748	4,748	
Consumer - home equity	578	578	
With an allowance recorded:			
Residential mortgages - 1-4 family	$ 2,586	$ 3,278	$ 692
Commercial mortgages - construction	4,673	5,812	1,139
Commercial mortgages - single and multifamily	124	231	107
Commercial mortgages - real estate	2,524	3,392	868
Other commercial business loans	11	153	142
Consumer - home equity			
Total			
Residential mortgages	$ 4,688	$ 5,380	$ 692
Commercial mortgages	12,233	14,347	2,114
Commercial business	11	153	142
Consumer	578	578	
Total impaired loans	$ 17,510	$ 20,458	$ 2,948

Loans Acquired from Business Combinations

	At June 30, 2012		
(In thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance:			
Residential mortgages - 1-4 family	$ 859	$ 859	$
Commercial mortgages - real estate	410	410	
Consumer - home equity	38	38	
Total			
Residential mortgages	$ 859	$ 859	$
Commercial mortgages	410	410	
Consumer	38	38	
Total impaired loans	$ 1,307	$ 1,307	$

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The following is a summary of impaired loans at December 31, 2011:

Loans from Business Activities

	At December 31, 2011		
(In thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance:			
Residential mortgages - 1-4 family	$ 2,546	$ 2,546	$
Commercial mortgages - single and multifamily	326	326	
Commercial mortgages - real estate	2,751	2,751	
Consumer - home equity	308	308	
With an allowance recorded:			
Residential mortgages - 1-4 family	$ 1,853	$ 2,302	$ 449
Commercial mortgages - construction	7,559	8,650	1,091
Commercial mortgages - real estate	1,373	2,004	631
Other commercial business loans	13	129	116
Consumer - home equity	357	845	488
Total			
Residential mortgages	$ 4,399	$ 4,848	$ 449
Commercial mortgages	12,009	13,731	1,722
Commercial business	13	129	116
Consumer	665	1,153	488
Total impaired loans	$ 17,086	$ 19,861	$ 2,775

Loans Acquired from Business Combinations

	At December 31, 2011		
(In thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance:			
Residential mortgages - 1-4 family	$ 247	$ 247	$
Consumer - home equity	37	37	
Total			
Residential mortgages	$ 247	$ 247	$
Consumer	37	37	
Total impaired loans	$ 284	$ 284	$

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The following is a summary of the average recorded investment and interest income recognized on impaired loans as of June 30, 2012 and June 30, 2011:

Loans from Business Activities

	Six Months Ended June 30, 2012		Six Months Ended June, 2011	
(in thousands)	**Average Recorded Investment**	**Cash Basis Interest Income Recognized**	**Average Recorded Investment**	**Cash Basis Interest Income Recognized**
With no related allowance:				
Residential mortgages - 1-4 family	$ 2,098	$ 21	$ 930	$ 11
Residential mortgages - construction			53	
Commercial-construction			157	
Commercial mortgages - single and multifamily	299		107	
Commercial mortgages - real estate	3,022	26	7,994	84
Commercial business loans			46	
Consumer-home equity	166	1	361	2
With an allowance recorded:				
Residential mortgages - 1-4 family	$ 3,569	$ 22	$ 633	$ 3
Residential mortgages - construction			32	
Commercial-construction	6,757		2,335	
Commercial mortgages - single and multifamily	73		548	3
Commercial mortgages - real estate	2,381	22	2,484	8
Commercial business loans	145	3	357	1
Consumer-home equity	704		30	
Total				
Residential mortgages	$ 5,667	$ 43	$ 1,648	$ 14
Commercial mortgages	12,532	48	13,625	95
Commercial business loans	145	3	403	1
Consumer loans	870	1	391	2
Total impaired loans	$ 19,214	$ 95	$ 16,067	$ 112

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Loans Acquired from Business Combinations

	Six Months Ended June 30, 2012		Six Months Ended June, 2011	
(in thousands)	Average Recorded Investment	Cash Basis Interest Income Recognized	Average Recorded Investment	Cash Basis Interest Income Recognized
With no related allowance:				
Residential mortgages - 1-4 family	$ 526	$	$	$
Residential mortgages - construction				
Commercial-construction				
Commercial mortgages - single and multifamily				
Commercial mortgages - real estate	274	10		
Commercial business loans				
Consumer-home equity	38			
With an allowance recorded:				
Residential mortgages - 1-4 family	$	$	$	$
Residential mortgages - construction				
Commercial-construction				
Commercial mortgages - single and multifamily				
Commercial mortgages - real estate				
Commercial business loans				
Consumer-home equity				
Total				
Residential mortgages	$ 526	$	$	$
Commercial mortgages	274	10		
Commercial business loans				
Consumer loans	38			
Total impaired loans	$ 838	$ 10	$	$

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The following is summary information pertaining to non-accrual loans at June 30, 2012 and December 31, 2011:

	June 30, 2012		
(In thousands)	Loans from Business Activities	Loans Acquired from Business Combinations	Total
Residential mortgages:			
1-4 family	$ 6,977	$ 1,548	$ 8,525
Total	6,977	1,548	8,525
Commercial mortgages:			
Construction	5,811		5,811
Single and multi-family	395		395
Other	8,704	426	9,130
Total	14,910	426	15,336
Commercial business loans:			
Other commercial business loans	1,017	30	1,047
Total	1,017	30	1,047
Consumer loans:			
Home equity	942	78	1,020
Other	48	141	189
Total	990	219	1,209
Total non-accrual loans	$ 23,894	$ 2,223	$ 26,117

	December 31, 2011		
(In thousands)	Loans from Business Activities	Loans Acquired from Business Combinations	Total
Residential mortgages:			
1-4 family	$ 6,356	$ 654	$ 7,010
Total	6,356	654	7,010
Commercial mortgages:			
Construction	8,650		8,650
Single and multi-family	362		362
Other	5,259	9	5,268
Total	14,271	9	14,280
Commercial business loans:			
Other commercial business loans	977	13	990
Total	977	13	990
Consumer loans:			
Home equity	1,692	75	1,767
Other	48	139	187
Total	1,740	214	1,954
Total non-accrual loans	$ 23,344	$ 890	$ 24,234

Credit Quality Information

The Bank utilizes a twelve grade internal loan rating system for each of its commercial real estate, construction and commercial loans as follows:

1 **Substantially Risk Free**

Borrowers in this category are of unquestioned credit standing and are at the pinnacle of credit quality. Credits in this category are generally cash secured with strong management depth and experience and exhibit a superior track record.

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2 **Minimal Risk**

A relationship which provides an adequate return on investment to the Company, has been stable during the last three years and has a superior financial condition as determined by a comparison with the industry. In addition, management must be of unquestionable character and have strong abilities as measured by its long-term financial performance.

3 **Moderate Risk**

A relationship which does not appear to possess more than the normal degree of credit risk. Overall, the borrower s financial statements compare favorably with the industry. A strong secondary repayment source exists and the loan is performing as agreed.

4 **Better than Average Risk**

A relationship which possesses most of the characteristics found in the Moderate Risk category and ranges from definitely sound to those with minor risk characteristics. Operates in a reasonably stable industry that may be moderately affected by the business cycle and moderately open to changes. Has a satisfactory track record and the loan is performing as agreed.

5 **Average Risk**

A relationship which possesses most of the characteristics found in the Better than Average Risk category but may have recently experienced a loss year often as a result of its operation in a cyclical industry. The relationship has smaller margins of debt service coverage with some elements of reduced strength. Good secondary repayment source exists and the loan is performing as agreed. Start-up businesses and construction loans will generally be assigned to this category as well.

6 **Acceptable Risk**

Borrowers in this category may be more highly leveraged than their industry peers and experience moderate losses relative to net worth. Trends and performance, e.g. Sales and earnings, leverage, among other factors may be negative. Management s ability may be questionable, or perhaps untested. The industry may be experiencing either temporary or long term pressures. Collateral values are seen as more important in assessing risk than in higher quality loans. Failure to meet required line clean-up periods or other terms and conditions, including some slow payments may also predicate this grade.

7 **Special Mention**

A classification assigned to all relationships for credits with potential weaknesses which present a higher than normal credit risk, but not to the point of requiring a Substandard loan classification. No loss of principal or interest is anticipated. However, these credits are followed closely, and if necessary, remedial plans to reduce the Company s risk exposure are established.

8 **Substandard Performing**

A classification assigned to a credit that is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Substandard loans will be evaluated on at least a quarterly basis to determine if an additional allocation of the Company s allowance for loan loss is warranted.

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9 Substandard Non-Performing

A classification given to Substandard credits which have deteriorated to the point that management has placed the accounts on non-accrual status due to delinquency exceeding 90 days or where the Company has determined that collection of principal and interest in full is unlikely.

10 Doubtful

Loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, highly questionable and improbable. Collection in excess of 50% of the balance owed is not expected.

11 Loss

Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be possible in the future.

100 Small Business Express

Grade established for all small business credits deemed pass rated or better.

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 rated 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 undertakes the same process of assigning risk ratings as historical loans, which may differ from the risk rating policy of the predecessor company. 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 a twelve 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 originated loans, which includes the application of environmental factors to each category of loans.

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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.

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 June 30, 2012, there had not been such a decrease and therefore there was no allowance for losses on acquired loans under Subtopic ASC 310-30.

The Company presented several tables within this footnote of historical loans and acquired loans in order to distinguish the credit performance of the newly acquired loans.

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The following table presents the Company s loans by risk rating at June 30, 2012 and December 31, 2011:

Loans from Business Activities

Residential Mortgages

Credit Risk Profile by Internally Assigned Grade

	1-4 family		Construction		Total residential mortgages	
(In thousands)	June 30, 2012	Dec. 31, 2011	June 30, 2012	Dec. 31, 2011	June 30, 2012	Dec. 31, 2011
Grade:						
Pass	$ 838,669	$ 637,110	$ 28,059	$ 32,191	$ 866,728	$ 669,301
Special mention	465	877			465	877
Substandard	11,600	11,480			11,600	11,480
Total	$ 850,734	$ 649,467	$ 28,059	$ 32,191	$ 878,793	$ 681,658

Commercial Mortgages

Credit Risk Profile by Creditworthiness Category

	Construction		Single and multi-family		Real estate		Total commercial mortgages	
(In thousands)	June 30, 2012	Dec. 31, 2011	June 30, 2012	Dec. 31, 2011	June 30, 2012	Dec. 31, 2011	June 30, 2012	Dec. 31, 2011
Grade:								
Pass	$ 130,149	$ 91,452	$ 68,591	$ 85,153	$ 671,189	$ 674,814	$ 869,929	$ 851,419
Special mention	850	5,939	427	435	18,124	16,459	19,401	22,833
Substandard	15,650	17,262	2,843	3,813	58,459	55,156	76,952	76,231
Doubtful		2,839			105	116	105	2,955
Total	$ 146,649	$ 117,492	$ 71,861	$ 89,401	$ 747,877	$ 746,545	$ 966,387	$ 953,438

Commercial Business Loans

Credit Risk Profile by Creditworthiness Category

	Asset based lending		Other		Total commercial business loans	
(In thousands)	June 30, 2012	Dec. 31, 2011	June 30, 2012	Dec. 31, 2011	June 30, 2012	Dec. 31, 2011
Grade:						
Pass	$ 176,460	$ 149,741	$ 229,728	$ 200,246	$ 406,188	$ 349,987
Special mention			4,815	607	4,815	607
Substandard	1,303	1,324	9,539	9,753	10,842	11,077
Doubtful			94	95	94	95
Total	$ 177,763	$ 151,065	$ 244,176	$ 210,701	$ 421,939	$ 361,766

Consumer Loans

Credit Risk Profile Based on Payment Activity

	Home equity		Other		Total consumer loans	
(In thousands)	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**
Performing	$ 225,738	$ 224,677	$ 37,663	$ 38,972	$ 263,401	$ 263,649
Nonperforming	942	1,692	49	48	991	1,740
Total	$ 226,680	$ 226,369	$ 37,712	$ 39,020	$ 264,392	$ 265,389

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Loans Acquired from Business Combinations

Residential Mortgages

Credit Risk Profile by Internally Assigned Grade

	1-4 family		Construction		Total residential mortgages	
(In thousands)	June 30, 2012	Dec. 31, 2011	June 30, 2012	Dec. 31, 2011	June 30, 2012	Dec. 31, 2011
Grade:						
Pass	$ 304,066	$ 327,715	$ 8,100	$ 9,205	$ 312,166	$ 336,920
Special mention	115	242			115	242
Substandard	2,373	1,450		165	2,373	1,615
Total	$ 306,554	$ 329,407	$ 8,100	$ 9,370	$ 314,654	$ 338,777

Commercial Mortgages

Credit Risk Profile by Creditworthiness Category

	Construction		Single and multi-family		Real estate		Total commercial mortgages	
(In thousands)	June 30, 2012	Dec. 31, 2011	June 30, 2012	Dec. 31, 2011	June 30, 2012	Dec. 31, 2011	June 30, 2012	Dec. 31, 2011
Grade:								
Pass	$ 12,212	$ 3,548	$ 24,706	$ 14,802	$ 230,625	$ 161,218	$ 267,543	$ 179,568
Special mention	256	2,160	4,356	272	14,671	8,071	19,283	10,503
Substandard	1,687	1,018	3,413	1,324	22,745	10,390	27,845	12,732
Total	$ 14,155	$ 6,726	$ 32,475	$ 16,398	$ 268,041	$ 179,679	$ 314,671	$ 202,803

Commercial Business Loans

Credit Risk Profile by Creditworthiness Category

	Asset based lending		Other		Total commercial business loans	
(In thousands)	June 30, 2012	Dec. 31, 2011	June 30, 2012	Dec. 31, 2011	June 30, 2012	Dec. 31, 2011
Grade:						
Pass	$ 2,495	$ 2,206	$ 80,560	$ 39,578	$ 83,055	$ 41,784
Special mention			9,061	3,810	9,061	3,810
Substandard			5,629	2,932	5,629	2,932
Total	$ 2,495	$ 2,206	$ 95,250	$ 46,320	$ 97,745	$ 48,526

Consumer Loans

Credit Risk Profile Based on Payment Activity

	Home equity		Other		Total consumer loans	
(In thousands)	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**	**June 30, 2012**	**Dec. 31, 2011**
Performing	$ 75,762	$ 71,752	$ 31,057	$ 32,248	$ 106,819	$ 104,000
Nonperforming	78	75	141	138	219	213
Total	$ 75,840	$ 71,827	$ 31,198	$ 32,386	$ 107,038	$ 104,213

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.

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The following tables include the recorded investment and number of modifications identified during the six months ended June 30, 2012. The Company reports the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured.

	Number of Modifications	Modifications by Class Six months ending June 30, 2012 Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial - Other	2	$ 1,923	$ 1,923
Commercial business- Other	1	50	50
	3	$ 1,973	$ 1,973

As of June 30, 2012, there were no loans that were restructured within the last twelve months that have subsequently defaulted.

The following table presents the Company s TDR activity for the six months ended June 30, 2012 and 2011:

(In thousands)	June 30, 2012	2011
Balance at beginning of the period	$ 1,263	$ 7,829
Principal Payments	(4)	(71)
TDR Status Change (1)	(1,125)	(7,041)
Other Reductions (2)		(189)
Newly Identified TDRs	1,973	
Balance at end of the period	$ 2,107	$ 528

(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 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.

NOTE 7. DEPOSITS

A summary of time deposits is as follows:

(In thousands)	**June 30, 2012**	**December 31, 2011 (1)**
Time less than $100,000	$ 511,155	$ 511,592
Time $100,000 or more	534,612	491,046
Total time deposits	$ 1,045,767	$ 1,002,638

(1) Amounts include balances associated with discontinued operations.

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NOTE 8. STOCKHOLDERS EQUITY

The Bank s actual and required capital ratios were as follows:

	June 30, 2012	December 31, 2011	FDIC Minimum to be Well Capitalized
Total capital to risk weighted assets	10.3%	11.3%	10.0%
Tier 1 capital to risk weighted assets	9.3	10.2	6.0
Tier 1 capital to average assets	8.0	8.4	5.0

At each date shown, Berkshire 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.

Accumulated other comprehensive income

Components of accumulated other comprehensive loss are as follows:

(In thousands)		June 30, 2012		December 31, 2011
Net unrealized holding gain (loss) on AFS securities	$	8,985	$	6,298
Net loss on effective cash flow hedging derivatives		(11,087)		(8,882)
Net loss on terminated swap		(4,650)		(5,121)
Net unrealized holding gain (loss) on pension plans		(932)		(676)
Tax effects		3,348		3,496
Accumulated other comprehensive loss	$	(4,336)	$	(4,885)

The Company s accumulated other comprehensive loss totaled $4.3 million at June 30, 2012. Of this loss, $15.7 million was attributable to accumulated losses on cash flow hedges, net of deferred tax benefits of $6.6 million, $9.0 million was attributable to accumulated gains on available-for-sale securities, net of deferred tax expenses of $3.3 million, and $0.9 million was attributable to accumulated losses on pensions.

The Company s accumulated other comprehensive loss totaled $4.9 million at December 31, 2011. Of this loss, $14.0 million was attributable to accumulated losses on cash flow hedges, net of deferred tax benefits of $5.8 million, $6.3 million was attributable to accumulated gains on available-for-sale securities, net of deferred tax expenses of $2.3 million, and $0.7 million was attributable to accumulated losses on pensions.

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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 June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income from continuing operations	$ 7,986	$ 1,877	$ 14,467	$ 4,712
Loss from discontinued operations before income taxes (including gain on disposal of $63)			(261)	
Income tax expense			376	
Net loss from discontinued operations			(637)	
Net income	$ 7,986	$ 1,877	$ 13,830	$ 4,712
Average number of common shares issued	23,623	18,509	23,242	17,187
Less: average number of treasury shares	1,660	1,779	1,672	1,762
Less: average number of unvested stock award shares	221	150	221	156
Average number of basic common shares outstanding	21,742	16,580	21,349	15,269
Plus: dilutive effect of unvested stock award shares	41	21	51	(126)
Plus: dilutive effect of stock options outstanding	23		34	156
Average number of diluted common shares outstanding	21,806	16,601	21,434	15,299
Basic and diluted earnings per share:				
Continuing operations	$ 0.37	$ 0.11	$ 0.68	$ 0.31
Discontinued operations			(0.03)	
Total basic and diluted earnings per share	$ 0.37	$ 0.11	$ 0.65	$ 0.31

For the quarter ended June 30, 2012, 181 thousand shares of restricted stock and 373 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations. For the quarter ended June 30, 2011, 129 thousand shares of restricted stock and 127 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 six months ended June 30, 2012 is presented in the following table:

	Non-vested Stock Awards Outstanding		Stock Options Outstanding	
		Weighted-		Weighted-

(Shares in thousands)	Number of Shares	Average Grant Date Fair Value	Number of Shares	Average Exercise Price
Balance, December 31, 2011	216	$ 19.88	409	$ 25.68
Granted	64	24.95		
Stock options exercised			(13)	20.88
Stock awards vested	(50)	18.51		
Forfeited	(8)	21.38		
Expired			(10)	23.44
Balance, June 30, 2012	222	$ 21.61	386	$ 25.79
Exercisable options, June 30, 2012			386	$ 25.79

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During the six months ended June 30, 2012 and 2011, proceeds from stock option exercises totaled $271 thousand and $12 thousand, respectively. During the six months ended June 30, 2012, there were 50 thousand shares issued in connection with vested stock awards. During the six months ended June 30, 2011, there were 61 thousand shares issued in connection with vested stock awards. All of these shares were issued from available treasury stock. Stock-based compensation expense totaled $1.6 million and $473 thousand during the six months ended June 30, 2012 and 2011, 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 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.

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

(In thousands)	Banking	Insurance	Parent	Eliminations	Total Consolidated
Three months ended June 30, 2012					
Net interest income (expense)	$ 35,239	$	$ (186)	$	$ 35,053
Provision for loan losses	2,250				2,250
Non-interest income	9,520	2,768	8968	(8968)	12,288
Non-interest expense	30,835	2,094	1,254	1	34,184
Income (loss) before income taxes	11,674	674	7528	(8969)	10,907
Income tax expense (benefit)	3,108	271	(458)		2,921
Net income	$ 8,566	$ 403	$ 7986	$ (8969)	$ 7,986
Average assets (in millions)	$ 4,319	$ 30	$ 508	$ (506)	$ 4,351
Three months ended June 30, 2011					
Net interest income (expense)	$ 24,410	$	$ (209)	$	$ 24,201
Provision for loan losses	1,500				1,500
Non-interest income	5,389	2,781	(629)	629	8,170
Non-interest expense	23,778	2,194	2,650	1	28,623
Income (loss) before income taxes	4,521	587	(3,488)	628	2,248
Income tax expense (benefit)	1,296	240	(1,165)		371
Net income	$ 3,225	$ 347	$ (2,323)	$ 628	$ 1,877
Average assets (in millions)	$ 3,167	$ 34	$ 405	$ (392)	$ 3,214
Six months ended June 30, 2012					
Net interest income (expense)	$ 66,590	$	$ (392)	$	$ 66,198
Provision for loan losses	4,250				4,250
Non-interest income	16,577	5,513	15,253	(15,253)	22,090
Non-interest expense	58,452	4,307	1,618	1	64,378
Income (loss) before income taxes	20,465	1,206	13,243	(15,254)	19,660
Income tax expense (benefit)	5,296	485	(587)	(1)	5,193
Net income from continuing operations	15,169	721	13,830	(15,253)	14,467
Income from discontinued operations berofre income taxes (including gain on disposal of $63)	(261)				(261)
Income tax expense	376				376
Net loss from discontinued operations	(637)				(637)
Net income	$ 14,532	$ 721	$ 13,830	$ (15,253)	$ 13,830
Average assets (in millions)	$ 4,137	$ 30	$ 501	$ (498)	$ 4,170
Six months ended June 30, 2011					
Net interest income (expense)	$ 44,764	$	$ (416)	$ (1)	$ 44,347
Provision for loan losses	3,100				3,100
Non-interest income	9,792	6,512	3,515	(3,515)	16,304
Non-interest expense	42,731	4,449	4,632		51,812
Income (loss) before income taxes	8,725	2,063	(1,533)	(3,516)	5,739
Income tax expense (benefit)	2,246	844	(2,063)		1,027
Net income	6,479	1,219	530	(3,516)	4,712
Average assets (in millions)	$ 3,005	$ 33	$ 380	$ (372)	$ 3,046

NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

As of June 30, 2012, the Company held derivatives with a total notional amount of $1 billion. That amount included $280.0 million in 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 $515.6 million and $215.3 million, respectively, which are not designated as accounting hedges. Economic hedges included interest rate swaps totaling $348.2 million, and $170.5 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 agreements involve the risk of dealing with both Bank customers and institutional derivative counterparties and

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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 June 30, 2012.

The Company pledged collateral to derivative counterparties in the form of cash totaling $6.2 million and securities with an amortized cost of $30.6 million and a fair value of $31.3 million as of June 30, 2012. The Company does not typically require its Commercial customers to post cash or securities collateral on its program of back-to-back economic hedges. However certain language is written into the 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 interest rate swap agreements and non-hedging derivative assets and liabilities at June 30, 2012, follows:

	Notional Amount (In thousands)	Weighted Average Maturity (In years)	Weighted Average Rate Received	Weighted Average Rate Paid	Estimated Fair Value Asset (Liability) (In thousands)
Cash flow hedges:					
Interest rate swaps on FHLBB borrowings	$ 105,000	1.3	0.38%	3.20%	$ (5,020)
Forward-starting interest rate swaps on FHLBB borrowings	160,000	4.4		2.56%	(5,313)
Interest rate swaps on junior subordinated debentures	15,000	1.9	2.32%	5.54%	(899)
Total cash flow hedges	280,000				(11,232)
Economic hedges:					
Interest rate swap on tax advantaged economic development bond	13,856	17.4	0.61%	5.09%	(3,719)
Interest rate swaps on loans with commercial loan customers	165,602	5.3	2.56%	5.73%	(15,429)
Reverse interest rate swaps on loans with commercial loan customers	165,602	5.3	5.73%	2.56%	14,919
Forward commitments	170,500	0.2			(1,446)
Total economic hedges	515,560				(5,675)
Non-hedging derivatives:					
Interest rate lock commitments	215,330	0.2			4,028
Total non-hedging derivatives	215,330				4,028
Total	$ 1,010,890				$ (12,879)

Information about interest rate swap agreements and non-hedging derivative assets and liabilities at December 31, 2011, follows:

	Notional	Weighted Average	Weighted Average Rate	Estimated Fair Value

	Amount (In thousands)	Maturity (In years)	Received	Paid	Asset (Liability) (In thousands)
Cash flow hedges:					
Interest rate swaps on FHLBB borrowings	$ 105,000	1.7	0.49%	4.00%	$ (5,888)
Forward-starting interest rate swaps on FHLBB borrowings	80,000	3.5		2.56%	(2,064)
Interest rate swaps on junior subordinated debentures	15,000	2.4	2.35%	5.54%	(1,055)
Total cash flow hedges	200,000				(9,007)
Economic hedges:					
Interest rate swap on tax advantaged economic development bond	14,096	17.9	0.64%	5.09%	(3,505)
Interest rate swaps on loans with commercial loan customers	160,389	5.6	2.73%	5.77%	(14,351)
Reverse interest rate swaps on loans with commercial loan customers	160,389	5.6	5.77%	2.73%	13,871
Forward commitments	21,538	0.2			55
Total economic hedges	356,412				(3,930)
Non-hedging derivatives:					
Interest rate lock commitments	21,538	0.2			(66)
Total non-hedging derivatives	21,538				(66)
Total	$ 577,950				$ (13,003)

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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 forecasted transaction affects 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 several interest rate swaps with an aggregate notional amount of $105.0 million to convert the LIBOR based floating interest rates on a $105.0 million portfolio of FHLBB advances to fixed rates, with the objective of fixing the Company s monthly interest expense on these borrowings.

The Company has also entered into fifteen forward-starting interest rate swaps with a combined notional value of $160.0 million, including $70.0 million of swaps which were entered into in the first quarter of 2012 and which have durations exceeding one year. Of the fifteen forward starting swaps two are set to become effective in the third quarter of 2012, with durations of five years and four years, respectively. In 2013 four of the forward starting swaps take effect, two of which have a duration of one year, one with a duration of four years, and the other with a duration of five years. 2014 will bring on seven of the remaining nine forward starting swaps; of these one has a duration of three years, four have durations of four years, and the final two have durations of five years. The last two forward starting swaps will become effective in 2015, one of which has a duration of four years and the other which has a duration of seven years. This hedge strategy converts the LIBOR based rate of interest on certain FHLB advances to fixed interest rates, thereby protecting the Company from floating interest rate variability.

The Company has entered into an interest rate swap with a notional value of $15.0 million to convert the floating rate of interest on its junior subordinated debentures to a fixed rate of interest. The purpose of the hedge was to protect the Company from the risk of variability arising from the floating rate interest on the debentures.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2012**	**2011**	**2012**	**2011**
Interest rate swaps on FHLBB borrowings:				
Unrealized (loss) gain recognized in accumulated other comprehensive loss	$ (2,585)	$ (666)	$ (2,360)	$ 433
Reclassification of unrealized loss from accumulated other comprehensive loss to non-interest income for hedge ineffectiveness	10	10	20	20
Reclassification of realized gain from accumulated other comprehensive loss to other non-interest income for termination of swaps	235	235	471	470

Reclassification of unrealized deferred tax benefit from accumulated other comprehensive loss to tax expense for terminated swaps		(31)		(98)		(129)		(196)
Net tax benefit (expense) on items recognized in accumulated other		1,171		255		1,007		(196)
Interest rate swaps on junior subordinated debentures:								
Unrealized gain (loss) recognized in accumulated other comprehensive loss		97		(151)		156		3
Net tax (expense) benefit on items recognized in accumulated other		(19)		62		(61)		(2)
Other comprehensive income recorded in accumulated other comprehensive loss, net of reclassification adjustments and tax effects	$	(1,122)	$	(353)	$	(896)	$	532
Net interest expense recognized in interest expense on hedged FHLBB borrowings	$	1,123	$	1,218	$	2,206	$	2,424
Net interest expense recognized in interest expense on junior subordinated debentures	$	97	$	129	$	215	$	256

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Hedge ineffectiveness on interest rate swaps designated as cash flow hedges was immaterial to the Company s financial statements during the six months ended June 30, 2012 and 2011. The Company does not anticipate material events or transactions within the next twelve months that are likely to result in a reclassification of unrealized gains or losses from accumulated other comprehensive loss to earnings.

Amounts reported in accumulated other comprehensive loss 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 estimates that $5.1 million will be reclassified as an increase to interest expense.

Economic hedges

The Company has an interest rate swap with a $13.9 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.

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 $471 thousand as of June 30, 2012. The interest income and expense on these mirror image swaps exactly offset each other.

The Company utilizes forward commitments to sell mortgage backed bonds as economic hedges against the potential decreases in the values of the interest rate lock commitments which are discussed below under Non-hedging derivatives. The forward commitments are free-standing derivatives, which are carried at fair value with changes recorded in non-interest income in the Company s Consolidated Statements of Income.

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.

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

(In thousands)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Economic hedges				
Interest rate swap on industrial revenue bond:				
Net interest expense recognized in interest and dividend income on securities	$ (157)	$ (164)	$ (315)	$ (325)
Unrealized gain recognized in other non-interest income	(654)	(359)	(1,094)	(69)
Interest rate swaps on loans with commercial loan customers:				
Unrealized gain recognized in other non-interest income	2,149	2,511	3,260	940
Reverse interest rate swaps on loans with commercial loan customers:				
Unrealized loss recognized in other non-interest income	(2,149)	(2,511)	(3,260)	(940)
Favorable (unfavorable) change in credit valuation adjustment recognized in other non-interest income	$ (113)	$ (225)	$ 9	$ (183)
Forward Commitments:				
Unrealized gain recognized in other non-interest income	$ (2,131)	$	$ (2,131)	$
Non-hedging derivatives				
Interest rate lock commitments:				
Unrealized gain (loss) recognized in other non-interest income	$ 4,337	$ (23)	$ 4,337	$ (36)

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 assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value. There were no transfers between levels during the six months ended June 30, 2012.

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	June 30, 2012			
(In thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Trading account security	$	$	$ 17,365	$ 17,365
Available-for-sale securities:				
Municipal bonds and obligations		78,908		78,908
Governmentguaranteed residential mortgage-backed securities		44,051		44,051
Government-sponsored residential mortgage-backed securities		289,635		289,635
Corporate bonds		9,566		9,566
Trust preferred securities		17,857	613	18,470
Other bonds and obligations		739		739
Marketable equity securities	29,999			29,999
Loans held for sale		59,280		59,280
Derivative assets		14,919	4,028	18,947
Derivative liabilities	1,446	30,380		31,826

	December 31, 2011			
(In thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Trading account security	$	$	$ 17,395	$ 17,395
Available-for-sale securities:				
Municipal bonds and obligations		77,854		77,854
Government guaranteed residential mortgage-backed securities		45,096		45,096
Government-sponsored residential mortgage-backed securities		247,611		247,611
Corporate bonds		9,727		9,727
Trust preferred securities		17,271	544	17,815
Other bonds and obligations		644		644
Marketable equity securities	21,009			21,009
Derivative assets		13,926		13,926
Derivative liabilities		26,864	66	26,930

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 holds one pooled trust preferred security. The security s fair value is based on unobservable issuer-provided financial information and discounted cash flow models derived from the underlying structured pool and therefore is classified as Level 3.

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.

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June 30, 2012 (In thousands)	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
Loans Held for Sale	$ 59,280	$ 57,973	$ 1,307

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 June 30, 2012, 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 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. 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 Commitments. The Company utilizes forward commitments as economic hedges against the potential decreases in the values of the IRLCs. The forward commitments 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.

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The table below presents the changes in Level 3 assets that were measured at fair value on a recurring basis at June 30, 2012 and 2011.

(In thousands)		Assets	
	Trading Account Security	Securities Available for Sale	Interest Rate Lock Commitments
Balance as of December 31, 2011	$ 17,395	$ 544	$
Unrealized gain recognized in other non-interest income	(428)		
Unrealized loss included in accumulated other comprehensive loss			
Paydown of trading account security	(120)		
Balance as of March 31, 2012	$ 16,847	$ 544	$
Greenpark Acquisition			2,126
Unrealized (loss) gain recognized in other non-interest income	638		4,337
Unrealized loss included in accumulated other comprehensive loss		69	
Paydown of trading account security	(120)		
Transfers to held for sale loans			(2,435)
Balance as of June 30, 2012	$ 17,365	$ 613	$ 4,028
Unrealized gains (losses) relating to instruments still held at June 30, 2012	$ 3,509	$ (1,988)	$ 4,337

(In thousands)	Assets	
	Trading Account Security	Securities Available for Sale
Balance as of December 31, 2010	$ 16,155	$ 1,695
Unrealized (loss) gain recognized in other non-interest income	(257)	
Unrealized loss included in accumulated other comprehensive loss		498
Paydown of trading account security	(117)	
Balance as of March 31, 2011	$ 15,781	$ 2,193
Unrealized (loss) gain recognized in other non-interest income	357	
Unrealized loss included in accumulated other comprehensive loss		112
Paydown of trading account security	(113)	
Transfer out of Level 3		(1,624)
Balance as of June 30, 2011	$ 16,025	$ 681
Unrealized gains (losses) relating to instruments still held at June 30, 2011	$ 1,694	$ (1,918)

Quantitative information about the significant unobservable inputs within Level 3 recurring assets are as follows:

(In thousands)	Fair Value June 30, 2012	Valuation Techniques	Unobservable Inputs	Significant Unobservable Input Value
Assets				
Trading Account Security	$ 17,365	Discounted Cash Flow	Discount Rate	2.08%

Interest Rate Lock Commitment		4,028	Historical Trend	Closing Ratio	10.00%
			Pricing Model	Origination Costs	34.00%
Total Assets	$	21,393			

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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)	June 30, 2012 Level 3 Inputs	December 31, 2011 Level 3 Inputs	Six months ended June 30, 2012 Total Losses
Assets			
Impaired loans	$ 9,918	$ 11,155	$ 2,531
Capitalized mortgage servicing rights	2,786	3,067	290
Other real estate owned	827	1,900	
Total Assets	$ 13,531	$ 16,122	$ 2,821

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

(in thousands)	Fair Value June 30, 2012	Valuation Techniques	Unobservable Inputs	Range (Weighted Average) (a)
Assets				
Impaired loans	$ 9,918	Fair value of collateral	Loss severity	3.26% to 56.08% (20.8%)
			Appraised value	$71.0 to $3,450.0 $(2,279.8)
Capitaized mortgage servicing rights	2,786	Discounted cash flow	Constant prepayment rate (CPR)	13.58% to 22.49% (16.25%)
			Discount rate	11.00% to 15.50% (11.21%)
Other real estate owned	827	Fair value of collateral	Appraised value	$0 to $320.0 $(218.9)
Total Assets	$ 13,531			

(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 June 30, 2012 and December 31, 2011.

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, real estate collateral related nonrecurring fair value measurement adjustments have generally been classified as Level 3. Estimates of fair value used for other collateral supporting commercial loans generally are 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 are expected to more than adequately compensate the Company 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

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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.

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. 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.

	June 30, 2012					December 31, 2011	
(In thousands)	**Carrying Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**	**Carrying Amount**	**Fair Value**
Financial Assets							
Cash and cash equivalents	$ 66,486	$ 66,486	$ 66,486	$	$	$ 75,359	$ 75,359
Trading security	17,365	17,365			17,365	17,395	17,395
Securities available for sale	471,368	471,368	29,999	440,756	613	419,756	419,756
Securities held to maturity	41,822	43,285			43,285	58,912	60,395
Restricted equity securities	37,174	37,174		37,174		37,118	37,118
Net loans	3,332,751	3,425,000			3,425,000	2,924,126	2,990,173
Loans held for sale	59,280	59,280		59,280		1,455	1,455
Accrued interest receivable	12,462	12,462		12,462		11,350	11,350
Cash surrender value of bank-owned life insurance policies	76,290	76,290		76,290		75,009	75,009
Derivative assets	18,947	18,947		14,919	4,028	13,926	13,926
Financial Liabilities							
Total deposits	$ 3,409,705	$ 3,419,918	$	$ 3,419,918	$	$ 3,101,175	$ 3,104,204
Short-term debt	239,030	239,030		239,030		10,000	10,000
Long-term Federal Home Loan Bank advances	213,479	221,879		221,879		211,938	215,008
	15,464	12,934		12,934		15,464	11,436

Junior subordinated debentures							
Derivative liabilities	31,826	31,826	1,446	30,380		26,930	26,930

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.

Restricted equity 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.

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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.

Junior subordinated debentures. 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 and six months ended June 30, 2012 and 2011, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2012**	**2011**	**2012**	**2011**
Net interest income	$ 35,053	$ 24,201	$ 66,198	$ 44,347
Provision for loan losses	2,250	1,500	4,250	3,100
Net interest income after provision for loan losses	$ 32,803	$ 22,701	$ 61,948	$ 41,247

NOTE 15. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through August 9, 2012, the date the financial statements were issued, noting no events requiring disclosure.

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

OVERVIEW

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 2011 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 2012 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 40.2% marginal effective income tax rate.

Berkshire Hills Bancorp (the Company or Berkshire) is headquartered in Pittsfield, Massachusetts. It had $4.5 billion in assets at June 30, 2012 and is the parent of Berkshire Bank America s Most Exciting BankSM (the Bank). Berkshire completed the acquisition of CBT The Connecticut Bank and Trust Company on April

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20, 2012. Including the CBT operations, Berkshire provides personal and business banking, insurance, and wealth management services through 68 full service branch offices in western Massachusetts, northeastern New York, north central Connecticut, and southern Vermont. Berkshire also operates 10 additional lending offices for commercial and residential mortgage originations in central and eastern Massachusetts. Berkshire Bank provides 100% deposit insurance protection on all deposit accounts, regardless of amount, based on a combination of FDIC insurance and membership in the Depositors Insurance Fund (DIF). For more information, visit www.berkshirebank.com or call 800-773-5601.

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

- Strong growth from organic, de novo, product and acquisition strategies
- Positive operating leverage elevating long term profitability
- 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 BankSM
- Diversified integrated financial service revenues
- Positioned to be regional consolidator in attractive markets

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. One can identify these statements from the use of the words may, will, should, could, would, pl potential, estimate, project, believe, intend, anticipate, expect, target and similar expressions. These forward-looking statements ar significant risks, assumptions and uncertainties, including among other things, changes in general economic and business conditions.

Additional factors that could cause results to differ materially from those described in the forward-looking statements can be found in the Registration Statement on Form S-4 that includes a Proxy Statement/Prospectus filed by Berkshire Hills Bancorp with the SEC on July 3, 2012 related to the acquisition of Beacon Federal Bancorp. This document contains forward-looking statements about the merger of Berkshire Hills Bancorp and Beacon. Certain factors that could cause actual results to differ materially from expected results include difficulties in achieving cost savings from the merger or in achieving such cost savings within the expected time frame, difficulties in integrating Berkshire Hills Bancorp and Beacon, increased competitive pressures, changes in the interest rate environment, changes in general economic conditions, legislative and regulatory changes that adversely affect the business in which Berkshire Hills Bancorp and Beacon are engaged, changes in the securities markets and other risks and uncertainties disclosed from time to time in documents that Berkshire Hills Bancorp files with the Securities and Exchange Commission.

Other factors that could cause results to differ materially from those described in the forward-looking statements can be found in the definitive Proxy Statement/Prospectus filed by Berkshire Hills Bancorp with the SEC on February 27, 2012 for the acquisition of The Connecticut Bank and Trust Company (CBT). This document contains forward-looking statements about the merger of Berkshire Hills Bancorp and CBT. Certain factors that could cause actual results to differ materially from expected results include difficulties in achieving cost savings from the merger or in achieving such cost savings within the expected time frame, difficulties in integrating Berkshire Hills Bancorp and CBT, increased competitive pressures, changes in the interest rate environment, changes in general economic conditions, legislative and regulatory changes that adversely affect the business in which Berkshire Hills Bancorp and CBT are engaged, changes in the securities markets and other risks and uncertainties disclosed from time to time in documents that Berkshire Hills Bancorp files with the Securities and Exchange Commission.

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

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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 these 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.

GENERAL

This discussion is intended to assist in understanding the financial condition and results of operations of the Company. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes contained in this report.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES, AND NEW 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 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 is the Company s estimate of probable credit losses that are inherent in the loan portfolio at the financial statement date. 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. Due to recent bank acquisitions, the Company added a significant accounting policy related to acquired loans. Loans that the Company acquired 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

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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 was 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 market multiples analyses. 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 requ