

BERKSHIRE HILLS BANCORP INC
Form 10-Q
August 11, 2014
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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, 2014

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

For the transition period from to

Commission File Number: 001-15781

BERKSHIRE HILLS BANCORP, INC.

(Exact name of registrant as specified in its charter)

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Delaware

(State or other jurisdiction of incorporation or organization)

04-3510455

(I.R.S. Employer Identification No.)

24 North Street, Pittsfield, Massachusetts

(Address of principal executive offices)

01201

(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 No

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

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

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

The Registrant had 25,167,129 shares of common stock, par value \$0.01 per share, outstanding as of August 6, 2014.

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FORM 10-Q

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Table of Contents**PART I****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****BERKSHIRE HILLS BANCORP, INC.****CONSOLIDATED BALANCE SHEETS**

| (In thousands, except share data) | June 30, 2014 | December 31, 2013 |
|--|--------------------------|------------------------------|
| Assets | | |
| Cash and due from banks | \$ 81,642 | \$ 56,841 |
| Short-term investments | 31,236 | 18,698 |
| Total cash and cash equivalents | 112,878 | 75,539 |
| Trading security | 14,971 | 14,840 |
| Securities available for sale, at fair value | 1,080,668 | 760,048 |
| Securities held to maturity (fair values of \$44,359 and \$45,764) | 43,178 | 44,921 |
| Federal Home Loan Bank stock and other restricted securities | 59,479 | 50,282 |
| Total securities | 1,198,296 | 870,091 |
| Loans held for sale, at fair value | 20,185 | 15,840 |
| Residential mortgages | 1,397,231 | 1,384,274 |
| Commercial real estate | 1,579,500 | 1,417,120 |
| Commercial and industrial loans | 727,959 | 687,293 |
| Consumer loans | 745,613 | 691,836 |
| Total loans | 4,450,303 | 4,180,523 |
| Less: Allowance for loan losses | (34,353) | (33,323) |
| Net loans | 4,415,950 | 4,147,200 |
| Premises and equipment, net | 86,936 | 84,459 |
| Other real estate owned | 2,445 | 2,758 |
| Goodwill | 264,770 | 256,871 |
| Other intangible assets | 13,761 | 13,791 |
| Cash surrender value of bank-owned life insurance policies | 102,988 | 101,530 |
| Deferred tax assets, net | 37,911 | 50,711 |
| Other assets | 55,254 | 54,009 |
| Total assets | \$ 6,311,374 | \$ 5,672,799 |
| Liabilities | | |
| Demand deposits | \$ 794,574 | \$ 677,917 |
| NOW deposits | 416,879 | 353,612 |
| Money market deposits | 1,425,348 | 1,383,856 |
| Savings deposits | 478,770 | 431,496 |
| Time deposits | 1,362,992 | 1,001,648 |
| Total deposits | 4,478,563 | 3,848,529 |
| Short-term debt | 900,000 | 872,510 |
| Long-term Federal Home Loan Bank advances | 64,179 | 101,918 |

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| | | |
|-------------------------|-----------|-----------|
| Subordinated borrowings | 89,713 | 89,679 |
| Total borrowings | 1,053,892 | 1,064,107 |
| Other liabilities | 88,456 | 82,101 |
| Total liabilities | 5,620,911 | 4,994,737 |

Stockholders equity

| | | |
|---|--------------|--------------|
| Common stock (\$.01 par value; 50,000,000 shares authorized and 26,525,466 shares issued and 25,115,138 shares outstanding in 2014; 26,525,466 shares issued and 25,036,169 shares outstanding in 2013) | 265 | 265 |
| Additional paid-in capital | 585,340 | 587,247 |
| Unearned compensation | (6,888) | (5,563) |
| Retained earnings | 142,249 | 141,958 |
| Accumulated other comprehensive income (loss) | 4,276 | (9,057) |
| Treasury stock, at cost (1,410,328 shares in 2014 and 1,489,297 shares in 2013) | (34,779) | (36,788) |
| Total stockholders equity | 690,463 | 678,062 |
| Total liabilities and stockholders equity | \$ 6,311,374 | \$ 5,672,799 |

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

Table of Contents**BERKSHIRE HILLS BANCORP, INC.****CONSOLIDATED STATEMENTS OF INCOME**

| (In thousands, except per share data) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------------|------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Interest and dividend income | | | | |
| Loans | \$ 42,309 | \$ 45,443 | \$ 84,803 | \$ 92,524 |
| Securities and other | 8,866 | 4,254 | 16,167 | 8,054 |
| Total interest and dividend income | 51,175 | 49,697 | 100,970 | 100,578 |
| Interest expense | | | | |
| Deposits | 4,478 | 5,052 | 9,199 | 10,415 |
| Borrowings | 2,368 | 3,541 | 4,676 | 7,122 |
| Total interest expense | 6,846 | 8,593 | 13,875 | 17,537 |
| Net interest income | 44,329 | 41,104 | 87,095 | 83,041 |
| Non-interest income | | | | |
| Loan related income | 1,846 | 2,644 | 3,094 | 5,361 |
| Mortgage banking income | 691 | 2,129 | 1,063 | 4,346 |
| Deposit related fees | 6,610 | 4,805 | 12,049 | 9,064 |
| Insurance commissions and fees | 2,460 | 2,407 | 5,509 | 5,404 |
| Wealth management fees | 2,294 | 2,070 | 4,843 | 4,334 |
| Total fee income | 13,901 | 14,055 | 26,558 | 28,509 |
| Other | 402 | 546 | 926 | 890 |
| Gain on sale of securities, net | 203 | 1,005 | 237 | 1,005 |
| Loss on termination of hedges | | | (8,792) | |
| Total non-interest income | 14,506 | 15,606 | 18,929 | 30,404 |
| Total net revenue | 58,835 | 56,710 | 106,024 | 113,445 |
| Provision for loan losses | 3,989 | 2,700 | 7,385 | 5,100 |
| Non-interest expense | | | | |
| Compensation and benefits | 20,279 | 18,151 | 40,138 | 35,892 |
| Occupancy and equipment | 6,656 | 5,737 | 13,470 | 11,505 |
| Technology and communications | 3,800 | 3,480 | 7,578 | 6,471 |
| Marketing and promotion | 621 | 603 | 1,142 | 1,241 |
| Professional services | 1,024 | 1,764 | 2,176 | 3,254 |
| FDIC premiums and assessments | 1,029 | 890 | 2,038 | 1,718 |
| Other real estate owned and foreclosures | 33 | 284 | 556 | 307 |
| Amortization of intangible assets | 1,274 | 1,345 | 2,580 | 2,722 |
| Acquisition, restructuring and conversion related expenses | 190 | 775 | 6,491 | 5,839 |
| Other | 4,357 | 4,906 | 8,454 | 8,469 |
| Total non-interest expense | 39,263 | 37,935 | 84,623 | 77,418 |
| Income before income taxes | 15,583 | 16,075 | 14,016 | 30,927 |
| Income tax expense | 4,119 | 4,038 | 3,658 | 8,425 |
| Net income | \$ 11,464 | \$ 12,037 | \$ 10,358 | \$ 22,502 |
| Earnings per share: | | | | |
| Basic | \$ 0.46 | \$ 0.49 | \$ 0.42 | \$ 0.91 |
| Diluted | \$ 0.46 | \$ 0.48 | \$ 0.42 | \$ 0.90 |
| Weighted average common shares outstanding: | | | | |
| Basic | 24,715 | 24,779 | 24,707 | 24,863 |
| Diluted | 24,809 | 24,956 | 24,821 | 25,049 |

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

Table of Contents**BERKSHIRE HILLS BANCORP, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| (In thousands) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------------|------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | \$ 11,464 | \$ 12,037 | \$ 10,358 | \$ 22,502 |
| Other comprehensive income, before tax: | | | | |
| Changes in unrealized gain (loss) on securities available-for-sale | 11,113 | (13,431) | 17,133 | (12,698) |
| Changes in unrealized (loss) gain on derivative hedges | (3,267) | 6,155 | 1,266 | 7,598 |
| Changes in unrealized gain on terminated swaps | | 236 | 3,237 | 471 |
| Income taxes related to other comprehensive income: | | | | |
| Changes in unrealized gain (loss) on securities available-for-sale | (4,261) | 5,077 | (6,481) | 4,758 |
| Changes in unrealized (loss) gain on derivative hedges | 1,322 | (2,481) | (510) | (3,057) |
| Changes in unrealized gain on terminated swaps | | (95) | (1,312) | (303) |
| Total other comprehensive income (loss) | 4,907 | (4,539) | 13,333 | (3,231) |
| Total comprehensive income | \$ 16,371 | \$ 7,498 | \$ 23,691 | \$ 19,271 |

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

Table of Contents**BERKSHIRE HILLS BANCORP, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

| (In thousands) | Common stock Shares | Common stock Amount | Additional paid-in capital | Unearned compensation | Retained earnings | Accumulated other comprehensive (loss) income | Treasury stock | Total |
|--|------------------------|------------------------|----------------------------------|--------------------------|----------------------|--|-------------------|------------|
| Balance at December 31, 2012 | 25,148 | \$ 265 | \$ 585,360 | \$ (3,035) | \$ 122,014 | \$ (2,979) | \$ (34,360) | \$ 667,265 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | 22,502 | | | 22,502 |
| Other comprehensive loss | | | | | | (3,231) | | (3,231) |
| Total comprehensive income | | | | | | | | 19,271 |
| Cash dividends declared (\$0.36 per share) | | | | | (9,068) | | | (9,068) |
| Treasury stock purchased (348) | (348) | | | | | | (8,868) | (8,868) |
| Forfeited shares (6) | (6) | | 10 | 140 | | | (150) | |
| Exercise of stock options 195 | 195 | | | | (2,518) | | 5,100 | 2,582 |
| Restricted stock grants 155 | 155 | | (690) | (3,717) | | | 4,407 | |
| Stock-based compensation | | | 585 | 1,227 | | | | 1,812 |
| Net tax benefit related to stock-based compensation | | | 1,150 | | | | | 1,150 |
| Other, net (48) | (48) | | (14) | | | | (1,160) | (1,174) |
| Balance at June 30, 2013 | 25,096 | \$ 265 | \$ 586,401 | \$ (5,385) | \$ 132,930 | \$ (6,210) | \$ (35,031) | \$ 672,970 |
| Balance at December 31, 2013 | 25,036 | \$ 265 | \$ 587,247 | \$ (5,563) | \$ 141,958 | \$ (9,057) | \$ (36,788) | \$ 678,062 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | 10,358 | | | 10,358 |
| Other comprehensive income | | | | | | 13,333 | | 13,333 |
| Total comprehensive income | | | | | | | | 23,691 |
| Cash dividends declared (\$0.18 per share) | | | | | (9,122) | | | (9,122) |
| Treasury stock purchased (100) | (100) | | | | | | (2,467) | (2,467) |
| Forfeited shares (7) | (7) | | (6) | 156 | | | (150) | |
| Exercise of stock options 72 | 72 | | | | (945) | | 1,793 | 848 |
| Restricted stock grants 130 | 130 | | 44 | (3,264) | | | 3,220 | |
| Stock-based compensation | | | 41 | 1,783 | | | | 1,824 |
| Net tax benefit related to stock-based compensation | | | (1,980) | | | | | (1,980) |
| Other, net (16) | (16) | | (6) | | | | (387) | (393) |
| Balance at June 30, 2014 | 25,115 | \$ 265 | \$ 585,340 | \$ (6,888) | \$ 142,249 | \$ 4,276 | \$ (34,779) | \$ 690,463 |

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

Table of Contents**BERKSHIRE HILLS BANCORP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

| (In thousands) | Six Months Ended June 30, | |
|---|---------------------------|-----------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net (loss) income | \$ 10,358 | \$ 22,502 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 7,385 | 5,100 |
| Net amortization of securities | 1,008 | 739 |
| Change in unamortized net loan costs and premiums | (1,008) | (2,890) |
| Premises and equipment depreciation and amortization expense | 4,037 | 3,610 |
| Stock-based compensation expense | 1,824 | 1,812 |
| Accretion of purchase accounting entries, net | (3,479) | (8,884) |
| Amortization of other intangibles | 2,580 | 2,722 |
| Write down of other real estate owned | 160 | |
| Excess tax loss from stock-based payment arrangements | (93) | (1,150) |
| Income from cash surrender value of bank-owned life insurance policies | (1,458) | (1,394) |
| Gain on sales of securities, net | (237) | (1,005) |
| Net (increase) decrease in loans held for sale | (4,345) | 21,267 |
| Loss on disposition of assets | 715 | 1,596 |
| Loss (gain) on sale of real estate | 170 | (67) |
| Loss on termination of hedges | 3,237 | |
| Net change in other | 3,968 | (938) |
| Net cash provided by operating activities | 24,822 | 43,020 |
| Cash flows from investing activities: | | |
| Net decrease in trading security | 268 | 253 |
| Proceeds from sales of securities available for sale | 79,550 | 4,591 |
| Proceeds from maturities, calls and prepayments of securities available for sale | 68,342 | 66,176 |
| Purchases of securities available for sale | (447,063) | (185,300) |
| Proceeds from maturities, calls and prepayments of securities held to maturity | 2,764 | 2,493 |
| Purchases of securities held to maturity | (1,021) | (1,073) |
| Net change in loans | (268,616) | 120,860 |
| Proceeds from sale of Federal Home Loan Bank stock | 379 | 2,118 |
| Purchase of Federal Home Loan Bank stock | (9,576) | |
| Net investment in limited partnership tax credits | (2,884) | |
| Proceeds from the sale of premises and equipment | 1,756 | |
| Purchase of premises and equipment, net | (4,302) | (7,280) |
| Acquisitions, net of cash paid | 423,416 | |
| Proceeds from sale of other real estate | 799 | 1,472 |
| Net cash (used in) provided by investing activities | (156,188) | 4,310 |

(continued)

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

Table of Contents**BERKSHIRE HILLS BANCORP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS (CONCLUDED)**

| (In thousands) | Six Months Ended June 30, | |
|--|----------------------------------|-------------|
| | 2014 | 2013 |
| Cash flows from financing activities: | | |
| Net increase (decrease) in deposits | 189,568 | (283,650) |
| Proceeds from Federal Home Loan Bank advances and other borrowings | 2,935,035 | 491,360 |
| Repayments of Federal Home Loan Bank advances and other borrowings | (2,945,250) | (258,975) |
| Purchase of treasury stock | (2,467) | (8,868) |
| Exercise of stock options | 848 | 2,582 |
| Excess tax loss from stock-based payment arrangements | 93 | 1,150 |
| Common stock cash dividends paid | (9,122) | (9,068) |
| Net cash provided by (used in) financing activities | 168,705 | (65,469) |
| | | |
| Net change in cash and cash equivalents | 37,339 | (18,139) |
| | | |
| Cash and cash equivalents at beginning of year | 75,539 | 98,244 |
| | | |
| Cash and cash equivalents at end of year | \$ 112,878 | \$ 80,105 |
| | | |
| Supplemental cash flow information: | | |
| Interest paid on deposits | \$ 9,177 | \$ 10,411 |
| Interest paid on borrowed funds | 5,533 | 7,018 |
| Income taxes paid, net | 71 | 978 |
| | | |
| Acquisition of non-cash assets and liabilities: | | |
| Assets acquired | 18,064 | |
| Liabilities assumed | (441,550) | (919) |
| | | |
| Other non-cash changes: | | |
| Other net comprehensive income (loss) | 10,096 | (3,231) |
| Real estate owned acquired in settlement of loans | 816 | 2,189 |

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

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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 presentation of results for such periods.

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

The results for any interim period are not necessarily indicative of results for the full year. These consolidated financial statements should be read in conjunction with the audited financial statements and note disclosures for Berkshire Hills Bancorp, Inc. (the Company) previously filed with the Securities and Exchange Commission in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

Reclassifications

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

Recently Adopted Accounting Principles

On January 1, 2014 we adopted Accounting Standards Update (ASU) ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists to eliminate diversity in practice. This ASU requires that companies net their unrecognized tax benefits against all same-jurisdiction net operating losses or tax credit carryforwards that would be used to settle the position with a tax authority. The adoption of this ASU did not have a material effect on our consolidated financial statements.

Future Application of Accounting Pronouncements

In June 2014, the FASB issued ASU No. 2014-11 related to repurchase-to-maturity transactions, repurchase financing and disclosures. The pronouncement changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The pronouncement also requires two new disclosures. The first disclosure requires an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. The second disclosure provides increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The pronouncement is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is not permitted. The adoption of this pronouncement is not expected

to have a material impact on our consolidated financial statements.

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

Table of Contents**NOTE 2. BRANCH ACQUISITION****New York Branch Acquisition**

On January 17, 2014, Berkshire Bank purchased twenty branch banking offices located in central and eastern New York State, from Bank of America, National Association. Berkshire Bank received \$423.1 million in cash, which was net of \$17.4 million cash consideration paid and acquisition costs, and assumed certain related deposit liabilities associated with these branches (the branch acquisition). Consideration paid included a 2.25% premium on deposits received. The branch acquisition increased the Bank's customer base and lending opportunities, and enhanced the Bank's geographical market presence between Albany and Syracuse, New York. In addition, the acquired deposits augmented the Bank's sources of liquidity.

On the acquisition date, the acquired branches had assets with a carrying value of approximately \$8.9 million, including loans outstanding with a carrying value of approximately \$4.5 million, as well as deposits with a carrying value of approximately \$440.5 million. The results from the acquired branch operations are included in the Company's Consolidated Statement of Income from the date of acquisition.

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

| (in thousands) | As Acquired | Fair Value Adjustments | As Recorded at Acquisition |
|--|-------------|---------------------------|-------------------------------|
| Consideration paid: | | | |
| Cash consideration paid to Bank of America | | | \$ 17,105 |
| Recognized amounts of identifiable assets acquired and liabilities assumed, at fair value: | | | |
| Cash and short-term investments | \$ 440,521 | \$ | \$ 440,521 |
| Loans | 4,541 | (533)(a) | 4,008 |
| Premises and equipment | 4,381 | (710)(b) | 3,671 |
| Core deposit intangibles | | 2,550(c) | 2,550 |
| Other intangibles | | (79)(d) | (79) |
| Deposits | (440,507) | (15)(e) | (440,522) |
| Other liabilities | | (944)(f) | (944) |
| Total identifiable net assets | \$ 8,936 | \$ 269 | \$ 9,205 |
| Goodwill | | | \$ 7,900 |

Explanation of Certain Fair Value Adjustments

(a) 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 \$201 thousand. Non-impaired loans not accounted for under 310-30

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had a carrying value of \$4.3 million.

(b) The amount represents the adjustment of the book value of buildings, and furniture and equipment, to their estimated fair value based on appraisals and other methods. The adjustments will be depreciated over the estimated economic lives of the assets.

(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 estimated useful life of the deposit base.

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

(f) Represents an establishment of a reserve on certain acquired lines of credit, which were determined to have specific credit risk at the time of acquisition.

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Except for collateral dependent loans with deteriorated credit quality, the fair values for loans acquired 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. For collateral dependent loans with deteriorated credit quality, to estimate the fair value 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. Those values were 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. There was no carryover of the seller's allowance for credit losses associated with the loans that were acquired in the branch acquisition as the loans were initially recorded at fair value.

Information about the acquired loan portfolio subject to ASC 310-30 as of January 17, 2014 is as follows (in thousands):

| | ASC 310-30 Loans | |
|--|------------------|-------|
| Contractually required principal and interest at acquisition | \$ | 201 |
| Contractual cash flows not expected to be collected (nonaccretable discount) | | (100) |
| Expected cash flows at acquisition | | 101 |
| Interest component of expected cash flows (accretable premium) | | 20 |
| Fair value of acquired loans | \$ | 121 |

The core deposit intangible asset recognized is being amortized over its estimated useful life of approximately nine years utilizing a straight-line method. Other intangibles consist of leasehold intangible liability, which is amortized over the remaining life of three years 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 in the branch acquisition 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.

Direct acquisition and integration costs of the branch acquisition were expensed as incurred, and totaled \$3.7 million during the six months ending June 30, 2014, and none during the same period of 2013.

The following table presents selected unaudited pro forma financial information reflecting the branch acquisition assuming it was completed as of January 1, 2013. The unaudited pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the combined financial results of the Company and acquired branches had the transaction 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. The unaudited pro forma information is based on the actual financial statements of Berkshire for the periods shown, and on the calculated results of the acquired branches for the 2013 period shown and in 2014 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, 2014 and 2013, 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 additional investments and borrowing reductions as a result of the branch acquisition. Direct acquisition and integration-related costs incurred by the Company during 2014 are reversed; as those expenses are assumed to have occurred prior to 2013. Furthermore, the unaudited pro forma information does not reflect management's estimate of any revenue-enhancing opportunities beyond investment of cash received from deposits, or anticipated cost-savings.

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

| | Pro Forma (unaudited) Six months ended June 30, | | | |
|-------------------------------|--|--------|------|--------|
| | 2014 | | 2013 | |
| Net interest income | \$ | 88,221 | \$ | 86,428 |
| Non-interest income | | 19,138 | | 32,914 |
| Net income | | 12,982 | | 22,030 |
| Pro forma earnings per share: | | | | |
| Basic | \$ | 0.53 | \$ | 0.89 |
| Diluted | \$ | 0.52 | \$ | 0.88 |

NOTE 3. TRADING SECURITY

The Company holds a tax advantaged economic development bond that is being accounted for at fair value. The security had an amortized cost of \$12.8 million and \$13.1 million, and a fair value of \$14.9 million and \$14.8 million, at June 30, 2014 and December 31, 2013, 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, 2014.

Table of Contents**NOTE 4. 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, 2014 | | | | |
| Securities available for sale | | | | |
| <i>Debt securities:</i> | | | | |
| Municipal bonds and obligations | \$ 133,188 | \$ 4,739 | \$ (513) | \$ 137,414 |
| Government-guaranteed residential mortgage-backed securities | 79,095 | 787 | (159) | 79,723 |
| Government-sponsored residential mortgage-backed securities | 796,407 | 5,956 | (5,272) | 797,091 |
| Trust preferred securities | 15,763 | 1,170 | (1,276) | 15,657 |
| Other bonds and obligations | 3,237 | 1 | (73) | 3,165 |
| Total debt securities | 1,027,690 | 12,653 | (7,293) | 1,033,050 |
| Marketable equity securities | 45,139 | 3,194 | (715) | 47,618 |
| Total securities available for sale | 1,072,829 | 15,847 | (8,008) | 1,080,668 |
| Securities held to maturity | | | | |
| Municipal bonds and obligations | 4,259 | | | 4,259 |
| Government-sponsored residential mortgage-backed securities | 71 | 3 | | 74 |
| Tax advantaged economic development bonds | 38,509 | 1,377 | (199) | 39,687 |
| Other bonds and obligations | 339 | | | 339 |
| Total securities held to maturity | 43,178 | 1,380 | (199) | 44,359 |
| Total | \$ 1,116,007 | \$ 17,227 | \$ (8,207) | \$ 1,125,027 |
| December 31, 2013 | | | | |
| Securities available for sale | | | | |
| <i>Debt securities:</i> | | | | |
| Municipal bonds and obligations | \$ 77,852 | \$ 1,789 | \$ (1,970) | \$ 77,671 |
| Government-guaranteed residential mortgage-backed securities | 78,885 | 544 | (658) | 78,771 |
| Government-sponsored residential mortgage-backed securities | 531,441 | 2,000 | (10,783) | 522,658 |
| Corporate bonds | 40,945 | 157 | (1,822) | 39,280 |
| Trust preferred securities | 16,927 | 1,249 | (1,565) | 16,611 |
| Other bonds and obligations | 3,250 | | (166) | 3,084 |
| Total debt securities | 749,300 | 5,739 | (16,964) | 738,075 |
| Marketable equity securities | 20,042 | 2,266 | (335) | 21,973 |
| Total securities available for sale | 769,342 | 8,005 | (17,299) | 760,048 |
| Securities held to maturity | | | | |
| Municipal bonds and obligations | 4,244 | | | 4,244 |
| Government-sponsored residential mortgage-backed securities | 73 | 2 | | 75 |
| Tax advantaged economic development bonds | 40,260 | 1,255 | (414) | 41,101 |
| Other bonds and obligations | 344 | | | 344 |

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| | | | | | | | | |
|--|----|---------|----|-------|----|----------|----|---------|
| Total securities held to maturity | | 44,921 | | 1,257 | | (414) | | 45,764 |
| Total | \$ | 814,263 | \$ | 9,262 | \$ | (17,713) | \$ | 805,812 |

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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, 2014 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.

| (In thousands) | Available for sale | | Held to maturity | |
|--|--------------------|------------|------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Within 1 year | \$ | \$ | \$ 1,423 | \$ 1,423 |
| Over 1 year to 5 years | | 1,258 | 17,241 | 18,131 |
| Over 5 years to 10 years | | 17,922 | 11,558 | 11,546 |
| Over 10 years | | 133,008 | 12,885 | 13,185 |
| Total bonds and obligations | | 152,188 | 43,107 | 44,285 |
| Marketable equity securities | | 45,139 | | |
| Residential mortgage-backed securities | | 875,502 | 71 | 74 |
| Total | \$ | 1,072,829 | \$ 43,178 | \$ 44,359 |

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

| (In thousands) | Less Than Twelve Months | | Over Twelve Months | | Total | |
|--|-------------------------|-------------------|-------------------------|-------------------|-------------------------|-------------------|
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| June 30, 2014 | | | | | | |
| Securities available for sale | | | | | | |
| <i>Debt securities:</i> | | | | | | |
| Municipal bonds and obligations | \$ 2 | \$ 401 | \$ 511 | \$ 12,503 | \$ 513 | \$ 12,904 |
| Government-guaranteed residential mortgage-backed securities | 43 | 11,313 | 116 | 4,437 | 159 | 15,750 |
| Government-sponsored residential mortgage-backed securities | 1,022 | 151,880 | 4,250 | 160,445 | 5,272 | 312,325 |
| Trust preferred securities | | | 1,276 | 2,288 | 1,276 | 2,288 |
| Other bonds and obligations | 1 | 53 | 72 | 2,937 | 73 | 2,990 |
| Total debt securities | 1,068 | 163,647 | 6,225 | 182,610 | 7,293 | 346,257 |
| Marketable equity securities | 472 | 17,514 | 243 | 2,757 | 715 | 20,271 |
| Total securities available for sale | 1,540 | 181,161 | 6,468 | 185,367 | 8,008 | 366,528 |
| Securities held to maturity | | | | | | |
| Tax advantaged economic development bonds | | | 199 | 7,932 | 199 | 7,932 |
| Total securities held to maturity | | | 199 | 7,932 | 199 | 7,932 |
| Total | \$ 1,540 | \$ 181,161 | \$ 6,667 | \$ 193,299 | \$ 8,207 | \$ 374,460 |
| December 31, 2013 | | | | | | |
| Securities available for sale | | | | | | |
| <i>Debt securities:</i> | | | | | | |
| Municipal bonds and obligations | \$ 1,657 | \$ 17,776 | \$ 313 | \$ 1,854 | \$ 1,970 | \$ 19,630 |
| Government guaranteed residential mortgage-backed securities | 658 | 35,631 | | | 658 | 35,631 |
| Government-sponsored residential mortgage-backed securities | 10,783 | 423,203 | | | 10,783 | 423,203 |
| Corporate bonds | 1,822 | 29,124 | | | 1,822 | 29,124 |
| Trust preferred securities | | | 1,565 | 2,039 | 1,565 | 2,039 |
| Other bonds and obligations | 166 | 3,082 | | | 166 | 3,082 |
| Total debt securities | 15,086 | 508,816 | 1,878 | 3,893 | 16,964 | 512,709 |
| Marketable equity securities | 117 | 1,653 | 218 | 1,782 | 335 | 3,435 |
| Total securities available for sale | 15,203 | 510,469 | 2,096 | 5,675 | 17,299 | 516,144 |
| Securities held to maturity | | | | | | |
| Tax advantaged economic development bonds | 57 | 9,429 | 357 | 7,901 | 414 | 17,330 |
| Total securities held to maturity | 57 | 9,429 | 357 | 7,901 | 414 | 17,330 |
| Total | \$ 15,260 | \$ 519,898 | \$ 2,453 | \$ 13,576 | \$ 17,713 | \$ 533,474 |

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, 2014, 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, 2014:

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AFS municipal bonds and obligations

At June 30, 2014, 19 of the total 193 securities in the Company's portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 3.8% of the amortized cost of securities in unrealized loss positions. The Company continually monitors the municipal bond sector of the market carefully and periodically evaluates the appropriate level of exposure to the market. At this time, the Company feels the bonds in this portfolio carry minimal risk of default and the Company is appropriately compensated for that risk. There were no material underlying credit downgrades during the second quarter of 2014. All securities are performing.

AFS residential mortgage-backed securities

At June 30, 2014, 55 out of the total 240 securities in the Company's portfolios of AFS residential mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 1.6% 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 performing.

AFS trust preferred securities

At June 30, 2014, 2 out of the total 5 securities in the Company's portfolio of AFS trust preferred securities were in unrealized loss positions. Aggregate unrealized losses represented 35.8% of the amortized cost of securities in unrealized loss positions. The Company's evaluation of the present value of expected cash flows on these securities supports its conclusions about the recoverability of the securities' amortized cost basis. Of the 2 securities, 1 security is investment grade rated. The Company reviews the financial strength of all of the single issue trust issuers and has concluded that the amortized cost remains supported by the market value of these securities and they are performing.

At June 30, 2014, \$1.1 million of the total unrealized losses was attributable to a \$2.8 million investment in a Mezzanine Class B tranche of a \$360 million pooled trust preferred security collateralized by banking and insurance entities. The Company evaluated the security, with a Level 3 fair value of \$1.4 million, for potential other-than-temporary-impairment (OTTI) at June 30, 2014 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 \$44 million in excess subordination above current and projected losses. The security is performing.

AFS other bonds and obligations

At June 30, 2014, 4 of the total 8 securities in the Company's portfolio of other bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 2.4% of the amortized cost of securities in unrealized loss positions. The securities are investment grade rated and there were no material underlying credit downgrades during the second quarter of 2014. All securities are performing.

HTM tax advantaged economic development bonds

At June 30, 2014, 1 of the total 7 securities in the Company's portfolio of tax advantaged economic development bonds was in an unrealized loss position. Aggregate unrealized losses represented 2.5% of the amortized cost of securities in unrealized loss positions. The Company has the intent of maintaining these bonds to recovery. These securities are performing. The Company expects to receive all future cash flows associated with these securities.

Marketable Equity Securities

In evaluating its marketable equity securities portfolio for OTTI, the Company considers its ability to more likely than not hold an equity security to recovery. The Company additionally considers other various factors including

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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, 2014, 9 out of the total 29 securities in the Company's portfolio of marketable equity securities were in an unrealized loss position. The unrealized loss represented 3.4% of the amortized cost of the securities. The Company has the ability and intent to hold the securities until a recovery of their cost basis and does not consider the securities other-than-temporarily impaired at June 30, 2014. As new information becomes available in future periods, changes to the Company's assumptions may be warranted and could lead to a different conclusion regarding the OTTI of these securities.

NOTE 5. LOANS

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

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

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

| (In thousands) | June 30, 2014 | | | December 31, 2013 | | |
|--------------------------------|---------------------------|----------------|--------------|---------------------------|----------------|--------------|
| | Business Activities Loans | Acquired Loans | Total | Business Activities Loans | Acquired Loans | Total |
| Residential mortgages: | | | | | | |
| 1-4 family | \$ 1,073,431 | \$ 305,595 | \$ 1,379,026 | \$ 1,027,737 | \$ 333,367 | \$ 1,361,104 |
| Construction | 17,162 | 1,043 | 18,205 | 18,158 | 5,012 | 23,170 |
| Total residential mortgages | 1,090,593 | 306,638 | 1,397,231 | 1,045,895 | 338,379 | 1,384,274 |
| Commercial real estate: | | | | | | |
| Construction | 165,276 | 6,824 | 172,100 | 125,247 | 13,770 | 139,017 |
| Single and multi-family | 89,684 | 61,420 | 151,104 | 63,493 | 64,827 | 128,320 |
| Other commercial real estate | 1,007,268 | 249,028 | 1,256,296 | 871,271 | 278,512 | 1,149,783 |
| | 1,262,228 | 317,272 | 1,579,500 | 1,060,011 | 357,109 | 1,417,120 |

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Total commercial real estate

Commercial and industrial loans:

| | | | | | | |
|---------------------------------------|-----------|---------|-----------|-----------|---------|-----------|
| Asset based lending | 328,681 | | 328,681 | 294,241 | 3,130 | 297,371 |
| Other commercial and industrial loans | 337,801 | 61,477 | 399,278 | 323,196 | 66,726 | 389,922 |
| Total commercial and industrial loans | 666,482 | 61,477 | 727,959 | 617,437 | 69,856 | 687,293 |
| Total commercial loans | 1,928,710 | 378,749 | 2,307,459 | 1,677,448 | 426,965 | 2,104,413 |

Consumer loans:

| | | | | | | |
|----------------------|---------|---------|---------|---------|---------|---------|
| Home equity | 240,301 | 69,708 | 310,009 | 232,677 | 74,154 | 306,831 |
| Auto and other | 297,010 | 138,594 | 435,604 | 213,171 | 171,834 | 385,005 |
| Total consumer loans | 537,311 | 208,302 | 745,613 | 445,848 | 245,988 | 691,836 |

| | | | | | | | | | | | | |
|-------------|----|-----------|----|---------|----|-----------|----|-----------|----|-----------|----|-----------|
| Total loans | \$ | 3,556,614 | \$ | 893,689 | \$ | 4,450,303 | \$ | 3,169,191 | \$ | 1,011,332 | \$ | 4,180,523 |
|-------------|----|-----------|----|---------|----|-----------|----|-----------|----|-----------|----|-----------|

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The carrying amount of the acquired loans at June 30, 2014 totaled \$894 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 \$23 million (and a note balance of \$41 million) and loans that were considered not impaired at the acquisition date with a carrying amount of \$871 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) | Three Months Ended June 30, | |
|---|-----------------------------|----------|
| | 2014 | 2013 |
| Balance at beginning of period | \$ 3,154 | \$ 5,666 |
| Sales | | (301) |
| Reclassification from nonaccretable difference for loans with improved cash flows | 39 | |
| Changes in expected cash flows that do not affect nonaccretable difference | (149) | |
| Accretion | (604) | (2,037) |
| Balance at end of period | \$ 2,440 | \$ 3,328 |

| (In thousands) | Six months ended June 30, | |
|---|---------------------------|----------|
| | 2014 | 2013 |
| Balance at beginning of period | \$ 2,559 | \$ 8,247 |
| Acquisitions | | |
| Sales | | (301) |
| Reclassification from nonaccretable difference for loans with improved cash flows | 1,579 | |
| Changes in expected cash flows that do not affect nonaccretable difference | (149) | |
| Accretion | (1,549) | (4,618) |
| Balance at end of period | \$ 2,440 | \$ 3,328 |

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The following is a summary of past due loans at June 30, 2014 and December 31, 2013:

Business Activities Loans

| (in thousands) | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days Past Due | Total Past Due | Current | Total Loans | Past Due > 90 days and Accruing |
|---|------------------------|------------------------|--|-------------------|---------------------|---------------------|---------------------------------------|
| June 30, 2014 | | | | | | | |
| Residential mortgages: | | | | | | | |
| 1-4 family | \$ 2,785 | \$ 169 | \$ 4,885 | \$ 7,839 | \$ 1,065,592 | \$ 1,073,431 | \$ 1,533 |
| Construction | | | | | 17,162 | 17,162 | |
| Total | 2,785 | 169 | 4,885 | 7,839 | 1,082,754 | 1,090,593 | 1,533 |
| Commercial real estate: | | | | | | | |
| Construction | | | 1,370 | 1,370 | 163,906 | 165,276 | |
| Single and multi-family | 293 | 73 | 832 | 1,198 | 88,486 | 89,684 | 216 |
| Other commercial real estate | 2,567 | 1,486 | 9,204 | 13,257 | 994,011 | 1,007,268 | 1,721 |
| Total | 2,860 | 1,559 | 11,406 | 15,825 | 1,246,403 | 1,262,228 | 1,937 |
| Commercial and industrial loans: | | | | | | | |
| Asset based lending | | | | | 328,681 | 328,681 | |
| Other commercial and industrial loans | 271 | 41 | 3,730 | 4,042 | 333,759 | 337,801 | 123 |
| Total | 271 | 41 | 3,730 | 4,042 | 662,440 | 666,482 | 123 |
| Consumer loans: | | | | | | | |
| Home equity | 490 | | 1,284 | 1,774 | 238,527 | 240,301 | 303 |
| Auto and other | 700 | 35 | 344 | 1,079 | 295,931 | 297,010 | 14 |
| Total | 1,190 | 35 | 1,628 | 2,853 | 534,458 | 537,311 | 317 |
| Total | \$ 7,106 | \$ 1,804 | \$ 21,649 | \$ 30,559 | \$ 3,526,055 | \$ 3,556,614 | \$ 3,910 |

Business Activities Loans

| (in thousands) | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days Past Due | Total Past Due | Current | Total Loans | Past Due > 90 days and Accruing |
|---|------------------------|------------------------|--|-------------------|--------------|--------------|---------------------------------------|
| December 31, 2013 | | | | | | | |
| Residential mortgages: | | | | | | | |
| 1-4 family | \$ 2,500 | \$ 623 | \$ 7,382 | \$ 10,505 | \$ 1,017,232 | \$ 1,027,737 | \$ 1,451 |
| Construction | | | 41 | 41 | 18,117 | 18,158 | |
| Total | 2,500 | 623 | 7,423 | 10,546 | 1,035,349 | 1,045,895 | 1,451 |
| Commercial real estate: | | | | | | | |
| Construction | 174 | | 3,176 | 3,350 | 121,897 | 125,247 | |
| Single and multi-family | 139 | 654 | 679 | 1,472 | 62,021 | 63,493 | 168 |
| Other commercial real estate | 622 | 4,801 | 6,912 | 12,335 | 858,936 | 871,271 | 865 |
| Total | 935 | 5,455 | 10,767 | 17,157 | 1,042,854 | 1,060,011 | 1,033 |
| Commercial and industrial loans: | | | | | | | |
| Asset based lending | | | | | 294,241 | 294,241 | |
| Other commercial and industrial loans | 1,136 | 386 | 1,477 | 2,999 | 320,197 | 323,196 | 42 |
| Total | 1,136 | 386 | 1,477 | 2,999 | 614,438 | 617,437 | 42 |
| Consumer loans: | | | | | | | |

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| | | | | | | | |
|----------------|----------|----------|-----------|-----------|--------------|--------------|----------|
| Home equity | 732 | 54 | 1,655 | 2,441 | 230,236 | 232,677 | 572 |
| Auto and other | 524 | 231 | 390 | 1,145 | 212,026 | 213,171 | 142 |
| Total | 1,256 | 285 | 2,045 | 3,586 | 442,262 | 445,848 | 714 |
| Total | \$ 5,827 | \$ 6,749 | \$ 21,712 | \$ 34,288 | \$ 3,134,903 | \$ 3,169,191 | \$ 3,240 |

Table of Contents**Acquired Loans**

| (in thousands) | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days Past Due | Total Past Due | Current | Total Loans | Past Due > 90 days and Accruing |
|---|------------------------|------------------------|--|-------------------|-------------------|-------------------|---------------------------------------|
| June 30, 2014 | | | | | | | |
| Residential mortgages: | | | | | | | |
| 1-4 family | \$ 1,319 | \$ 801 | \$ 2,612 | \$ 4,732 | \$ 300,863 | \$ 305,595 | \$ 669 |
| Construction | | | | | 1,043 | 1,043 | |
| Total | 1,319 | 801 | 2,612 | 4,732 | 301,906 | 306,638 | 669 |
| Commercial real estate: | | | | | | | |
| Construction | | 179 | 805 | 984 | 5,840 | 6,824 | 805 |
| Single and multi-family | 409 | 189 | 1,205 | 1,803 | 59,617 | 61,420 | 508 |
| Other commercial real estate | 782 | | 4,578 | 5,360 | 243,668 | 249,028 | 2,161 |
| Total | 1,191 | 368 | 6,588 | 8,147 | 309,125 | 317,272 | 3,474 |
| Commercial and industrial loans: | | | | | | | |
| Asset based lending | | | | | | | |
| Other commercial and industrial loans | 544 | 116 | 1,820 | 2,480 | 58,997 | 61,477 | 606 |
| Total | 544 | 116 | 1,820 | 2,480 | 58,997 | 61,477 | 606 |
| Consumer loans: | | | | | | | |
| Home equity | 386 | 20 | 898 | 1,304 | 68,404 | 69,708 | 496 |
| Auto and other | 1,605 | 151 | 1,674 | 3,430 | 135,164 | 138,594 | 28 |
| Total | 1,991 | 171 | 2,572 | 4,734 | 203,568 | 208,302 | 524 |
| Total | \$ 5,045 | \$ 1,456 | \$ 13,592 | \$ 20,093 | \$ 873,596 | \$ 893,689 | \$ 5,273 |

Acquired Loans

| (in thousands) | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days Past Due | Total Past Due | Current | Total Loans | Past Due > 90 days and Accruing |
|---|------------------------|------------------------|--|-------------------|-------------------|---------------------|---------------------------------------|
| December 31, 2013 | | | | | | | |
| Residential mortgages: | | | | | | | |
| 1-4 family | \$ 1,891 | \$ 437 | \$ 2,577 | \$ 4,905 | \$ 328,462 | \$ 333,367 | \$ 805 |
| Construction | 134 | 32 | 625 | 791 | 4,221 | 5,012 | 501 |
| Total | 2,025 | 469 | 3,202 | 5,696 | 332,683 | 338,379 | 1,306 |
| Commercial real estate: | | | | | | | |
| Construction | | | 805 | 805 | 12,965 | 13,770 | 805 |
| Single and multi-family | 350 | 188 | 1,335 | 1,873 | 62,954 | 64,827 | 512 |
| Other commercial real estate | 537 | 518 | 6,108 | 7,163 | 271,349 | 278,512 | 2,925 |
| Total | 887 | 706 | 8,248 | 9,841 | 347,268 | 357,109 | 4,242 |
| Commercial and industrial loans: | | | | | | | |
| Asset based lending | | | | | 3,130 | 3,130 | |
| Other commercial and industrial loans | 440 | 135 | 1,239 | 1,814 | 64,912 | 66,726 | 318 |
| Total | 440 | 135 | 1,239 | 1,814 | 68,042 | 69,856 | 318 |
| Consumer loans: | | | | | | | |
| Home equity | 425 | 545 | 636 | 1,606 | 72,548 | 74,154 | 35 |
| Auto and other | 2,606 | 641 | 1,641 | 4,888 | 166,946 | 171,834 | 82 |
| Total | 3,031 | 1,186 | 2,277 | 6,494 | 239,494 | 245,988 | 117 |
| Total | \$ 6,383 | \$ 2,496 | \$ 14,966 | \$ 23,845 | \$ 987,487 | \$ 1,011,332 | \$ 5,983 |

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The following is summary information pertaining to non-accrual loans at June 30, 2014 and December 31, 2013:

| (In thousands) | June 30, 2014 | | | December 31, 2013 | | |
|---|---------------------------|-----------------|------------------|---------------------------|-----------------|------------------|
| | Business Activities Loans | Acquired Loans | Total | Business Activities Loans | Acquired Loans | Total |
| Residential mortgages: | | | | | | |
| 1-4 family | \$ 3,352 | \$ 1,943 | \$ 5,295 | \$ 5,931 | \$ 1,772 | \$ 7,703 |
| Construction | | | | 41 | 123 | 164 |
| Total | 3,352 | 1,943 | 5,295 | 5,972 | 1,895 | 7,867 |
| Commercial real estate: | | | | | | |
| Construction | 1,370 | | 1,370 | 3,176 | | 3,176 |
| Single and multi-family | 616 | 697 | 1,313 | 511 | 823 | 1,334 |
| Other commercial real estate | 7,483 | 2,417 | 9,900 | 6,047 | 3,183 | 9,230 |
| Total | 9,469 | 3,114 | 12,583 | 9,734 | 4,006 | 13,740 |
| Commercial and industrial loans: | | | | | | |
| Other commercial and industrial loans | 3,607 | 1,214 | 4,821 | 1,434 | 921 | 2,355 |
| Total | 3,607 | 1,214 | 4,821 | 1,434 | 921 | 2,355 |
| Consumer loans: | | | | | | |
| Home equity | 981 | 402 | 1,383 | 1,083 | 602 | 1,685 |
| Auto and other | 330 | 1,646 | 1,976 | 249 | 1,559 | 1,808 |
| Total | 1,311 | 2,048 | 3,359 | 1,332 | 2,161 | 3,493 |
| Total non-accrual loans | \$ 17,739 | \$ 8,319 | \$ 26,058 | \$ 18,472 | \$ 8,983 | \$ 27,455 |

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Loans evaluated for impairment as of June 30, 2014 and December 31, 2013 were as follows:

Business Activities Loans

| (In thousands) | Residential mortgages | Commercial real estate | Commercial and industrial loans | Consumer | Total |
|---------------------------------------|-----------------------|------------------------|---------------------------------|------------|--------------|
| June 30, 2014 | | | | | |
| Loans receivable: | | | | | |
| Balance at end of period | | | | | |
| Individually evaluated for impairment | \$ 3,872 | \$ 21,572 | \$ 3,505 | \$ 304 | \$ 29,253 |
| Collectively evaluated | 1,086,721 | 1,240,656 | 662,977 | 537,007 | 3,527,361 |
| Total | \$ 1,090,593 | \$ 1,262,228 | \$ 666,482 | \$ 537,311 | \$ 3,556,614 |

Business Activities Loans

| (In thousands) | Residential mortgages | Commercial real estate | Commercial and industrial loans | Consumer | Total |
|---------------------------------------|-----------------------|------------------------|---------------------------------|------------|--------------|
| December 31, 2013 | | | | | |
| Loans receivable: | | | | | |
| Balance at end of year | | | | | |
| Individually evaluated for impairment | \$ 6,237 | \$ 22,429 | \$ 1,380 | \$ 515 | \$ 30,561 |
| Collectively evaluated for impairment | 1,039,658 | 1,037,582 | 616,057 | 445,333 | 3,138,630 |
| Total | \$ 1,045,895 | \$ 1,060,011 | \$ 617,437 | \$ 445,848 | \$ 3,169,191 |

Acquired Loans

| (In thousands) | Residential mortgages | Commercial real estate | Commercial and industrial loans | Consumer | Total |
|---------------------------------------|-----------------------|------------------------|---------------------------------|------------|------------|
| June 30, 2014 | | | | | |
| Loans receivable: | | | | | |
| Balance at end of Period | | | | | |
| Individually evaluated for impairment | \$ 1,054 | \$ 5,315 | \$ 485 | \$ | \$ 6,854 |
| Collectively evaluated | 305,584 | 311,957 | 60,992 | 208,302 | 886,835 |
| Total | \$ 306,638 | \$ 317,272 | \$ 61,477 | \$ 208,302 | \$ 893,689 |

Acquired Loans

| (In thousands) | Residential mortgages | Commercial real estate | Commercial and industrial loans | Consumer | Total |
|--------------------------|-----------------------|------------------------|---------------------------------|----------|-------|
| December 31, 2013 | | | | | |
| Loans receivable: | | | | | |

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| | | | | | | | |
|---------------------------------------|----|---------|----|---------|----|--------|----------------------|
| Balance at end of year | | | | | | | |
| Individually evaluated for impairment | \$ | 1,568 | \$ | 6,295 | \$ | 367 | \$ 154 8,384 |
| Collectively evaluated for impairment | | 336,811 | | 350,814 | | 69,489 | 245,834 1,002,948 |
| Total | \$ | 338,379 | \$ | 357,109 | \$ | 69,856 | \$ 245,988 1,011,332 |

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The following is a summary of impaired loans at June 30, 2014:

Business Activities Loans

| (In thousands) | Recorded Investment | At June 30, 2014 Unpaid Principal Balance | | Related Allowance |
|---------------------------------------|---------------------|---|--|-------------------|
| With no related allowance: | | | | |
| Residential mortgages - 1-4 family | \$ 3,338 | \$ 3,338 | | \$ |
| Other commercial real estate loans | 17,341 | 17,341 | | |
| Commercial real estate - construction | 1,370 | 1,370 | | |
| Other commercial and industrial loans | 566 | 566 | | |
| Consumer - home equity | 183 | 183 | | |
| Consumer - other | 121 | 121 | | |
| With an allowance recorded: | | | | |
| Residential mortgages - 1-4 family | \$ 477 | \$ 534 | | \$ 57 |
| Other commercial real estate loans | 2,149 | 2,861 | | 712 |
| Other commercial and industrial loans | 2,464 | 2,939 | | 475 |
| Total | | | | |
| Residential mortgages | \$ 3,815 | \$ 3,872 | | \$ 57 |
| Commercial real estate | 20,860 | 21,572 | | 712 |
| Commercial and industrial loans | 3,030 | 3,505 | | 475 |
| Consumer | 304 | 304 | | |
| Total impaired loans | \$ 28,009 | \$ 29,253 | | \$ 1,244 |

Acquired Loans

| (In thousands) | Recorded Investment | At June 30, 2014 Unpaid Principal Balance | | Related Allowance |
|---------------------------------------|---------------------|---|--|-------------------|
| With no related allowance: | | | | |
| Residential mortgages - 1-4 family | \$ 604 | \$ 604 | | \$ |
| Other commercial real estate loans | 3,919 | 3,919 | | |
| Other commercial and industrial loans | 419 | 419 | | |
| With an allowance recorded: | | | | |
| Residential mortgages - 1-4 family | \$ 390 | \$ 450 | | \$ 60 |
| Other commercial real estate loans | 1,090 | 1,396 | | 306 |
| Other commercial and industrial loans | 46 | 66 | | 20 |
| Total | | | | |
| Residential mortgages | \$ 994 | \$ 1,054 | | \$ 60 |
| Commercial real estate | 5,009 | 5,315 | | 306 |
| Commercial and industrial loans | 465 | 485 | | 20 |
| Total impaired loans | \$ 6,468 | \$ 6,854 | | \$ 386 |

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The following is a summary of impaired loans at December 31, 2013:

Business Activities Loans

| (In thousands) | Recorded Investment | At December 31, 2013 | | Related Allowance |
|---|---------------------|--------------------------|--|-------------------|
| | | Unpaid Principal Balance | | |
| With no related allowance: | | | | |
| Residential mortgages - 1-4 family | \$ 3,406 | \$ 3,406 | | \$ |
| Commercial real estate - construction | 3,176 | 3,176 | | |
| Commercial real estate - single and multifamily | | | | |
| Other commercial real estate loans | 18,909 | 18,909 | | |
| Other commercial and industrial loans | 811 | 811 | | |
| Consumer - home equity | 270 | 270 | | |
| With an allowance recorded: | | | | |
| Residential mortgages - 1-4 family | \$ 1,926 | \$ 2,831 | | \$ 905 |
| Commercial real estate - construction | | | | |
| Commercial real estate - single and multifamily | | | | |
| Other commercial real estate loans | 125 | 344 | | 219 |
| Other commercial and industrial loans | 514 | 569 | | 55 |
| Consumer - home equity | 142 | 245 | | 103 |
| Total | | | | |
| Residential mortgages | \$ 5,332 | \$ 6,237 | | \$ 905 |
| Commercial real estate | 22,210 | 22,429 | | 219 |
| Commercial and industrial loans | 1,325 | 1,380 | | 55 |
| Consumer | 412 | 515 | | 103 |
| Total impaired loans | \$ 29,279 | \$ 30,561 | | \$ 1,282 |

Acquired Loans

| (In thousands) | Recorded Investment | At December 31, 2013 | | Related Allowance |
|---------------------------------------|---------------------|--------------------------|--|-------------------|
| | | Unpaid Principal Balance | | |
| With no related allowance: | | | | |
| Residential mortgages - 1-4 family | \$ 381 | \$ 381 | | \$ |
| Other commercial real estate loans | 3,853 | 3,853 | | |
| Other commercial and industrial loans | 367 | 367 | | |
| With an allowance recorded: | | | | |
| Residential mortgages - 1-4 family | \$ 957 | \$ 1,187 | | \$ 230 |
| Other commercial real estate loans | 1,954 | 2,442 | | 488 |
| Consumer - home equity | 115 | 154 | | 39 |
| Total | | | | |
| Residential mortgages | \$ 1,338 | \$ 1,568 | | \$ 230 |
| Other commercial real estate loans | 5,807 | 6,295 | | 488 |

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| | | | | | | |
|---------------------------------------|----|-------|----|-------|----|-----|
| Other commercial and industrial loans | | 367 | | 367 | | |
| Consumer - home equity | | 115 | | 154 | | 39 |
| Total impaired loans | \$ | 7,627 | \$ | 8,384 | \$ | 757 |

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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, 2014 and June 30, 2013:

Business Activities Loans

| (in thousands) | Six Months Ended June 30, 2014 | | Six Months Ended June 30, 2013 | |
|---|--------------------------------|---------------------------------------|--------------------------------|---------------------------------------|
| | 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 | \$ 4,661 | \$ 99 | \$ 3,911 | \$ 52 |
| Commercial real estate - construction | | | 2,494 | |
| Commercial real estate - single and multifamily | 17,308 | 312 | | |
| Other commercial real estate loans | 2,397 | | 16,934 | 447 |
| Commercial and industrial loans | 583 | 14 | 539 | 11 |
| Consumer - home equity | 300 | 3 | 530 | 9 |
| Consumer - other | 123 | 2 | | |
| With an allowance recorded: | | | | |
| Residential mortgages - 1-4 family | \$ 482 | \$ 3 | \$ 2,731 | \$ 26 |
| Commercial real estate - construction | | | 1,938 | |
| Commercial real estate - single and multifamily | 2,858 | | | |
| Other commercial real estate loans | | | 8,062 | 91 |
| Commercial and industrial loans | 2,055 | 44 | 1,554 | 17 |
| Consumer - home equity | | | 931 | 1 |
| Total | | | | |
| Residential mortgages | \$ 5,143 | \$ 102 | \$ 6,642 | \$ 78 |
| Commercial real estate | 22,563 | 312 | 29,428 | 538 |
| Commercial and industrial loans | 2,638 | 58 | 2,093 | 28 |
| Consumer loans | 423 | 5 | 1,461 | 10 |
| Total impaired loans | \$ 30,767 | \$ 477 | \$ 39,624 | \$ 654 |

Acquired Loans

| (in thousands) | Six Months Ended June 30, 2014 | | Six Months Ended June 30, 2013 | |
|------------------------------------|--------------------------------|---------------------------------------|--------------------------------|---------------------------------------|
| | 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 | \$ 930 | \$ 5 | \$ 132 | \$ 1 |
| Other commercial real estate loans | 4,392 | 51 | 1,445 | 54 |
| Commercial and industrial loans | 537 | 8 | | |
| Consumer - home equity | 51 | | | |
| With an allowance recorded: | | | | |
| Residential mortgages - 1-4 family | \$ 363 | \$ 1 | \$ 708 | \$ 4 |
| Other commercial real estate loans | 1,489 | 55 | 1,399 | 2 |
| Commercial and industrial loans | 68 | 3 | 181 | |

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| Total | | | | | |
|------------------------------------|----|-------|----|-----|----------------|
| Residential mortgages | \$ | 1,293 | \$ | 6 | \$ 840 \$ 5 |
| Other commercial real estate loans | | 5,881 | | 106 | 2,844 56 |
| Commercial and industrial loans | | 605 | | 11 | 181 |
| Consumer loans | | 51 | | | |
| Total impaired loans | \$ | 7,830 | \$ | 123 | \$ 3,865 \$ 61 |

Table of Contents***Troubled Debt Restructuring Loans***

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

The following tables include the recorded investment and number of modifications identified during the six months ended June 30, 2014 and for the six months ended June 30, 2013, respectively. The table includes the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured. The modifications for the six months ending June 30, 2014 were attributable to concessions granted as ordered by bankruptcy court, interest rate concessions and maturity date extensions. The modifications for the six months ending June 30, 2013 were attributable to interest rate concessions and maturity date extensions.

| (Dollars in thousands) | Number of Modifications | Modifications by Class | |
|-------------------------------------|-------------------------|--|---------------------------------|
| | | Six months ending June 30, 2014 | Post-Modification |
| | | Pre-Modification Outstanding Recorded Investment | Outstanding Recorded Investment |
| Troubled Debt Restructurings | | | |
| Residential - 1-4 Family | 3 | \$ 369 | \$ 366 |
| Commercial - Single and multifamily | 1 | 623 | 623 |
| Commercial - Other | 6 | 4,804 | 4,804 |
| | 10 | \$ 5,796 | \$ 5,793 |

| (Dollars in thousands) | Number of Modifications | Modifications by Class | |
|-------------------------------------|-------------------------|--|---------------------------------|
| | | Six months ending June 30, 2013 | Post-Modification |
| | | Pre-Modification Outstanding Recorded Investment | Outstanding Recorded Investment |
| Troubled Debt Restructurings | | | |
| Residential - 1-4 Family | 5 | \$ 941 | \$ 941 |
| Residential - Construction | 1 | 320 | 320 |
| Commercial - Single and multifamily | 2 | 2,366 | 2,406 |
| Commercial - Other | 10 | 3,882 | 3,450 |
| Commercial business - Other | 4 | 100 | 100 |
| | 22 | \$ 7,609 | \$ 7,217 |

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

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| Troubled Debt Restructurings | Modifications that Subsequently Defaulted Six months ending June 30, 2014 | |
|-------------------------------------|--|----------------------------|
| | Number of Contracts | Recorded Investment |
| Commercial and industrial - Other | 2 | \$ 158 |

| Troubled Debt Restructurings | Modifications that Subsequently Defaulted Six months ending June 30, 2013 | |
|-------------------------------------|--|----------------------------|
| | Number of Contracts | Recorded Investment |
| Commercial - Single and multifamily | 4 | \$ 224 |

The following table presents the Company's TDR activity for the six months ended June 30, 2014 and June 30, 2013:

| (In thousands) | Six months ending June 30, | |
|---|---------------------------------------|-------------|
| | 2014 | 2013 |
| Balance at beginning of the period | \$ 10,822 | \$ 4,626 |
| Principal Payments | (960) | (37) |
| TDR Status Change (1) | (641) | (1,164) |
| Other Reductions (2) | 99 | (482) |
| Newly Identified TDRs | 5,793 | 7,217 |
| Balance at end of the period | \$ 15,113 | \$ 10,160 |

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

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

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

Table of Contents**NOTE 6. LOAN LOSS ALLOWANCE**

Activity in the allowance for loan losses for the six months ended June 30, 2014 and 2013 was as follows:

Business Activities Loans

| (In thousands) | Residential mortgages | Commercial real estate | Commercial and industrial loans | Consumer | Unallocated | Total |
|---------------------------------------|-----------------------|------------------------|---------------------------------|----------|-------------|-----------|
| June 30, 2014 | | | | | | |
| Balance at beginning of period | \$ 6,937 | \$ 13,705 | \$ 5,173 | \$ 3,644 | \$ 68 | \$ 29,527 |
| Charged-off loans | 1,159 | 1,645 | 1,426 | 571 | | 4,801 |
| Recoveries on charged-off loans | 64 | 6 | 22 | 177 | | 269 |
| Provision for loan losses | (299) | 2,389 | 1,396 | 1,597 | 143 | 5,226 |
| Balance at end of period | \$ 5,543 | \$ 14,455 | \$ 5,165 | \$ 4,847 | \$ 211 | \$ 30,221 |
| Individually evaluated for impairment | 57 | 712 | 475 | | | 1,244 |
| Collectively evaluated | 5,486 | 13,743 | 4,690 | 4,847 | 211 | 28,977 |
| Total | \$ 5,543 | \$ 14,455 | \$ 5,165 | \$ 4,847 | \$ 211 | \$ 30,221 |

Business Activities Loans

| (In thousands) | Residential mortgages | Commercial real estate | Commercial and industrial loans | Consumer | Unallocated | Total |
|---------------------------------------|-----------------------|------------------------|---------------------------------|----------|-------------|-----------|
| June 30, 2013 | | | | | | |
| Balance at beginning of period | \$ 5,928 | \$ 18,863 | \$ 5,605 | \$ 1,466 | \$ 29 | \$ 31,891 |
| Charged-off loans | 836 | 2,015 | 694 | 600 | | 4,145 |
| Recoveries on charged-off loans | 150 | 451 | 81 | 113 | | 795 |
| Provision for loan losses | 389 | 777 | 376 | 1,919 | 117 | 3,578 |
| Balance at end of period | \$ 5,631 | \$ 18,076 | \$ 5,368 | \$ 2,898 | \$ 146 | \$ 32,119 |
| Individually evaluated for impairment | 302 | 1,812 | 903 | 295 | | 3,312 |
| Collectively evaluated | 5,329 | 16,264 | 4,465 | 2,603 | 146 | 28,807 |
| Total | \$ 5,631 | \$ 18,076 | \$ 5,368 | \$ 2,898 | \$ 146 | \$ 32,119 |

Acquired Loans

| (In thousands) | Residential mortgages | Commercial real estate | Commercial and industrial loans | Consumer | Unallocated | Total |
|---------------------------------|-----------------------|------------------------|---------------------------------|----------|-------------|----------|
| June 30, 2014 | | | | | | |
| Balance at beginning of period | \$ 625 | \$ 2,339 | \$ 597 | \$ 235 | \$ | \$ 3,796 |
| Charged-off loans | 723 | 495 | 176 | 638 | | 2,032 |
| Recoveries on charged-off loans | 161 | 1 | 24 | 23 | | 209 |

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| | | | | | |
|---------------------------------------|--------|----------|----------|--------|----------|
| Provision for loan losses | 599 | 246 | 624 | 690 | 2,159 |
| Balance at end of period | \$ 662 | \$ 2,091 | \$ 1,069 | \$ 310 | \$ 4,132 |
| Individually evaluated for impairment | 60 | 306 | 20 | | 386 |
| Collectively evaluated | 602 | 1,785 | 1,049 | 310 | 3,746 |
| Total | \$ 662 | \$ 2,091 | \$ 1,069 | \$ 310 | \$ 4,132 |

Acquired Loans

| (In thousands) | Residential mortgages | Commercial real estate | Commercial and industrial loans | Consumer | Unallocated | Total |
|---------------------------------------|-----------------------|------------------------|---------------------------------|----------|-------------|----------|
| June 30, 2013 | | | | | | |
| Balance at beginning of period | \$ 509 | \$ 390 | \$ 96 | \$ 314 | \$ 8 | \$ 1,317 |
| Charged-off loans | 422 | 682 | 134 | 574 | | 1,812 |
| Recoveries on charged-off loans | (4) | 11 | 23 | 72 | | 102 |
| Provision for loan losses | 435 | 706 | 112 | 519 | (250) | 1,522 |
| Balance at end of period | \$ 518 | \$ 425 | \$ 97 | \$ 331 | \$ (242) | \$ 1,129 |
| Individually evaluated for impairment | 70 | 29 | | | | 99 |
| Collectively evaluated | 448 | 396 | 97 | 331 | (242) | 1,030 |
| Total | 518 | 425 | 97 | 331 | (242) | 1,129 |

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Credit Quality Information

Business Activities Loans Credit Quality Analysis

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

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

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

Acquired Loans Credit Quality Analysis

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

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

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

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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, 2014, the allowance for loan losses related to acquired loans was \$4.1 million using the above mentioned criteria.

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

The following table presents the Company's loans by risk rating at June 30, 2014 and December 31, 2013:

Business Activities Loans**Residential Mortgages**

Credit Risk Profile by Internally Assigned Grade

| (In thousands) | 1-4 family | | Construction | | Total residential mortgages | |
|-----------------|---------------|---------------|---------------|---------------|-----------------------------|---------------|
| | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 |
| Grade: | | | | | | |
| Pass | \$ 1,068,377 | \$ 1,019,732 | \$ 17,162 | \$ 18,117 | \$ 1,085,539 | \$ 1,037,849 |
| Special mention | 169 | 623 | | | 169 | 623 |
| Substandard | 4,885 | 7,382 | | 41 | 4,885 | 7,423 |
| Total | \$ 1,073,431 | \$ 1,027,737 | \$ 17,162 | \$ 18,158 | \$ 1,090,593 | \$ 1,045,895 |

Commercial Real Estate

Credit Risk Profile by Creditworthiness Category

| (In thousands) | Construction | | Single and multi-family | | Other | | Total commercial real estate | |
|-----------------|---------------|---------------|-------------------------|---------------|---------------|---------------|------------------------------|---------------|
| | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 |
| Grade: | | | | | | | | |
| Pass | \$ 161,733 | \$ 120,071 | \$ 86,250 | \$ 59,636 | \$ 940,577 | \$ 800,672 | \$ 1,188,560 | \$ 980,379 |
| Special mention | | | 137 | 140 | 5,015 | 8,150 | 5,152 | 8,290 |
| Substandard | 3,543 | 5,176 | 3,297 | 3,717 | 61,603 | 61,807 | 68,443 | 70,700 |
| Doubtful | | | | | 73 | 642 | 73 | 642 |
| Total | \$ 165,276 | \$ 125,247 | \$ 89,684 | \$ 63,493 | \$ 1,007,268 | \$ 871,271 | \$ 1,262,228 | \$ 1,060,011 |

Commercial and Industrial Loans

Credit Risk Profile by Creditworthiness Category

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| (In thousands) | Asset based lending | | Other | | Total comm. and industrial loans | |
|-----------------|---------------------|---------------|---------------|---------------|----------------------------------|---------------|
| | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 |
| Grade: | | | | | | |
| Pass | \$ 328,681 | \$ 294,241 | \$ 326,244 | \$ 313,984 | \$ 654,925 | \$ 608,225 |
| Special mention | | | 1,266 | 884 | 1,266 | 884 |
| Substandard | | | 10,291 | 7,725 | 10,291 | 7,725 |
| Doubtful | | | | 603 | | 603 |
| Total | \$ 328,681 | \$ 294,241 | \$ 337,801 | \$ 323,196 | \$ 666,482 | \$ 617,437 |

Consumer Loans

Credit Risk Profile Based on Payment Activity

| (In thousands) | Home equity | | Auto and other | | Total consumer loans | |
|----------------|---------------|---------------|----------------|---------------|----------------------|---------------|
| | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 |
| Performing | \$ 239,017 | \$ 231,594 | \$ 296,630 | \$ 212,922 | \$ 535,647 | \$ 444,516 |
| Nonperforming | 1,284 | 1,083 | 380 | 249 | 1,664 | 1,332 |
| Total | \$ 240,301 | \$ 232,677 | \$ 297,010 | \$ 213,171 | \$ 537,311 | \$ 445,848 |

Table of Contents**Acquired Loans****Residential Mortgages**

Credit Risk Profile by Internally Assigned Grade

| (In thousands) | 1-4 family | | Construction | | Total residential mortgages | |
|-----------------|---------------|---------------|---------------|---------------|-----------------------------|---------------|
| | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 |
| Grade: | | | | | | |
| Pass | \$ 302,182 | \$ 330,353 | \$ 1,043 | \$ 1,081 | \$ 303,225 | \$ 331,434 |
| Special mention | 801 | 437 | | | 801 | 437 |
| Substandard | 2,612 | 2,577 | | 3,931 | 2,612 | 6,508 |
| Total | \$ 305,595 | \$ 333,367 | \$ 1,043 | \$ 5,012 | \$ 306,638 | \$ 338,379 |

Commercial Real Estate

Credit Risk Profile by Creditworthiness Category

| (In thousands) | Construction | | Single and multi-family | | Other | | Total commercial real estate | |
|-----------------|---------------|---------------|-------------------------|---------------|---------------|---------------|------------------------------|---------------|
| | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 |
| Grade: | | | | | | | | |
| Pass | \$ 4,211 | \$ 7,154 | \$ 48,043 | \$ 46,961 | \$ 227,566 | \$ 254,787 | \$ 279,820 | \$ 308,902 |
| Special mention | 342 | | 827 | 4,799 | 6,796 | 9,034 | 7,965 | 13,833 |
| Substandard | 2,271 | 6,616 | 12,550 | 13,067 | 14,666 | 14,691 | 29,487 | 34,374 |
| Total | \$ 6,824 | \$ 13,770 | \$ 61,420 | \$ 64,827 | \$ 249,028 | \$ 278,512 | \$ 317,272 | \$ 357,109 |

Commercial and Industrial Loans

Credit Risk Profile by Creditworthiness Category

| (In thousands) | Asset based lending | | Other | | Total comm. and industrial loans | |
|-----------------|---------------------|---------------|---------------|---------------|----------------------------------|---------------|
| | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 |
| Grade: | | | | | | |
| Pass | \$ | \$ 3,130 | \$ 54,037 | \$ 59,615 | \$ 54,037 | \$ 62,745 |
| Special mention | | | 3,156 | 2,396 | 3,156 | 2,396 |
| Substandard | | | 4,284 | 4,715 | 4,284 | 4,715 |
| Total | \$ | \$ 3,130 | \$ 61,477 | \$ 66,726 | \$ 61,477 | \$ 69,856 |

Consumer Loans

Credit Risk Profile Based on Payment Activity

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| (In thousands) | Home equity | | Auto and other | | Total consumer loans | |
|----------------|---------------|---------------|----------------|---------------|----------------------|---------------|
| | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 |
| Performing | \$ 68,791 | \$ 73,552 | \$ 136,769 | \$ 170,275 | \$ 205,560 | \$ 243,827 |
| Nonperforming | 917 | 602 | 1,825 | 1,559 | 2,742 | 2,161 |
| Total | \$ 69,708 | \$ 74,154 | \$ 138,594 | \$ 171,834 | \$ 208,302 | \$ 245,988 |

The following table summarizes information about total loans rated Special Mention or lower as of June 30, 2014 and December 31, 2013. The table below includes consumer loans that are special mention and substandard accruing that are classified in the above table as performing based on payment activity.

| (In thousands) | June 30, 2014 | | | December 31, 2013 | | |
|----------------------|---------------------------|----------------|------------|---------------------------|----------------|------------|
| | Business Activities Loans | Acquired Loans | Total | Business Activities Loans | Acquired Loans | Total |
| Non-Accrual | \$ 17,739 | \$ 8,319 | \$ 26,058 | \$ 18,472 | \$ 8,983 | \$ 27,455 |
| Substandard Accruing | 67,583 | 30,635 | 98,218 | 70,667 | 38,891 | 109,558 |
| Total Classified | 85,322 | 38,954 | 124,276 | 89,139 | 47,874 | 137,013 |
| Special Mention | 6,621 | 12,094 | 18,715 | 10,081 | 17,853 | 27,934 |
| Total Criticized | \$ 91,943 | \$ 51,048 | \$ 142,991 | \$ 99,220 | \$ 65,727 | \$ 164,947 |

Table of Contents**NOTE 7. DEPOSITS**

A summary of time deposits is as follows:

| (In thousands) | June 30, 2014 | December 31, 2013 |
|--------------------------|---------------|-------------------|
| Time less than \$100,000 | \$ 525,297 | \$ 490,902 |
| Time \$100,000 or more | 837,695 | 510,746 |
| Total time deposits | \$ 1,362,992 | \$ 1,001,648 |

Included in time deposits are brokered deposits of \$286.0 million and \$23.4 million at June 30, 2014 and December 31, 2013, respectively. Also included are certificates of deposit through the Certificate of Deposit Account Registry Service (CDARS) network of \$30.5 million at June 30, 2014. There were no CDARS deposits at December 31, 2013.

NOTE 8. BORROWED FUNDS

Borrowed funds at June 30, 2014 and December 31, 2013 are summarized, as follows:

| (dollars in thousands) | June 30, 2014 | | December 31, 2013 | |
|--------------------------------|---------------|-----------------------------|-------------------|-----------------------------|
| | Principal | Weighted Average Rate | Principal | Weighted Average Rate |
| Short-term borrowings: | | | | |
| Advances from the FHLBB | \$ 900,000 | 0.21% | \$ 862,510 | 0.22% |
| Other Borrowings | | | 10,000 | 1.92 |
| Total short-term borrowings: | 900,000 | 0.21 | 872,510 | 0.24 |
| Long-term borrowings: | | | | |
| Advances from the FHLBB | 64,179 | 0.94 | 101,918 | 1.23 |
| Subordinated borrowings | 74,249 | 7.00 | 74,215 | 7.00 |
| Junior subordinated borrowings | 15,464 | 2.08 | 15,464 | 2.09 |
| Total long-term borrowings: | 153,892 | 3.98 | 191,597 | 3.53 |
| Total | \$ 1,053,892 | 0.76% | \$ 1,064,107 | 0.83% |

The Bank also maintains a \$3.0 million secured line of credit with the FHLBB that bears a daily adjustable rate calculated by the FHLBB. There was no outstanding balance on the FHLBB line of credit for the periods ended June 30, 2014 and December 31, 2013.

The Bank is approved to borrow on a short-term basis from the Federal Reserve Bank of Boston as a non-member bank. The Bank has pledged certain loans and securities to the Federal Reserve Bank to support this arrangement. No borrowings with the Federal Reserve Bank of Boston took place for the periods ended June 30, 2014 and December 31, 2013.

Long-term FHLBB advances consist of advances with an original maturity of more than one year. The advances outstanding at June 30, 2014 include callable advances totaling \$5.0 million, and amortizing advances totaling \$5.4 million. The advances outstanding at December 31, 2013 include callable advances totaling \$5.0 million, and amortizing advances totaling \$5.5 million. All FHLBB borrowings, including the line of credit, are secured by a blanket security agreement on certain qualified collateral, principally all residential first mortgage loans and certain securities.

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A summary of maturities of FHLBB advances as of June 30, 2014 and December 31, 2013 is as follows:

| (in thousands, except rates) | June 30, 2014 | | December 31, 2013 | |
|---|---------------|-----------------------|-------------------|-----------------------|
| | Principal | Weighted Average Rate | Principal | Weighted Average Rate |
| Fixed rate advances maturing: | | | | |
| 2014 | \$ 902,388 | 0.21% | \$ 882,525 | 0.28% |
| 2015 | 50,000 | 0.29 | | |
| 2016 | 1,551 | 0.85 | 1,583 | 0.79 |
| 2017 | 5,000 | 4.33 | 5,000 | 4.33 |
| 2018 and beyond | 5,240 | 3.84 | 5,320 | 3.83 |
| Total fixed rate advances | \$ 964,179 | 0.26% | \$ 894,428 | 0.35% |
| Variable rate advances maturing: | | | | |
| 2014 | \$ | 0% | 10,000 | 0.32% |
| 2015 | | | 20,000 | 0.30 |
| 2016 | | | 10,000 | 0.30 |
| 2017 | | | | |
| 2018 and beyond | | | 30,000 | 0.30 |
| Total variable rate advances | \$ | 0% | \$ 70,000 | 0.30% |
| Total FHLBB advances | \$ 964,179 | 0.26% | \$ 964,428 | 0.32% |

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

The Company holds 100% of the common stock of Berkshire Hills Capital Trust I (Trust I) which is included in other assets with a cost of \$0.5 million. The sole asset of Trust I is \$15.5 million of the Company's junior subordinated debentures due in 2035. These debentures bear interest at a variable rate equal to LIBOR plus 1.85% and had a rate of 2.08% and 2.09% at June 30, 2014 and December 31, 2013, respectively. The Company has the right to defer payments of interest for up to five years on the debentures at any time, or from time to time, with certain limitations, including a restriction on the payment of dividends to stockholders while such interest payments on the debentures have been deferred. The Company has not exercised this right to defer payments. The Company has the right to redeem the debentures at par value. Trust I is considered a variable interest entity for which the Company is not the primary beneficiary. Accordingly, Trust I is not consolidated into the Company's financial statements.

NOTE 9. STOCKHOLDERS EQUITY

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

| June 30, 2014 | December 31, 2013 | FDIC Minimum to be Well Capitalized |
|---------------|-------------------|-------------------------------------|
|---------------|-------------------|-------------------------------------|

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| | | | |
|--|-------|-------|-------|
| Total capital to risk weighted assets | 11.0% | 11.6% | 10.0% |
| Tier 1 capital to risk weighted assets | 9.5 | 10.0 | 6.0 |
| Tier 1 capital to average assets | 7.3 | 8.0 | 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.

Table of Contents*Accumulated other comprehensive income (loss)*

Components of accumulated other comprehensive income (loss) are as follows:

| (In thousands) | June 30, 2014 | December 31, 2013 |
|--|-----------------|-------------------|
| Other accumulated comprehensive income (loss), before tax: | | |
| Net unrealized holding gain (loss) on AFS securities | \$ 7,839 | \$ (9,294) |
| Net loss on effective cash flow hedging derivatives | (1,023) | (2,289) |
| Net loss on terminated swap | | (3,237) |
| Net unrealized holding gain on pension plans | 17 | 17 |
| Income taxes related to items of accumulated other comprehensive income (loss): | | |
| Net unrealized holding gain (loss) on AFS securities | (2,963) | 3,518 |
| Net loss on effective cash flow hedging derivatives | 413 | 923 |
| Net loss on terminated swap | | 1,312 |
| Net unrealized holding gain on pension plans | (7) | (7) |
| Accumulated other comprehensive income (loss) | \$ 4,276 | \$ (9,057) |

The following table presents the components of other comprehensive income (loss) for the three and six months ended June 30, 2014 and June 30, 2013:

| (In thousands) | Before Tax | Tax Effect | Net of Tax |
|--|-----------------|-------------------|-----------------|
| Three Months Ended June 30, 2014 | | | |
| Net unrealized holding gain on AFS securities: | | | |
| Net unrealized gain arising during the period | \$ 11,316 | \$ (4,344) | \$ 6,972 |
| Less: reclassification adjustment for (gains) realized in net income | (203) | 83 | (120) |
| Net unrealized holding gain on AFS securities | 11,113 | (4,261) | 6,852 |
| Net loss on cash flow hedging derivatives: | | | |
| Net unrealized (losses) arising during the period | (3,267) | 1,322 | (1,945) |
| Less: reclassification adjustment for losses realized in net income | | | |
| Net gain on cash flow hedging derivatives | (3,267) | 1,322 | (1,945) |
| Other Comprehensive Income | \$ 7,846 | \$ (2,939) | \$ 4,907 |
| Three Months Ended June 30, 2013 | | | |
| Net unrealized holding loss on AFS securities: | | | |
| Net unrealized (loss) arising during the period | \$ (12,427) | \$ 4,672 | \$ (7,755) |
| Less: reclassification adjustment for losses realized in net income | (1,004) | 405 | (599) |
| Net unrealized holding loss on AFS securities | (13,431) | 5,077 | (8,354) |
| Net gain on cash flow hedging derivatives: | | | |
| Net unrealized gain arising during the period | 5,256 | (2,118) | 3,138 |
| Less: reclassification adjustment for losses realized in net income | 899 | (363) | 536 |
| Net gain on cash flow hedging derivatives | 6,155 | (2,481) | 3,674 |
| Net gain on terminated swap: | | | |
| Net unrealized loss arising during the period | | | |

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| | | | |
|---|------------|----------|------------|
| Less: reclassification adjustment for losses realized in net income | 236 | (95) | 141 |
| Net gain on terminated swap | 236 | (95) | 141 |
| Other Comprehensive Loss | \$ (7,040) | \$ 2,501 | \$ (4,539) |

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| (In thousands) | Before Tax | Tax Effect | Net of Tax |
|--|-------------------|-------------------|-------------------|
| Six Months Ended June 30, 2014 | | | |
| Net unrealized holding gain on AFS securities: | | | |
| Net unrealized gain arising during the period | \$ 17,370 | \$ (6,576) | \$ 10,794 |
| Less: reclassification adjustment for (gains) realized in net income | (237) | 95 | (142) |
| Net unrealized holding gain on AFS securities | 17,133 | (6,481) | 10,652 |
| Net loss on cash flow hedging derivatives: | | | |
| Net unrealized (loss) arising during the period | (4,127) | 1,691 | \$ (2,436) |
| Less: reclassification adjustment for losses realized in net income | 5,393 | (2,201) | 3,192 |
| Net gain on cash flow hedging derivatives | 1,266 | (510) | 756 |
| Net loss on terminated swap: | | | |
| Net unrealized loss arising during the period | | | |
| Less: reclassification adjustment for losses realized in net income | 3,237 | (1,312) | 1,925 |
| Net loss on terminated swap | 3,237 | (1,312) | 1,925 |
| Other Comprehensive Income | \$ 21,636 | \$ (8,303) | \$ 13,333 |
| Six Months Ended June 30, 2013 | | | |
| Net unrealized holding loss on AFS securities: | | | |
| Net unrealized (loss) arising during the period | \$ (11,694) | \$ 4,353 | \$ (7,341) |
| Less: reclassification adjustment for (gains) realized in net income | (1,004) | 405 | (599) |
| Net unrealized holding loss on AFS securities | (12,698) | 4,758 | (7,940) |
| Net gain on cash flow hedging derivatives: | | | |
| Net unrealized gain arising during the period | 5,687 | (2,285) | 3,402 |
| Less: reclassification adjustment for losses realized in net income | 1,911 | (772) | 1,139 |
| Net gain on cash flow hedging derivatives | 7,598 | (3,057) | 4,541 |
| Net gain on terminated swap: | | | |
| Net unrealized loss arising during the period | | | |
| Less: reclassification adjustment for losses realized in net income | 471 | (303) | 168 |
| Net gain on terminated swap | 471 | (303) | 168 |
| Other Comprehensive Loss | \$ (4,629) | \$ 1,398 | \$ (3,231) |

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The following table presents the changes in each component of accumulated other comprehensive income (loss), for the three and six months ended June 30, 2014 and June 30, 2013:

| (in thousands) | Net unrealized holding (loss) gain on AFS Securities | Net loss on effective cash flow hedging derivatives | Net loss on terminated swap | Net unrealized holding loss on pension plans | Total |
|--|---|--|--------------------------------------|---|-------------------|
| Three Months Ended June 30, 2014 | | | | | |
| Balance at Beginning of Period | \$ (1,976) | \$ 1,335 | \$ | \$ 10 | \$ (631) |
| Other Comprehensive Loss Before reclassifications | 6,972 | (1,945) | | | 5,027 |
| Amounts Reclassified from Accumulated other comprehensive income | (120) | | | | (120) |
| Total Other Comprehensive Income | 6,852 | (1,945) | | | 4,907 |
| Balance at End of Period | \$ 4,876 | \$ (610) | \$ | \$ 10 | \$ 4,276 |
| Three Months Ended June 30, 2013 | | | | | |
| Balance at Beginning of Period | \$ 7,124 | \$ (5,690) | \$ (2,350) | \$ (755) | \$ (1,671) |
| Other Comprehensive Loss Before reclassifications | (7,755) | 3,138 | | | (4,617) |
| Amounts Reclassified from Accumulated other comprehensive income | (599) | 536 | 141 | | 78 |
| Total Other Comprehensive Income | (8,354) | 3,674 | 141 | | (4,539) |
| Balance at End of Period | \$ (1,230) | \$ (2,016) | \$ (2,209) | \$ (755) | \$ (6,210) |
| Six Months Ended June 30, 2014 | | | | | |
| Balance at Beginning of Period | \$ (5,776) | \$ (1,366) | \$ (1,925) | \$ 10 | \$ (9,057) |
| Other Comprehensive Loss Before reclassifications | 10,794 | (2,436) | | | 8,358 |
| Amounts Reclassified from Accumulated other comprehensive income | (142) | 3,192 | 1,925 | | 4,975 |
| Total Other Comprehensive Income | 10,652 | 756 | 1,925 | | 13,333 |
| Balance at End of Period | \$ 4,876 | \$ (610) | \$ | \$ 10 | \$ 4,276 |
| Six Months Ended June 30, 2013 | | | | | |
| Balance at Beginning of Period | \$ 6,710 | \$ (6,557) | \$ (2,377) | \$ (755) | \$ (2,979) |
| Other Comprehensive Loss Before reclassifications | (7,341) | 3,402 | | | (3,939) |
| Amounts Reclassified from Accumulated other comprehensive income | (599) | 1,139 | 168 | | 708 |
| Total Other Comprehensive Income | (7,940) | 4,541 | 168 | | (3,231) |
| Balance at End of Period | \$ (1,230) | \$ (2,016) | \$ (2,209) | \$ (755) | \$ (6,210) |

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The following table presents the amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2014 and June 30, 2013:

| (in thousands) | Three Months Ended June 30, | | Affected Line Item in the Statement where Net Income is Presented |
|--|-----------------------------|---------|---|
| | 2014 | 2013 | |
| Realized (gains) on AFS securities: | | | |
| | \$ | \$ | Non-interest income |
| | (203) | (1,004) | |
| | 83 | 405 | Tax expense |
| | (120) | (599) | Net of tax |
| Realized losses on cash flow hedging derivatives: | | | |
| | | 899 | Non-interest income |
| | | (363) | Tax expense |
| | | 536 | Net of tax |
| Amortization of realized gains on terminated swap: | | | |
| | | 236 | Non-interest income |
| | | (95) | Tax expense |
| | | 141 | Net of tax |
| Total reclassifications for the period | \$ | \$ | Net of tax |
| | (120) | 78 | |

| (in thousands) | Six Months Ended June 30, | | Affected Line Item in the Statement Where Net Income Is Presented |
|--|---------------------------|---------|---|
| | 2014 | 2013 | |
| Realized (gains) on AFS securities: | | | |
| | \$ | \$ | Non-interest income |
| | (237) | (1,004) | |
| | 95 | 405 | Tax expense |
| | (142) | (599) | Net of tax |
| Realized losses on cash flow hedging derivatives: | | | |
| | 5,393 | 1,911 | Interest income |
| | (2,201) | (772) | Tax expense |
| | 3,192 | 1,139 | Net of tax |
| Amortization of realized gains on terminated swap: | | | |
| | 3,237 | 471 | Interest income |
| | (1,312) | (303) | Tax expense |
| | 1,925 | 168 | Net of tax |
| Total reclassifications for the period | \$ | \$ | Net of tax |
| | 4,975 | 708 | |

Table of Contents**NOTE 10. 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, 2014 | | Six Months Ended June 30, 2014 | | 2013 | | | |
|--|-------------------------------------|--------|-----------------------------------|--------|------|--------|----|--------|
| Net income | \$ | 11,464 | \$ | 12,037 | \$ | 10,358 | \$ | 22,502 |
| Average number of common shares issued | | 26,525 | | 26,525 | | 26,525 | | 26,525 |
| Less: average number of treasury shares | | 1,417 | | 1,427 | | 1,421 | | 1,344 |
| Less: average number of unvested stock award shares | | 393 | | 319 | | 397 | | 318 |
| Average number of basic common shares outstanding | | 24,715 | | 24,779 | | 24,707 | | 24,863 |
| Plus: dilutive effect of unvested stock award shares | | 44 | | 59 | | 55 | | 68 |
| Plus: dilutive effect of stock options outstanding | | 50 | | 118 | | 59 | | 118 |
| Average number of diluted common shares outstanding | | 24,809 | | 24,956 | | 24,821 | | 25,049 |
| Earnings per share: | | | | | | | | |
| Basic | \$ | 0.46 | \$ | 0.49 | \$ | 0.42 | \$ | 0.91 |
| Diluted | \$ | 0.46 | \$ | 0.48 | \$ | 0.42 | \$ | 0.90 |

For the six months ended June 30, 2014, 342 thousand shares of restricted stock and 305 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations. For the six months ended June 30, 2013, 252 thousand shares of restricted stock and 365 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations.

NOTE 11. 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, 2014 is presented in the following table:

| (Shares in thousands) | Non-vested Stock Awards Outstanding | | Stock Options Outstanding | |
|-----------------------------------|--|--|---------------------------|---|
| | Number of Shares | Weighted- Average Grant Date Fair Value | Number of Shares | Weighted- Average Exercise Price |
| Balance, December 31, 2013 | 334 | \$ 23.26 | 442 | \$ 20.41 |
| Granted | 130 | 25.05 | | |
| Stock options exercised | | | (72) | 11.76 |
| Stock awards vested | (66) | 22.81 | | |
| Forfeited | (7) | 23.48 | | |
| Expired | | | (69) | 36.65 |
| Balance, June 30, 2014 | 391 | \$ 24.33 | 301 | \$ 20.17 |

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| | | | |
|---|-----|----|-------|
| Exercisable options, June 30, 2014 | 301 | \$ | 20.20 |
|---|-----|----|-------|

During the six months ended June 30, 2014 and 2013, proceeds from stock option exercises totaled \$848 thousand and totaled \$2.6 million, respectively. During the six months ended June 30, 2014, there were 66 thousand shares issued in connection with vested stock awards. During the six months ended June 30, 2013, there were 74 thousand shares issued in connection with vested stock awards. All of these shares were issued from available

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treasury stock. Stock-based compensation expense totaled \$1.8 million during the six months ended June 30, 2014 and the six months ended June 30, 2013. Stock-based compensation expense is recognized ratably over the requisite service period for all awards.

NOTE 12. OPERATING SEGMENTS

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

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

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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, 2014 | | | | | |
| Net interest income (expense) | \$ 45,244 | \$ | \$ (915) | \$ | \$ 44,329 |
| Provision for loan losses | 3,989 | | | | 3,989 |
| Non-interest income | 12,046 | 2,460 | 12,272 | (12,272) | 14,506 |
| Non-interest expense | 36,970 | 1,887 | 406 | | 39,263 |
| Income before income taxes | 16,331 | 573 | 10,951 | (12,272) | 15,583 |
| Income tax expense (benefit) | 4,409 | 223 | (513) | | 4,119 |
| Net income | \$ 11,922 | \$ 350 | \$ 11,464 | \$ (12,272) | \$ 11,464 |
| Average assets (in millions) | \$ 6,111 | \$ 27 | \$ 744 | \$ (736) | \$ 6,146 |
| Three months ended June 30, 2013 | | | | | |
| Net interest income | \$ 42,086 | \$ | \$ 7,018 | \$ (8,000) | \$ 41,104 |
| Provision for loan losses | 2,700 | | | | 2,700 |
| Non-interest income | 13,204 | 2,402 | 5,026 | (5,026) | 15,606 |
| Non-interest expense | 35,267 | 2,038 | 630 | | 37,935 |
| Income before income taxes | 17,323 | 364 | 11,414 | (13,026) | 16,075 |
| Income tax expense (benefit) | 4,503 | 158 | (623) | | 4,038 |
| Net income | \$ 12,820 | \$ 206 | \$ 12,037 | \$ (13,026) | \$ 12,037 |
| Average assets (in millions) | \$ 5,175 | \$ 27 | \$ 746 | \$ (749) | \$ 5,199 |
| Six months ended June 30, 2014 | | | | | |
| Net interest income | \$ 88,954 | \$ | \$ (1,859) | \$ | \$ 87,095 |
| Provision for loan losses | 7,385 | | | | 7,385 |
| Non-interest income | 13,420 | 5,509 | 12,020 | (12,020) | 18,929 |
| Non-interest expense | 79,543 | 4,209 | 871 | | 84,623 |
| Income before income taxes | 15,446 | 1,300 | 9,290 | (12,020) | 14,016 |
| Income tax expense (benefit) | 4,217 | 509 | (1,068) | | 3,658 |
| Net income | \$ 11,229 | \$ 791 | \$ 10,358 | \$ (12,020) | \$ 10,358 |
| Average assets (in millions) | \$ 5,971 | \$ 26 | \$ 733 | \$ (732) | \$ 5,998 |
| Six months ended June 30, 2013 | | | | | |
| Net interest income (expense) | \$ 84,989 | \$ | \$ 13,052 | \$ (15,000) | \$ 83,041 |
| Provision for loan losses | 5,100 | | | | 5,100 |
| Non-interest income | 25,022 | 5,382 | 9,490 | (9,490) | 30,404 |
| Non-interest expense | 71,956 | 4,171 | 1,291 | | 77,418 |
| Income before income taxes | 32,955 | 1,211 | 21,251 | (24,490) | 30,927 |
| Income tax expense (benefit) | 9,208 | 468 | (1,251) | | 8,425 |
| Net income | \$ 23,747 | \$ 743 | \$ 22,502 | \$ (24,490) | \$ 22,502 |
| Average assets (in millions) | \$ 5,189 | \$ 27 | \$ 751 | \$ (758) | \$ 5,208 |

NOTE 13. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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As of June 30, 2014, the Company held derivatives with a total notional amount of \$911.9 million. That amount included \$300.0 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 \$571.5 million and \$40.4 million, respectively, which are not designated as hedges for accounting purposes and are therefore recorded at fair value. Economic hedges included interest rate swaps totaling \$518.6 million, and \$52.9 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, 2014.

The Company pledged collateral to derivative counterparties in the form of cash totaling \$1.8 million and securities with an amortized cost of \$24.4 million and a fair value of \$24.8 million as of June 30, 2014. The Company does not typically require its commercial customers to post cash or securities as collateral on its program of back-to-back economic hedges. However certain language is written into the International Swaps Dealers Association, Inc. (ISDA) and loan documents where, in default situations, the Bank is allowed to access collateral supporting the loan relationship to recover any losses suffered on the derivative asset or liability. The Company may need to post additional collateral in the future in proportion to potential increases in unrealized loss positions.

Information about derivative assets and liabilities at June 30, 2014, follows:

| | Notional Amount (In thousands) | Weighted Average Maturity (In years) | Weighted Average Rate Received | Contract pay rate | Estimated Fair Value Asset (Liability) (In thousands) |
|---|--------------------------------------|---|-----------------------------------|----------------------|--|
| Cash flow hedges: | | | | | |
| Forward-starting interest rate swaps on FHLBB borrowings | \$ 300,000 | 4.8 | 0.00% | 2.29% | \$ (1,022) |
| Total cash flow hedges | 300,000 | | | | (1,022) |
| Economic hedges: | | | | | |
| Interest rate swap on tax advantaged economic development bond | 12,827 | 15.4 | 0.52% | 5.09% | (2,322) |
| Interest rate swaps on loans with commercial loan customers | 252,874 | 5.9 | 2.34% | 4.58% | (9,193) |
| Reverse interest rate swaps on loans with commercial loan customers | 252,874 | 5.9 | 4.58% | 2.34% | 9,222 |
| Forward sale commitments | 52,922 | 0.2 | | | (561) |
| Total economic hedges | 571,497 | | | | (2,854) |
| Non-hedging derivatives: | | | | | |
| Interest rate lock commitments | 40,391 | 0.2 | | | 660 |
| Total non-hedging derivatives | 40,391 | | | | 660 |
| Total | \$ 911,888 | | | | \$ (3,216) |

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Information about derivative assets and liabilities at December 31, 2013, follows:

| | Notional Amount (In thousands) | Weighted Average Maturity (In years) | Weighted Average Rate Received | Contract pay rate | Estimated Fair Value Asset (Liability) (In thousands) |
|---|--------------------------------------|---|-----------------------------------|----------------------|--|
| Cash flow hedges: | | | | | |
| Interest rate swaps on FHLBB borrowings | \$ 150,000 | 2.5 | 0.25% | 2.61% | \$ (3,102) |
| Forward-starting interest rate swaps on FHLBB borrowings | 260,000 | 4.5 | | 1.88% | 1,015 |
| Interest rate swaps on junior subordinated notes | 15,000 | 0.4 | 2.09% | 5.54% | (203) |
| Total cash flow hedges | 425,000 | | | | (2,290) |
| Economic hedges: | | | | | |
| Interest rate swap on tax advantaged economic development bond | 13,095 | 15.9 | 0.54% | 5.09% | (1,889) |
| Interest rate swaps on loans with commercial loan customers | 206,933 | 5.4 | 2.44% | 4.68% | (6,278) |
| Reverse interest rate swaps on loans with commercial loan customers | 206,933 | 5.4 | 4.68% | 2.44% | 6,286 |
| Forward sale commitments | 32,911 | 0.2 | | | 261 |
| Total economic hedges | 459,872 | | | | (1,620) |
| Non-hedging derivatives: | | | | | |
| Interest rate lock commitments | 20,199 | 0.2 | | | 258 |
| Total non-hedging derivatives | 20,199 | | | | 258 |
| Total | \$ 905,071 | | | | \$ (3,652) |

Cash flow hedges

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

The Company has entered into six forward-starting interest rate swap contracts with a combined notional value of \$300.0 million as of June 30, 2014. The six forward starting swaps will become effective in 2016. All have durations of three years. This hedge strategy converts the one month rolling FHLBB borrowings based on the FHLBB's one month fixed interest rate to fixed interest rates, thereby protecting the Company from floating interest rate variability.

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

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| (In thousands) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|----------|---------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| Interest rate swaps on FHLBB borrowings: | | | | |
| Unrealized (loss) gain recognized in accumulated other comprehensive loss | \$ (3,343) | \$ 5,131 | \$ (4,127) | \$ 5,437 |
| Reclassification of unrealized (loss) gain from accumulated other comprehensive loss to interest expense | | 899 | | 1,910 |
| Reclassification of unrealized loss from accumulated other comprehensive loss to other non-interest income for termination of swaps | | 236 | 8,630 | 472 |
| Reclassification of unrealized deferred tax benefit from accumulated other comprehensive loss to tax expense for terminated swaps | | (95) | (3,611) | (303) |
| Net tax benefit (expense) on items recognized in accumulated other comprehensive loss | 1,352 | (2,433) | 1,666 | (2,955) |
| Interest rate swaps on junior subordinated debentures: | | | | |
| Unrealized loss recognized in accumulated other comprehensive loss | | (4) | (1) | (5) |
| Reclassification of unrealized loss from accumulated other comprehensive loss to interest expense | 75 | 129 | 204 | 256 |
| Net tax expense on items recognized in accumulated other comprehensive loss | (29) | (48) | (80) | (102) |
| Other comprehensive income recorded in accumulated other comprehensive loss, net of reclassification adjustments and tax effects | \$ (1,945) | \$ 3,815 | \$ 2,681 | \$ 4,710 |
| Net interest expense recognized in interest expense on hedged FHLBB borrowings | \$ | \$ 1,076 | \$ | \$ 2,319 |
| Net interest expense recognized in interest expense on junior subordinated notes | \$ 75 | \$ 129 | \$ 204 | \$ 256 |

Hedge ineffectiveness on interest rate swaps designated as cash flow hedges was immaterial to the Company's financial statements during the three and six months ended June 30, 2014 and 2013.

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 does not anticipate any such reclassifications.

As a result of the branch acquisition, in the first quarter of 2014, the Company initiated and subsequently terminated all of its interest rate swaps, with various institutions, associated with FHLB advances with 3-month LIBOR based floating interest rates with an aggregate notional amount of \$30 million, all of its interest rate swaps associated with 90 day rolling FHLB advances issued using the FHLB's 3-month fixed interest rate

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

Economic hedges

As of June 30, 2014, the Company has an interest rate swap with a \$12.8 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,

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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 \$28.4 thousand as of June 30, 2014. The interest income and expense on these mirror image swaps exactly offset each other.

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

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

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

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

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

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

Non-hedging derivatives

The Company enters into interest rate lock commitments (IRLCs) for residential mortgage loans, which commit the Company to lend funds to a potential borrower at a specific interest rate and within a specified period of time. IRLCs that relate to the origination of mortgage loans that will be held for sale are considered derivative financial instruments under applicable accounting guidance. Outstanding IRLCs expose the Company to the risk that the price of the mortgage loans underlying the commitments may decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. The IRLCs are free-standing derivatives which are carried at fair value with changes

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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, | | Six Months Ended June 30, | |
|---|-----------------------------|----------|---------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| Economic hedges | | | | |
| <i>Interest rate swap on industrial revenue bond:</i> | | | | |
| Unrealized (loss) gain recognized in other non-interest income | \$ (350) | \$ 665 | \$ (731) | \$ 772 |
| <i>Interest rate swaps on loans with commercial loan customers:</i> | | | | |
| Unrealized gain recognized in other non-interest income | (1,919) | 4,996 | (1,732) | 6,550 |
| <i>Reverse interest rate swaps on loans with commercial loan customers:</i> | | | | |
| Unrealized loss recognized in other non-interest income | 1,919 | (4,996) | 1,732 | (6,550) |
| Favorable change in credit valuation adjustment recognized in other non-interest income | 4 | 259 | 11 | 337 |
| <i>Forward Commitments:</i> | | | | |
| Unrealized loss recognized in other non-interest income | (561) | 4,913 | (669) | 4,363 |
| Realized loss in other non-interest income | (177) | 517 | (341) | 1,572 |
| Non-hedging derivatives | | | | |
| <i>Interest rate lock commitments</i> | | | | |
| Unrealized gain recognized in other non-interest income | 660 | (1,507) | 1,037 | 1,251 |
| Realized gain in other non-interest income | \$ 769 | \$ 2,758 | \$ 1,035 | \$ 3,998 |

Assets and Liabilities Subject to Enforceable Master Netting Arrangements*Interest Rate Swap Agreements (Swap Agreements)*

The Company enters into swap agreements to facilitate the risk management strategies for commercial banking customers. The Company mitigates this risk by entering into equal and offsetting swap agreements with highly rated third party financial institutions. The swap agreements are free-standing derivatives and are recorded at fair value in the Company's consolidated statements of condition. The Company is party to master netting arrangements with its financial institution counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Collateral generally in the form of marketable securities is received or posted by the counterparty with net liability positions, respectively, in accordance with contract thresholds. The Company had net asset positions with its commercial banking counterparties totaling \$9.4 million and \$7.8 million as of June 30, 2014 and December 31, 2013, respectively. The Company had net liability positions with its financial institution counterparties totaling \$12.6 million and \$11.2 million as of June 30, 2014 and December 31, 2013, respectively. At June 30, 2014, the Company also had a net liability position of \$144 thousand with its commercial banking counterparties as compared to a \$720 thousand liability at December 31, 2013. The collateral posted by the Company that covered liability positions was \$12.6 million and \$11.2 million as of June 30, 2014 and December 31, 2013, respectively.

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The following table presents the assets and liabilities subject to an enforceable master netting arrangement as of June 30, 2014 and December 31, 2013:

Offsetting of Financial Assets and Derivative Assets

| (in thousands) | Gross Amounts of Recognized Assets | Gross Amounts Offset in the Statements of Condition | Net Amounts of Assets Presented in the Statements of Condition | Gross Amounts Not Offset in the Statements of Condition Financial Instruments | Cash Collateral Received | Net Amount |
|--------------------------------|------------------------------------|---|--|--|--------------------------|------------|
| As of June 30, 2014 | | | | | | |
| Interest Rate Swap Agreements: | | | | | | |
| Institutional counterparties | \$ | \$ | \$ | \$ | \$ | \$ |
| Commercial counterparties | 9,368 | (2) | 9,366 | | | 9,366 |
| Total | \$ 9,368 | \$ (2) | \$ 9,366 | \$ | \$ | \$ 9,366 |

Offsetting of Financial Liabilities and Derivative Liabilities

| (in thousands) | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Statements of Condition | Net Amounts of Liabilities Presented in the Statements of Condition | Gross Amounts Not Offset in the Statements of Condition Financial Instruments | Cash Collateral Pledged | Net Amount |
|--------------------------------|---|---|---|--|-------------------------|------------|
| As of June 30, 2014 | | | | | | |
| Interest Rate Swap Agreements: | | | | | | |
| Institutional counterparties | \$ (12,738) | \$ 170 | \$ (12,568) | \$ 10,868 | \$ 1,700 | \$ |
| Commercial counterparties | (144) | | (144) | | | (144) |
| Total | \$ (12,882) | \$ 170 | \$ (12,712) | \$ 10,868 | \$ 1,700 | \$ (144) |

Offsetting of Financial Assets and Derivative Assets

| (in thousands) | Gross Amounts of Recognized Assets | Gross Amounts Offset in the Statements of Condition | Net Amounts of Assets Presented in the Statements of Condition | Gross Amounts Not Offset in the Statements of Condition Financial Instruments | Cash Collateral Received | Net Amount |
|--------------------------------|------------------------------------|---|--|--|--------------------------|------------|
| As of December 31, 2013 | | | | | | |
| Interest Rate Swap Agreements: | | | | | | |
| Institutional counterparties | \$ | \$ | \$ | \$ | \$ | \$ |
| Commercial counterparties | 7,799 | | 7,799 | | | 7,799 |
| Total | \$ 7,799 | \$ | \$ 7,799 | \$ | \$ | \$ 7,799 |

Offsetting of Financial Liabilities and Derivative Liabilities

| (in thousands) | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Statements of Condition | Net Amounts of Liabilities Presented in the Statements of Condition | Gross Amounts Not Offset in the Statements of Condition Financial Instruments | Cash Collateral Pledged | Net Amount |
|-----------------------------------|--|--|---|--|----------------------------|------------|
| As of December 31, 2013 | | | | | | |
| Interest Rate Swap Agreements: | | | | | | |
| Institutional counterparties | \$ (13,157) | \$ 1,913 | \$ (11,244) | \$ 9,544 | \$ 1,700 | \$ |
| Commercial counterparties | (720) | | (720) | | | (720) |
| Total | \$ (13,877) | \$ 1,913 | \$ (11,964) | \$ 9,544 | \$ 1,700 | \$ (720) |

NOTE 14. FAIR VALUE MEASUREMENTS

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

Recurring fair value measurements

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2014 and December 31, 2013, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

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| (In thousands) | June 30, 2014 | | | Total Fair Value |
|--|-------------------|-------------------|-------------------|---------------------|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | |
| Trading security | \$ | \$ | \$ 14,971 | \$ 14,971 |
| Available-for-sale securities: | | | | |
| Municipal bonds and obligations | | 137,414 | | 137,414 |
| Government-guaranteed residential mortgage-backed securities | | 79,723 | | 79,723 |
| Government-sponsored residential mortgage-backed securities | | 797,091 | | 797,091 |
| Trust preferred securities | | 14,236 | 1,421 | 15,657 |
| Other bonds and obligations | | 3,165 | | 3,165 |
| Marketable equity securities | 46,465 | 357 | 796 | 47,618 |
| Loans held for sale | | 20,185 | | 20,185 |
| Derivative assets | | 9,538 | 660 | 10,198 |
| Derivative liabilities | 398 | 12,917 | 163 | 13,478 |

| (In thousands) | December 31, 2013 | | | Total Fair Value |
|--|-------------------|-------------------|-------------------|---------------------|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | |
| Trading security | \$ | \$ | \$ 14,840 | \$ 14,840 |
| Available-for-sale securities: | | | | |
| Municipal bonds and obligations | | 77,671 | | 77,671 |
| Government-guaranteed residential mortgage-backed securities | | 78,771 | | 78,771 |
| Government-sponsored residential mortgage-backed securities | | 522,658 | | 522,658 |
| Corporate bonds | | 39,280 | | 39,280 |
| Trust preferred securities | | 15,372 | 1,239 | 16,611 |
| Other bonds and obligations | | 3,084 | | 3,084 |
| Marketable equity securities | 20,891 | 357 | 725 | 21,973 |
| Loans Held for Sale | | 15,840 | | 15,840 |
| Derivative assets | 242 | 7,799 | 277 | 8,318 |
| Derivative liabilities | | 11,964 | | 11,964 |

There were no transfers between levels during the six months ended June 30, 2014 or 2013.

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

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holds one pooled trust preferred security and one privately owned equity security. Both securities fair values are based on unobservable issuer-provided financial information and the pooled security also utilizes discounted cash flow models derived from the underlying structured pool and therefore both are 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, 2014 (In thousands) | Aggregate Fair Value | Aggregate Unpaid Principal | Aggregate Fair Value Less Aggregate Unpaid Principal |
|---|---------------------------------------|---|---|
| Loans Held for Sale | \$ 20,185 | \$ 19,519 | \$ 666 |

| December 31, 2013 (In thousands) | Aggregate Fair Value | Aggregate Unpaid Principal | Aggregate Fair Value Less Aggregate Unpaid Principal |
|---|---------------------------------------|---|---|
| Loans Held for Sale | \$ 15,840 | \$ 15,641 | \$ 199 |

The changes in fair value of loans held for sale for the three and six months ended June 30, 2014, were gains of \$427 thousand and \$467 thousand, respectively. The changes in fair value of loans held for sale were losses of \$2.9 million and \$3.9 million for the three and six months ended June 30, 2013. The changes in fair value are included in mortgage banking income in the Consolidated Statements of Income.

Derivative Assets and Liabilities.

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

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

Although the Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2014, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

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

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

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The table below presents the changes in Level 3 assets and liabilities that were measured at fair value on a recurring basis for the three and six months ended June 30, 2014 and June 30, 2013.

| (In thousands) | Assets (Liabilities) | | | |
|---|----------------------|-------------------------------|--------------------------------|---------------------|
| | Trading Security | Securities Available for Sale | Interest Rate Lock Commitments | Forward Commitments |
| Three Months Ended June 30, 2014 | | | | |
| Balance as of March 31, 2014 | \$ 14,923 | \$ 2,046 | \$ 377 | \$ (96) |
| Purchase of Marketable Equity Security | | | | |
| Unrealized (loss) gain, net recognized in other non-interest income | 181 | | 1,075 | (67) |
| Unrealized gain included in accumulated other comprehensive loss | | 171 | | |
| Paydown of trading security | (133) | | | |
| Transfers to held for sale loans | | | (792) | |
| Balance as of June 30, 2014 | \$ 14,971 | \$ 2,217 | \$ 660 | \$ (163) |
| Six Months Ended June 30, 2014 | | | | |
| Balance as of December 31, 2013 | \$ 14,840 | \$ 1,964 | \$ 258 | \$ 19 |
| Purchase of Marketable Equity Security | | | | |
| Unrealized (loss) gain, net recognized in other non-interest income | 399 | | 1,794 | (182) |
| Unrealized gain included in accumulated other comprehensive loss | | 253 | | |
| Paydown of trading account security | (268) | | | |
| Transfers to held for sale loans | | | (1,392) | |
| Balance as of June 30, 2014 | \$ 14,971 | \$ 2,217 | \$ 660 | \$ (163) |
| Unrealized gains (losses) relating to instruments still held at June 30, 2014 | \$ 2,144 | \$ (1,118) | \$ 660 | \$ (163) |

| (In thousands) | Assets (Liabilities) | | | |
|--|----------------------|-------------------------------|--------------------------------|---------------------|
| | Trading Security | Securities Available for Sale | Interest Rate Lock Commitments | Forward Commitments |
| Three Months Ended June 30, 2013 | | | | |
| Balance as of March 31, 2013 | \$ 16,485 | \$ 1,668 | \$ 2,758 | \$ (517) |
| Greenpark Acquisition | | | | |
| Unrealized (loss) gain recognized in other non-interest income | (793) | | (699) | 1,920 |
| Unrealized loss included in accumulated other comprehensive loss | | 151 | | |
| Paydown of trading security | (128) | | | |
| Transfers to held for sale loans | | | (3,566) | |
| Balance as of June 30, 2013 | \$ 15,564 | \$ 1,819 | \$ (1,507) | \$ 1,403 |
| Six Months Ended June 30, 2013 | | | | |
| Balance as of December 31, 2012 | \$ 16,893 | \$ 885 | \$ 6,258 | \$ (1,055) |
| Greenpark Acquisition | | | | |
| Unrealized (loss) gain recognized in other non-interest income | (1,073) | 770 | 3,300 | 2,458 |

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| | | | | | | | |
|---|----|--------|----|---------|----|----------|----------|
| Unrealized loss included in accumulated other comprehensive loss | | | | 164 | | | |
| Paydown of trading account security | | (256) | | | | | |
| Transfers to held for sale loans | | | | | | (11,065) | |
| Balance as of June 30, 2013 | \$ | 15,564 | \$ | 1,819 | \$ | (1,507) | \$ 1,403 |
| Unrealized gains (losses) relating to instruments still held at June 30, 2013 | \$ | 2,211 | \$ | (1,554) | \$ | (1,507) | \$ 1,403 |

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

| (In thousands) | Fair Value June 30, 2014 | Valuation Techniques | Unobservable Inputs | Significant Unobservable Input Value |
|----------------------------------|-----------------------------|-----------------------------------|--|---|
| Assets (Liabilities) | | | | |
| Trading Security | \$ 14,971 | Discounted Cash Flow | Discount Rate | 2.92% |
| Trust Preferred Securities | 2,217 | Discounted Cash Flow | Discount Rate Credit Spread | 15.03% 11.85% |
| Forward Commitments | (163) | Historical Trend Pricing Model | Closing Ratio Origination Costs, per loan | 91.77% \$ 2,500 |
| Interest Rate Lock Commitment | 660 | Historical Trend Pricing Model | Closing Ratio Origination Costs, per loan | 91.77% \$ 2,500 |
| Total | \$ 17,685 | | | |

| (In thousands) | Fair Value December 31, 2013 | Valuation Techniques | Unobservable Inputs | Significant Unobservable Input Value |
|----------------------------------|---------------------------------|-----------------------------------|--|---|
| Assets (Liabilities) | | | | |
| Trading Security | \$ 14,840 | Discounted Cash Flow | Discount Rate | 3.39% |
| Trust Preferred Securities | 1,964 | Discounted Cash Flow | Discount Rate Credit Spread | 13.17% 9.45% |
| Forward Commitments | 19 | Historical Trend Pricing Model | Closing Ratio Origination Costs, per loan | 94.83% \$ 2,500 |
| Interest Rate Lock Commitment | 258 | Historical Trend Pricing Model | Closing Ratio Origination Costs, per loan | 94.83% \$ 2,500 |
| Total | \$ 17,081 | | | |

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, 2014 Level 3 Inputs | December 31, 2013 Level 3 Inputs | Three months ended June 30, 2014 Total Gains (Losses) |
|---------------------------------------|------------------------------------|--|--|
| Assets | | | |
| Impaired loans | \$ 5,862 | \$ 5,542 | \$ 320 |
| Capitalized mortgage servicing rights | 3,867 | 4,112 | |

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| | | | | | |
|-------------------------|----|--------|----|--------|--------|
| Other real estate owned | | 2,445 | | 2,995 | (170) |
| Total | \$ | 12,174 | \$ | 12,649 | \$ 150 |

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

| (in thousands) | Fair Value June 30, 2014 | Valuation Techniques | Unobservable Inputs | Range (Weighted Average) (a) |
|---------------------------------------|-----------------------------|--------------------------|--------------------------------|------------------------------|
| Assets | | | | |
| Impaired loans | \$ 5,862 | Fair value of collateral | Loss severity | 0.10% to 100.0% (58.32%) |
| | | | Appraised value | \$0 to \$774.0 \$(475.9) |
| Capitalized mortgage servicing rights | 3,867 | Discounted cash flow | Constant prepayment rate (CPR) | 7.34% to 18.58% (8.80%) |
| | | | Discount rate | 10.00% to 13.00% (10.39%) |
| Other real estate owned | 2,445 | Fair value of collateral | Appraised value | \$0 to \$774.0 \$(449.5) |
| Total | \$ 12,174 | | | |

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

| (in thousands) | Fair Value December 31, 2013 | Valuation Techniques | Unobservable Inputs | Range (Weighted Average) (a) |
|---------------------------------------|---------------------------------|--------------------------|--------------------------------|------------------------------|
| Assets | | | | |
| Impaired loans | \$ 5,542 | Fair value of collateral | Loss severity | 4.2% to 100.0% (57.41%) |
| | | | Appraised value | \$0 to \$900.0 \$(505.4) |
| Capitalized mortgage servicing rights | 4,112 | Discounted cash flow | Constant prepayment rate (CPR) | 6.96% to 15.97% (8.58%) |
| | | | Discount rate | 10.00% to 13.00% (10.34%) |
| Other real estate owned | 2,995 | Fair value of collateral | Appraised value | \$0 to \$774.0 \$(413.4) |
| Total | \$ 12,649 | | | |

(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, 2014 and December 31, 2013.

Impaired Loans. Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records non-recurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Non-recurring adjustments can also include certain impairment amounts for collateral-dependent loans calculated when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace. However, the choice of observable data is subject to significant judgment, and there are often adjustments based on judgment in order to make observable data comparable and to consider the impact of time, the condition of properties, interest rates, and other

market factors on current values. Additionally, commercial real estate appraisals frequently involve discounting of projected cash flows, which relies inherently on unobservable data. Therefore, nonrecurring fair value measurement adjustments that relate to real estate collateral have generally been classified as Level 3. Estimates of fair value for other collateral that supports commercial loans are generally based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3.

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

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

Summary of estimated fair values of financial instruments

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

| (In thousands) | Carrying Amount | Fair Value | June 30, 2014 | | |
|--|--------------------|---------------|---------------|--------------|-----------|
| | | | Level 1 | Level 2 | Level 3 |
| Financial Assets | | | | | |
| Cash and cash equivalents | \$ 81,642 | \$ 81,642 | \$ 81,642 | \$ | \$ |
| Trading security | 14,971 | 14,971 | | | 14,971 |
| Securities available for sale | 1,080,668 | 1,080,668 | 46,465 | 1,031,986 | 2,217 |
| Securities held to maturity | 43,178 | 44,359 | | | 44,359 |
| Restricted equity securities | 59,479 | 59,479 | | 59,479 | |
| Net loans | 4,415,950 | 4,469,300 | | | 4,469,300 |
| Loans held for sale | 20,185 | 20,185 | | 20,185 | |
| Accrued interest receivable | 16,126 | 16,126 | | 16,126 | |
| Cash surrender value of bank-owned life insurance policies | 102,988 | 102,988 | | 102,988 | |
| Derivative assets | 10,198 | 10,198 | | 9,538 | 660 |
| Assets held for sale | 2,120 | 2,120 | | 2,120 | |
| Financial Liabilities | | | | | |
| Total deposits | \$ 4,478,563 | \$ 4,478,880 | \$ | \$ 4,478,880 | \$ |
| Short-term debt | 900,000 | 900,126 | | 900,126 | |
| Long-term Federal Home Loan Bank advances | 64,179 | 65,909 | | 65,909 | |
| Subordinated borrowings | 89,713 | 88,070 | | 88,070 | |
| Derivative liabilities | 13,478 | 13,478 | 398 | 12,917 | 163 |
| Liabilities held for sale | 24,171 | 24,171 | | 24,171 | |

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| (In thousands) | Carrying Amount | Fair Value | December 31, 2013 | | |
|--|--------------------|---------------|-------------------|--------------|-----------|
| | | | Level 1 | Level 2 | Level 3 |
| Financial Assets | | | | | |
| Cash and cash equivalents | \$ 75,539 | \$ 75,539 | \$ 75,539 | \$ | \$ |
| Trading security | 14,840 | 14,840 | | | 14,840 |
| Securities available for sale | 760,048 | 760,048 | 20,891 | 737,193 | 1,964 |
| Securities held to maturity | 44,921 | 45,764 | | | 45,764 |
| Restricted equity securities | 50,282 | 50,282 | | 50,282 | |
| Net loans | 4,147,200 | 4,154,663 | | | 4,154,663 |
| Loans held for sale | 15,840 | 15,840 | | 15,840 | |
| Accrued interest receivable | 15,072 | 15,072 | | 15,072 | |
| Cash surrender value of bank-owned life insurance policies | 101,530 | 101,530 | | 101,530 | |
| Derivative assets | 8,318 | 8,318 | 242 | 7,799 | 277 |
| Assets held for sale | 3,969 | 3,969 | | 3,969 | |
| Financial Liabilities | | | | | |
| Total deposits | \$ 3,848,529 | \$ 3,848,926 | \$ | \$ 3,848,926 | \$ |
| Short-term debt | 872,510 | 872,545 | | 872,545 | |
| Long-term Federal Home Loan Bank advances | 101,918 | 103,660 | | 103,660 | |
| Subordinated borrowings | 89,679 | 87,882 | | 87,882 | |
| Derivative liabilities | 11,964 | 11,964 | | 11,964 | |
| Liabilities held for sale | 24,834 | 24,834 | | 24,834 | |

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 loans credit standing. The fair value of the loans is estimated by discounting future cash flows using the current interest rates at which similar loans with similar terms would be made to borrowers of similar credit quality.

Accrued interest receivable. Carrying value approximates fair value.

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

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

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

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

NOTE 15. 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, 2014 and June 30, 2013, respectively.

| (In thousands) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------------|------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net interest income | \$ 44,329 | \$ 41,104 | \$ 87,095 | \$ 83,041 |
| Provision for loan losses | 3,989 | 2,700 | 7,385 | 5,100 |
| Net interest income after provision for loan losses | \$ 40,340 | \$ 38,404 | \$ 79,710 | \$ 77,941 |

NOTE 16. SUBSEQUENT EVENTS

As disclosed previously by the Company through Form 8-K, on July 11, 2014 the Bank converted its charter from a Massachusetts-chartered savings bank to a Massachusetts-chartered trust company, under which the Bank will operate as a commercial bank. Concurrent with the Bank's charter conversion, the Company changed its holding company status from a savings and loan holding company to a bank holding company. Additionally, the Company has opted for financial holding company status as a bank holding company.

Due to these changes, the Bank will have greater flexibility with respect to future commercial lending, since the Bank will no longer be required to comply with the "Qualified Thrift Lender" test applicable to thrifts.

The Bank will continue to be supervised by the Massachusetts Division of Banks and the Federal Deposit Insurance Corporation (FDIC). The Company is a Delaware corporation and continues to be supervised by the Board of Governors of the Federal Reserve System. The Bank's conversion to a commercial bank charter and the Company's change in holding company status are internal corporate transactions that the Company and Bank expect will have no significant impact on the business or operations of the Company and the Bank. None of the Bank's products or services will be discontinued or changed as a result of the Bank's charter conversion and the Company's change in holding company status.

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Also on July 11, 2014, the Bank ended its membership in the Depositors Insurance Fund (DIF), which insures deposit balances held by Massachusetts-chartered savings banks in excess of federal deposit insurance coverage. The Bank's growth in deposit size necessitated the Bank's withdrawal from the DIF and the concurrent charter conversion of the Bank and change in holding company status of the Company. The Bank's deposit accounts will continue to be insured by the deposit insurance fund of the FDIC up to applicable limits. Excess deposits in the Bank that are insured by the DIF on July 11, 2014 will continue to be insured by the DIF until July 11, 2015. Term deposits in excess of FDIC insurance coverage will continue to be insured by the DIF until maturity.

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

GENERAL

Management's discussion and analysis of financial condition and results of operations is intended to assist in understanding the financial condition and results of operations of the Company. The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and the notes thereto appearing in Part I, Item 1 of this document and with the Company's consolidated financial statements and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2013 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 2014 or any future period. In management's discussion and analysis of financial condition and results of operations, certain reclassifications have been made to make prior periods comparable. Tax-equivalent adjustments are the result of increasing income from tax-advantaged securities by an amount equal to the taxes that would be paid if the income were fully taxable based on a 40.5% marginal income tax rate. In the discussion, references to earnings per share refer to diluted earnings per share unless otherwise specified.

Berkshire Hills Bancorp (Berkshire or the Company) is a Delaware corporation headquartered in Pittsfield, Massachusetts and the holding company for Berkshire Bank (the Bank) and Berkshire Insurance Group. Established in 1846, the Bank operates as a commercial bank under a Massachusetts trust company charter. The Bank is one of Massachusetts' oldest and largest independent banks and is the largest banking institution based in Western Massachusetts. Berkshire Bank operates under the brand America's Most Exciting Bank®. On January 17, 2014, Berkshire completed the acquisition of 20 Central New York branches with \$440 million in deposits. For more information, visit www.berkshirebank.com or call 800-773-5601.

On July 11, 2014, the Bank ended its membership in the DIF, which insures deposit balances held by Massachusetts-chartered savings banks in excess of federal deposit insurance coverage. The Bank's growth in deposit size necessitated the Bank's withdrawal from the DIF and the concurrent charter conversion of the Bank from a Massachusetts-chartered savings bank to a Massachusetts-chartered trust company and change in holding company status of the Company from a savings and loan holding company to a bank holding company.

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

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

- Positioned to be regional consolidator in attractive markets

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Forward-Looking Statements

Certain statements contained in this document that are not historical facts may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (referred to as the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (referred to as the Securities Exchange Act), and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. You can identify these statements from the use of the words may, will, should, could, would, plan, potential, estimate, project, believe, intend, anticipate, expect, target and similar expressions. These forward-looking statements are subject to significant risks, assumptions and uncertainties, including among other things, changes in general economic and business conditions, increased competitive pressures, changes in the interest rate environment, legislative and regulatory change, changes in the financial markets, and other risks and uncertainties disclosed from time to time in documents that Berkshire Hills Bancorp files with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and the Risk Factors in Item 1A of this report. Because of these and other uncertainties, Berkshire's actual results, performance or achievements, or industry results, may be materially different from the results indicated by these forward-looking statements. In addition, Berkshire's past results of operations do not necessarily indicate Berkshire's combined future results. You should not place undue reliance on any of the forward-looking statements, which speak only as of the dates on which they were made. Berkshire is not undertaking an obligation to update forward-looking statements, even though its situation may change in the future, except as required under federal securities law. Berkshire qualifies all of its forward-looking statements by these cautionary statements.

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

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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.

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

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

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

Goodwill and Identifiable Intangible Assets. Goodwill and identifiable intangible assets are recorded as a result of business acquisitions and combinations. These assets are evaluated for impairment annually or whenever events or changes in circumstances indicate the carrying value of these assets may not be recoverable. When these assets are evaluated for impairment, if the carrying amount exceeds fair value, an impairment charge is recorded to income. The fair value is based on observable market prices, when practicable. Other valuation techniques may be used when market prices are unavailable, including estimated discounted cash flows and 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

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impairment (OTTI), at least quarterly. If the fair value of a debt security is below the amortized cost basis of the security, OTTI is required to be recognized if any of the following are met: (1) the Company intends to sell the security; (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For all impaired debt securities that the Company intends to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. Credit-related OTTI for all other impaired debt securities is recognized through earnings. Noncredit related OTTI for such debt securities is recognized in other comprehensive income, net of applicable taxes. In evaluating its marketable equity securities portfolios for OTTI, the Company considers its intent and ability to hold an equity security to recovery of its cost basis in addition to various other factors, including the length of time and the extent to which the fair value has been less than cost and the financial condition and near term prospects of the issuer. Any OTTI on marketable equity securities is recognized immediately through earnings. Should actual factors and conditions differ materially from those expected by management, the actual realization of gains or losses on investment securities could differ materially from the amounts recorded in the financial statements.

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

Table of Contents**SELECTED FINANCIAL DATA**

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

| | At or for the Three Months Ended June 30, | | At or for the Six Months Ended June 30, | |
|---|--|-----------|--|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| PER COMMON SHARE DATA | | | | |
| Net earnings, diluted | \$ 0.46 | \$ 0.48 | \$ 0.42 | \$ 0.90 |
| Core earnings, diluted | 0.44 | 0.48 | 0.86 | 1.01 |
| Total common book value | 27.49 | 26.82 | 27.49 | 26.82 |
| Dividends | 0.18 | 0.18 | 0.36 | 0.36 |
| Common stock price: | | | | |
| High | 26.64 | 27.84 | 27.28 | 27.84 |
| Low | 22.06 | 24.62 | 22.06 | 23.38 |
| Close | 23.22 | 27.76 | 23.22 | 27.76 |
| PERFORMANCE RATIOS | | | | |
| Return on average assets | 0.75% | 0.93% | 0.35% | 0.86% |
| Return on average common equity | 6.64 | 7.21 | 3.00 | 6.74 |
| Net interest margin, fully taxable equivalent | 3.26 | 3.63 | 3.31 | 3.68 |
| Fee income/Net interest and fee income | 23.87 | 25.48 | 23.37 | 25.56 |
| ASSET QUALITY RATIOS | | | | |
| Net charge-offs period annualized/average loans | 0.31% | 0.27% | 0.30% | 0.25% |
| Allowance for loan losses/total loans | 0.77 | 0.86 | 0.77 | 0.86 |
| CONDITION RATIOS | | | | |
| Stockholders' equity to total assets | 10.94% | 12.88% | 10.94% | 12.88% |
| Investments to total assets | 18.99 | 12.85 | 18.99 | 12.85 |
| Loans/deposits | 99 | 101 | 99 | 101 |
| FINANCIAL DATA: (In millions) | | | | |
| Total assets | \$ 6,311 | \$ 5,224 | \$ 6,311 | \$ 5,224 |
| Total earning assets | 5,700 | 4,629 | 5,700 | 4,629 |
| Total loans | 4,450 | 3,871 | 4,450 | 3,871 |
| Allowance for loan losses | 34 | 33 | 34 | 33 |
| Total intangible assets | 279 | 272 | 279 | 272 |
| Total deposits | 4,479 | 3,815 | 4,479 | 3,815 |
| Total borrowings | 1,054 | 680 | 1,054 | 680 |
| Total common stockholders' equity | 690 | 673 | 690 | 673 |
| FOR THE PERIOD: (In thousands) | | | | |
| Net interest income | \$ 44,329 | \$ 41,104 | \$ 87,095 | \$ 83,041 |
| Non-interest income | 14,506 | 15,606 | 18,929 | 30,404 |
| Provision for loan losses | 3,989 | 2,700 | 7,385 | 5,100 |
| Non-interest expense | 39,263 | 37,935 | 84,623 | 77,418 |
| Net income | 11,464 | 12,037 | 10,358 | 22,502 |
| Core income | 10,915 | 11,900 | 21,327 | 25,387 |

- (1) All performance ratios are annualized and are based on average balance sheet amounts, where applicable.
- (2) Core income and core earnings are non-GAAP financial measures that the Company believes provide investors with information that is useful in understanding our financial performance and condition.
- (3) Generally accepted accounting principles require that loans acquired in a business combination be recorded at fair value, whereas loans from business activities are recorded at cost. The fair value of loans acquired in a business combination includes expected loan losses, and there is no loan loss allowance recorded for these loans at the time of acquisition. Accordingly, the ratio of the loan loss allowance to total loans is reduced as a result of the existence of such loans, and this measure is not directly comparable to prior periods. Similarly, net loan charge-offs are normally reduced for loans acquired in a business combination since these loans are recorded net of expected loan losses. Therefore, the ratio of net loan charge-offs to average loans is reduced as a result of the existence of such loans, and this measure is not directly comparable to prior periods. Other institutions may have loans acquired in a business combination, and therefore there may be no direct comparability of these ratios between and among other institutions.

Table of Contents**AVERAGE BALANCES AND AVERAGE YIELDS/RATES**

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

| (\$ In millions) | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|--|-----------------------------|------------------------|-----------------|------------------------|---------------------------|------------------------|-----------------|------------------------|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| | Average Balance | Yield/Rate (FTE basis) | Average Balance | Yield/Rate (FTE basis) | Average Balance | Yield/Rate (FTE basis) | Average Balance | Yield/Rate (FTE basis) |
| Assets | | | | | | | | |
| Loans: | | | | | | | | |
| Residential mortgages | \$ 1,380 | 3.99% | \$ 1,218 | 4.19% | \$ 1,379 | 4.05% | \$ 1,255 | 4.47% |
| Commercial real estate | 1,488 | 4.16 | 1,382 | 5.27 | 1,454 | 4.30 | 1,394 | 4.95 |
| Commercial and industrial loans | 704 | 3.82 | 627 | 4.04 | 694 | 3.90 | 614 | 4.95 |
| Consumer loans | 730 | 3.49 | 635 | 4.78 | 715 | 3.53 | 640 | 3.98 |
| Total loans | 4,302 | 3.96 | 3,862 | 4.67 | 4,242 | 4.05 | 3,903 | 4.66 |
| Investment securities | 1,226 | 3.13 | 655 | 3.00 | 1,137 | 3.09 | 623 | 3.21 |
| Short term investments and loans held for sale | 28 | 1.40 | 91 | 2.02 | 29 | 1.46 | 94 | 2.15 |
| Total interest-earning assets | 5,556 | 3.76 | 4,608 | 4.38 | 5,408 | 3.83 | 4,620 | 4.38 |
| Intangible assets | 279 | | 272 | | 279 | | 273 | |
| Other non-interest earning assets | 311 | | 319 | | 312 | | 326 | |
| Total assets | \$ 6,146 | | \$ 5,199 | | \$ 5,999 | | \$ 5,219 | |
| Liabilities and stockholders equity | | | | | | | | |
| Deposits: | | | | | | | | |
| NOW | \$ 426 | 0.15% | \$ 359 | 0.26% | \$ 418 | 0.15% | \$ 363 | 0.28% |
| Money market | 1,448 | 0.36 | 1,359 | 0.39 | 1,470 | 0.37 | 1,418 | 0.39 |
| Savings | 482 | 0.16 | 449 | 0.17 | 473 | 0.16 | 446 | 0.18 |
| Time | 1,153 | 0.98 | 1,087 | 1.23 | 1,111 | 1.07 | 1,118 | 1.23 |
| Total interest-bearing deposits | 3,509 | 0.51 | 3,254 | 0.62 | 3,472 | 0.53 | 3,345 | 0.63 |
| Borrowings and notes | 1,126 | 0.84 | 588 | 2.42 | 1,019 | 0.94 | 506 | 2.92 |
| Total interest-bearing liabilities | 4,635 | 0.59 | 3,842 | 0.90 | 4,491 | 0.63 | 3,851 | 0.92 |
| Non-interest-bearing demand deposits | 780 | | 636 | | 765 | | 641 | |
| Other non-interest earning liabilities | 40 | | 53 | | 52 | | 60 | |
| Total liabilities | 5,455 | | 4,531 | | 5,308 | | 4,552 | |
| Total stockholders equity | 691 | | 668 | | 691 | | 667 | |
| Total liabilities and stockholders equity | \$ 6,146 | | \$ 5,199 | | \$ 5,999 | | \$ 5,219 | |
| Net interest spread | | 3.17% | | 3.48% | | 3.20% | | 3.52% |

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| | | | | |
|---------------------|------|------|------|------|
| Net interest margin | 3.26 | 3.63 | 3.31 | 3.68 |
| Cost of funds | 0.51 | 0.77 | 0.53 | 0.79 |
| Cost of deposits | 0.42 | 0.52 | 0.44 | 0.53 |

Supplementary data

| | | | | |
|---|----------|----------|----------|----------|
| Total deposits (In millions) | \$ 4,289 | \$ 3,890 | \$ 4,236 | \$ 3,985 |
| Fully taxable equivalent income adj. (In thousands) | 852 | 644 | 1,570 | 1,273 |

-
- (1) The average balances of loans include nonaccrual loans and deferred fees and costs.
 - (2) The average balance for securities available for sale is based on amortized cost. The average balance of equity also reflects this adjustment.
 - (3) Interest income on loans held for sale is included in loan interest income on the income statement.
 - (4) The average balances of borrowings includes the capital lease obligation presented under other liabilities on the consolidated balance sheet.
 - (5) The average balances of deposits include the deposits held for sale presented under other liabilities on the consolidated balance sheet.

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NON-GAAP FINANCIAL MEASURES

This document contains certain non-GAAP financial measures in addition to results presented in accordance with Generally Accepted Accounting Principles (GAAP). These non-GAAP measures are intended to provide the reader with additional supplemental perspectives on operating results, performance trends, and financial condition. Non-GAAP financial measures are not a substitute for GAAP measures; they should be read and used in conjunction with the Company s GAAP financial information. A reconciliation of non-GAAP financial measures to GAAP measures is provided below. In all cases, it should be understood that non-GAAP operating measures do not depict amounts that accrue directly to the benefit of shareholders. An item which management deems to be non-core and excludes when computing non-GAAP operating earnings can be of substantial importance to the Company s results for any particular quarter or year. The Company s non-GAAP operating earnings information set forth is not necessarily comparable to non-GAAP information which may be presented by other companies. Each non-GAAP measure used by the Company in this report as supplemental financial data should be considered in conjunction with the Company s GAAP financial information.

The Company utilizes the non-GAAP measure of core earnings in evaluating operating trends, including components for core revenue and expense. These measures exclude amounts which the Company views as unrelated to its normalized operations, including securities gains/losses, losses recorded for hedge terminations, merger costs, restructuring costs, systems conversion costs, and out-of-period adjustments. Non-core adjustments are presented net of an adjustment for income tax expense. This adjustment in 2013 was based on the marginal tax rate applied to the net non-core pre-tax adjustments. In 2014, due to the comparative magnitude of the non-core items, this adjustment was determined as the difference between the GAAP tax rate and the effective tax rate applicable to core income. Accordingly, GAAP income exceeded core income in the most recent quarter due to the higher effective full year tax rate on core income before the net non-core charges.

The Company also calculates core earnings per share based on its measure of core earnings. The Company views these amounts as important to understanding its operating trends, particularly due to the impact of accounting standards related to merger and acquisition activity. Analysts also rely on these measures in estimating and evaluating the Company s operating performance. Management also believes that the computation of non-GAAP core earnings and core earnings per share may facilitate the comparison of the Company to other companies in the financial services industry.

The Company adjusts certain equity related measures to exclude intangible assets due to the importance of these measures to the investment community. Charges related to merger and acquisition activity consist primarily of severance/benefit related expenses, contract termination costs, and professional fees. Systems conversion costs relate primarily to the Company s core systems conversion and related systems conversions costs. Restructuring costs primarily consist of employee severance costs and costs and losses associated with the disposition of assets which were undertaken as a project to right-size expenses following a decline in revenue in 2013. Out-of-period accounting adjustments for interest income on acquired loans were recorded following systems conversions and merger related accounting activity and were deemed non-core. Non-core expenses include variable rate compensation related to non-core items.

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The following table summarizes the reconciliation of non-GAAP items recorded for the time periods and dates indicated:

| (Dollars in thousands) | At or for the Quarters Ended | | At or for the Six Months Ended | |
|---|---------------------------------|------------------|-----------------------------------|------------------|
| | June 30, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 |
| Net income (GAAP) | \$ 11,464 | \$ 12,037 | \$ 10,358 | \$ 22,502 |
| Non-GAAP measures | | | | |
| Adj: Gain on sale of securities, net | (203) | (1,005) | (237) | (1,005) |
| Adj: Loss on termination of hedges | | | 8,792 | |
| Adj: Acquisition, restructuring and conversion related expenses (1) | 190 | 775 | 6,492 | 5,839 |
| Adj: Out-of-period adjustment (2) | | | 1,381 | |
| Adj: Income taxes | (536) | 93 | (5,459) | (1,949) |
| Net non-core (charges) credits | (549) | (137) | 10,969 | 2,885 |
| Total core income (non-GAAP) (A) | \$ 10,915 | \$ 11,900 | \$ 21,327 | \$ 25,387 |
| Net earnings per share, diluted (GAAP) | \$ 0.46 | \$ 0.48 | \$ 0.42 | \$ 0.90 |
| Non-core earnings per share, diluted | (0.02) | | 0.44 | 0.11 |
| Core earnings per share, diluted (A/G) | 0.44 | 0.48 | 0.86 | 1.01 |
| Average diluted shares outstanding (thousands) | | | | |
| (GAAP) | 24,809 | 24,956 | 24,821 | 25,049 |
| Adj: dilutive potential common shares outstanding (thousands) | | | | |
| Average core diluted shares outstanding (thousands) (G) | 24,809 | 24,956 | 24,821 | 25,049 |
| (Dollars in millions, except per share data) | | | | |
| Total assets, period-end (GAAP) | 6,311 | 5,224 | 6,311 | 5,224 |
| Less: intangible assets, period-end | 279 | 272 | 279 | 272 |
| Total tangible assets, period-end | 6,032 | 4,952 | 6,032 | 4,952 |
| Total stockholders equity, period-end (GAAP) | 690 | 673 | 690 | 673 |
| Less: intangible assets, period-end | (279) | (272) | (279) | (272) |
| Total tangible stockholders equity, period-end | 411 | 401 | 411 | 401 |

- (1) Acquisition, restructuring, conversion and other related expenses include \$3.6 million in acquisition expenses and \$2.7 million of restructuring, conversion and other expenses for the six months ended June 30, 2014. Acquisition, restructuring, conversion and other related expenses include nearly all acquisition related expenses for the six months ended June 30, 2013.
- (2) The out of period adjustments shown above relate to interest income earned on loans acquired in bank acquisitions.

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SUMMARY

Berkshire recorded second quarter earnings of \$11.5 million (\$0.46 per share) in 2014, compared to \$12.0 million (\$0.48 per share) in 2013. First half earnings were \$10.4 million (\$0.42 per share) in 2014, compared to \$22.5 million (\$0.90 per share) in 2013. On January 17, 2014, Berkshire acquired 20 New York branches with \$440 million in deposit balances, bringing the Company's total branch count to 90 offices. Following the acquisition, Berkshire extinguished certain borrowings and terminated the related cash flow hedges. The related charges against income resulted in a first quarter loss of \$1.1 million (\$0.04 per share).

Second quarter earnings per share increased by 10% from \$0.42 in the fourth quarter of 2013. This increase reflected the benefit of the first quarter branch acquisition together with accelerated loan growth in the most recent quarter. The Company continued to pay a quarterly cash dividend of \$0.18 per share. This dividend equated to a 3.1% annualized yield based on the \$23.57 average closing price of Berkshire's common stock during the second quarter of 2014.

Second quarter financial highlights are shown below (income related comparisons are to prior quarter):

- 4% increase in net interest income
- 10% increase in fee income
- 5% increase in total loans, including 7% increase in commercial loans
- 6% increase in deposits
- 3.26% net interest margin
- 0.45% non-performing assets/total assets
- 0.31% net loan charge-offs/average loans

During the second quarter, Berkshire continued to build on the integration of the acquired New York branches, under the direction of a new leader for its New York region who was recruited in the first quarter. Shortly after midyear, Berkshire recruited an experienced team of small business lenders from another regional competitor to service this region. Earlier in the year, Berkshire promoted Josephine Iannelli to Executive Vice President/Chief Financial Officer and recruited an SVP/Treasurer with experience as treasurer in Fortune 500 companies. During the first half of the year, the Company consolidated four of its branch offices as a result of overlap following its growth and expansion, and it opened a de novo branch serving its Albany market.

In June 2014 Berkshire announced that William J. Ryan had been appointed as Chairman of the Board of Directors. Mr. Ryan, 70, previously served as Chairman of the Board and CEO of TD Banknorth Inc. from 1989 to March 2007. Banknorth was named one of the Best Managed Companies in America by *Forbes Magazine* in 2004. Mr. Ryan is a Director of Unum Group (a leading employee benefit and disability

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insurance company) and has served as Chair of Unum's Board since October 2011. He is also a Director of Wellpoint, Inc. (a leading health benefits company). The Company also announced that Lawrence A. Bossidy has retired from Berkshire's Board of Directors. Mr. Bossidy has served as Berkshire's Lead Independent Director since 2012, and previously served as Chairman since 2002.

In July 2014, the Bank changed its charter from a Massachusetts chartered savings bank to a Massachusetts chartered trust company, which is the charter used by commercial banks under Massachusetts law. The Bank continues to have the FDIC as its primary federal regulator. Simultaneously, the Company changed its holding company status from a savings and loan holding company to a bank holding company, and it elected the financial holding company designation as a bank holding company. The Company continues to have the Federal Reserve Board as its primary regulator. These changes are not expected to have a material impact on the operations of the Bank and the Company. Due to these changes, the Bank will no longer be required to adhere to the Qualified Thrift Lender test, and as a result, the Bank will have more flexibility in growing its commercial banking operations. Also due to these changes, the Bank will no longer be able to make new investments in marketable equity securities and the Company will be required to adhere to bank holding company regulatory capital requirements and reporting procedures. At the time of these changes, the Bank also terminated its participation in the DIF which is further addressed in the discussion of financial condition below. This change had no impact on the Bank's ongoing participation in FDIC deposit insurance.

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COMPARISON OF FINANCIAL CONDITION AT JUNE 30, 2014 AND DECEMBER 31, 2013

Summary: Berkshire increased its total assets by \$639 million (11%) in the first half of 2014, including \$270 million in net loan growth and a \$328 million increase in investment securities. Balance sheet growth was funded by a \$630 million increase in deposits, which included the \$440 million in deposits of the acquired branches, along with a \$293 million increase in brokered deposits. At midyear, measures of asset quality, liquidity, and interest rate sensitivity were improved from year-end. Measures of capital remained within the Company's targets.

Tangible book value per share increased by 4% to \$16.40 in the second quarter and was up 1% from \$16.27 at the start of the year, more than offsetting the dilution from the branch purchase in the first quarter. Total book value per share increased by 2% to \$27.49 during the quarter, and was up from \$27.08 at the start of the year.

Securities: Total securities increased by \$328 million to \$1.20 billion during the first half of 2014. The portfolio was increased to initially utilize the funds provided from the branch acquisition and also to supplement earning asset growth based on the higher returns available on certain securities. With the increase in loan originations, the Company will evaluate shifting the earning asset mix more towards loans over time. Securities purchases included equity securities of northeast community banks and certain large cap companies with higher dividend yields. With the recent change in the Bank's charter, the Bank is no longer eligible to make future purchases of equity securities, although this activity is permitted by the Company as a bank holding company.

Securities growth consisted primarily of available for sale U.S. agency collateralized mortgage securities, along with municipal bonds and corporate equities. Due to the decrease in medium term interest rates during the first half of the year, the marketable investment securities had a \$9.0 million (0.8%) unrealized gain, compared to an unrealized loss of \$8.5 million (1.0% of the total) at year-end 2013. The taxable equivalent yield on investment securities increased to 3.13% in the most recent quarter compared to 2.72% in the fourth quarter of 2013. At midyear 2014, the effective duration of the bond portfolio was 4.5 years compared to 4.7 years at the start of the year. The midyear average life extension risk in an up 300 interest rate change scenario was modeled at 2.2 years. During the first half of 2014, the Company did not record any write-downs of investment securities and none of the Company's investment securities were classified as other-than-temporarily impaired. Total losses on securities with unrealized losses decreased to \$8.2 million from \$17.7 million due generally to improved bond market prices as a result of lower interest rates. Detail on these securities, including one security with a \$1.1 million (39%) unrealized loss, is included in the Securities note in the consolidated financial statements. The Company's held to maturity securities are generally unrated local securities, all of which are performing and none of which is deemed criticized according to the Company's internal ratings systems.

Loans. Total loans increased by \$270 million (6%) to \$4.45 billion in the first half of 2014, including 10% commercial loan growth and 8% consumer loan growth. Most of this increase was in the second quarter, including a \$123 million increase in commercial real estate loans. The accelerated commercial growth included a faster rate of loan closings following weather related winter delays and a second quarter drop in medium term interest rates. Other contributing factors included a slowdown in runoff and an increase in indirect originations and commercial loan participations with smaller banks in the region. Commercial and industrial loans increased at an 18% annualized rate in the second quarter, continuing the trend of double digit annualized growth. These relationship oriented loans are a major focus of Berkshire's drive to increase its share of middle market business previously served by national banks. The commercial new business pipeline at midyear remained consistent with the pipeline at the start of the second quarter. All regions contributed to commercial loan originations, with the strongest growth in New York and eastern Massachusetts. Following the first quarter New York branch purchase, Berkshire announced the recruitment of an experienced market leader to direct its commercial banking in that region. Additionally, the Company recently announced the recruitment of a lending team to enhance its small business banking presence in the New York market. First half loan growth also included a \$51 million (13%) increase in auto loans based on expansion of Berkshire's originations through auto dealers. Residential mortgages increased by \$13 million (1%) in the first half of the year reflecting the impact of lower market demand. During the first half of 2014, the balance of loans from business activities increased by 12% to \$3.56 billion and the balance of loans acquired in business combinations decreased by 12% to \$0.89 billion and measured

20% of total loans at midyear.

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The loan yield was 3.96% in the second quarter of 2014, compared to 4.13% in the prior quarter and 4.26% in the fourth quarter of 2013. The loan yield included purchased loan accretion, which includes recoveries on the collection of purchased credit impaired loans. Excluding the impact of purchased loan accretion, the loan yield was 3.86%, 3.99%, and 4.02% in the above periods, respectively. The decline in loan yield includes the impact of lower market interest rates and spreads, the improving credit quality of the portfolio, and the higher mix of adjustable rate commercial loans and indirect automobile loans. During the first half of the year loans with pricing adjustments within one year increased by 2% to 34% of total loans, and loans repricing after five years remained at 39% of total loans.

At midyear 2014, the remaining carrying balance of purchased credit impaired loans was \$23 million and the contractual amount owed on these loans was \$41 million. The midyear balance of accretable yield on these loans was \$2.4 million. The purchased loan accretion reported by the Company includes recoveries of non-accretable discount and accretion of accretable discount on purchased impaired loans. Purchased loan accretion also includes accretion related to premiums and discounts recorded on non-impaired purchased loans. Recoveries recorded for purchased impaired loans totaled \$1.1 million and \$2.1 million in the second quarter and first quarter of 2014, respectively. All other total accretion was a \$0.1 million charge and a \$0.7 million credit in these respective periods.

Asset Quality. Acquired loans are recorded at fair value and are categorized as performing regardless of their payment status. Therefore, some overall portfolio measures of asset performance are not comparable between periods or among institutions as a result of recent business combinations. Several asset quality measures improved during the first half of 2014. Compared to the start of the year, nonperforming assets decreased to 0.45% of total assets from 0.53%, and accruing delinquent loans decreased to 0.55% of total loans from 0.73%. Loans which became non-accruing totaled \$8 million in the most recent quarter, which was within the range of \$4-9 million in several prior quarters. Annualized net loan charge-offs measured 0.30% of average loans in the first half of 2014, compared to 0.29% in the year 2013. The balance of loans identified as troubled debt restructurings increased to \$15.1 million from \$10.8 million during the first half of 2014.

Loan Loss Allowance. The determination of the allowance for loan losses is a critical accounting estimate. The Company considers the allowance for loan losses appropriate to cover probable losses which can be reasonably estimated in the loan portfolio as of the balance sheet date. Under accounting standards for business combinations, acquired loans are recorded at fair value with no loan loss allowance on the date of acquisition. A loan loss allowance is recorded by the Company for the emergence of new probable and estimable losses on acquired loans which were not impaired as of the acquisition date. Because of the accounting for acquired loans, some measures of the loan loss allowance are not comparable to periods prior to the acquisition date.

The total amount of the loan loss allowance increased by \$1.0 million to \$34.4 million in the first half of 2014 due to growth in the loan portfolio. The ratio of the allowance to total loans decreased to 0.77% of total loans at midyear, compared to 0.80% at the start of the year. For loans from business activities, this ratio decreased to 0.85% from 0.93%, while the allowance on acquired loans increased to 0.46% from 0.38%. At midyear, the total allowance provided 2.7X coverage of first half annualized net charge-offs and 1.3X coverage of period-end non-accrual loans. For business activities loans, these ratios measured 3.3X and 1.7X, respectively, and for loans acquired in business combinations, these ratios measured 1.1X and 0.5X.

The credit risk profile of the Company's loan portfolio is described in the Loan Loss Allowance note in the consolidated financial statements. The Company's risk management process focuses primary attention on loans with higher than normal risk, which includes loans rated special mention and classified (substandard and lower). These loans are referred to as criticized loans. Criticized loans were reduced to \$143 million (2.3% of assets) at midyear from \$165 million (2.9% of assets) at the start of the year. The Company views its potential problem loans as those loans from business activities which are rated as classified and continue to accrue interest. These loans have a possibility of loss if weaknesses are not corrected. Classified loans acquired in business combinations are recorded at fair value and are classified as performing at the time of acquisition and therefore have not generally been viewed as potential problem loans. Potential problem loans decreased to \$68 million from \$71 million during the first half of 2014. As acquired loans age, there is increased potential that they may become problem loans. The balance of

accruing classified acquired loans decreased to \$31 million from \$39 million

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during the first half of the year. There were no significant changes in the composition of non-accruing and potential problem assets during the quarter. The Company's evaluation of its credit risk profile also compares the amount of criticized assets to the total of the Bank's Tier 1 Capital plus the loan loss allowance. This ratio declined to 31% from 37% during the first half of 2014.

Other Assets. Cash and short term investments increased to \$113 million from \$76 million during the first half of 2014 due primarily to the expanded operations resulting from the New York branch purchase. Goodwill increased by \$8 million due to the branch acquisition. The deferred tax asset decreased to \$38 million from \$51 million due to accretion of purchased loan discount and an increase in the unrealized gain on investment securities.

Deposits. Total deposits increased by \$630 million (16%) to \$4.48 billion in the first half of 2014. The increase included \$440 million acquired with the New York branch purchase, a \$293 million increase in brokered time deposits, and an \$81 million (3%) decrease in non-maturity deposits excluding acquired balances. During the first half of the year, the Company adjusted its funding strategies based on the acquisition of the new core deposits, diversification of its liquidity sources, and the funding of the strong loan growth in the second quarter. Additionally, the Company's business strategies included changes in its utilization of municipal deposit sources and the supplemental depositors insurance provided by the Massachusetts Depositors Insurance Fund. The benefits of these strategies included improved liquidity measures, greater flexibility, lower funding costs, and improved asset sensitivity of the asset/liability profile. During the first two quarters, Berkshire continued to increase its demand deposit accounts, reflecting its emphasis on promotion of these low cost relationship based accounts.

Acquired New York deposits included \$110 million in demand deposits, \$80 million in NOW accounts, \$124 million in money market deposits, \$36 million in savings accounts, and \$90 million in time deposits. The total balance of deposits in the acquired branches was stable through midyear. In the second quarter, the Company merged Berkshire Bank Municipal Bank into Berkshire Bank which had no material impact on the Company's operations. In 2014, the Company began utilizing brokered deposits as an alternative to Federal Home Loan Bank borrowings in order to diversify its funding sources and to achieve better execution of its asset/liability objectives. As of midyear 2014, brokered deposits totaled \$317 million and had an average cost of 0.55% with an average maturity of 1.0 years. Midyear brokered deposits included \$31 million in certificates of deposit through the Certificate of Deposit Account Registry Service (CDARS) network which provides FDIC insurance on larger balance deposits.

Due to the deposit growth, the loans/deposits ratio decreased to 99% at midyear from 109% at the start of the year. The average cost of deposits decreased to 0.42% in the most recent quarter, compared to 0.53% in the fourth quarter of 2013. This reduction included the benefit of the acquired deposits, which had a cost below 0.20%.

On July 11, 2014, the Bank terminated its participation in the Massachusetts Depositors Insurance Fund (DIF). This termination had no impact on the Bank's FDIC insurance and existing deposits continue to be insured by DIF for a transition period as described in the Subsequent Events note in the consolidated financial statements. Due to its growth, the Bank would have been required to provide third party reinsurance to DIF which was determined to be uneconomic and which led to the decision to terminate participation in this program. The Company's goal is to grow its total deposits organically through business activities in 2014 and 2015 while it completes this transition from DIF insurance.

Borrowings. Total borrowings decreased by \$10 million (1%) to \$1.05 billion in the first half of 2014. The \$440 million in funds received for acquired deposits was initially utilized to reduce FHLBB borrowings, including \$235 million in three month revolving advances that the Company elected to extinguish. With this extinguishment, the Company terminated all of its cash flow interest rate swaps which were related to these three month revolving advances and which had a total notional balance of \$410 million including both currently effective and forward starting swaps. During the first quarter, the Company borrowed new short term advances to fund growth in earning assets, and short term

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advances and brokered deposits were further utilized in the second quarter to fund loan growth. Including the benefit of the borrowings and hedges restructuring, interest expense for borrowings in the most recent quarter decreased by \$1.3 million compared to the fourth quarter of 2013 and by

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\$1.2 million compared to the second quarter of 2013. The cost of borrowings decreased to 0.85% from 1.69% and 2.47% for the above periods, respectively.

Derivative Financial Instruments and Hedging Activities. The notional value of derivatives totaled \$912 million at midyear 2014, which was little changed from \$905 million at the start of the year. Cash flow hedges decreased by \$125 million as a result of the hedge restructuring that was implemented in the first quarter of the year. At the start of the year, the Company had \$410 million in FHLBB borrowings hedges averaging a 3.8 year maturity, a 1.4 year forward start, and a 2.15% forward pay rate. At midyear, the Company had \$300 million in forward starting FHLBB borrowings hedges averaging a 4.8 year maturity, a 1.8 year forward start, and a 2.29% forward pay rate. These swaps lock-in higher future borrowing costs and they provide protection in the event that interest rates rise more than anticipated. The \$2.1 million fair value liability on FHLBB borrowings swaps at year-end was a component of the loss recorded in the first quarter for the termination of hedges. The \$1.0 million fair value liability on FHLBB borrowings swaps at midyear reflected the decrease in market interest rate expectations during the most recent quarter. Changes in economic hedges related to commercial loan interest rate swaps or in hedges related to mortgage banking operations reflected increased business volumes during the second quarter.

Stockholders Equity. Stockholders equity increased by \$12 million (2%) to \$690 million at midyear from \$678 million at the start of the year. The charge to first quarter income for the swap terminations was offset by an equivalent credit to other comprehensive income and therefore resulted in no net impact to stockholders equity. The increase in equity was recorded in the second quarter and included the benefit of retained earnings as well as other comprehensive income resulting from unrealized securities gains due to the decrease in medium term interest rates during the quarter.

Due to the deposit acquisition and loan growth, the ratio of equity to assets decreased to 10.9% at midyear from 12.0% at the beginning of the year. The ratio of tangible equity to assets decreased to 6.8% from 7.5%. Tangible equity is a non-GAAP financial measure commonly used by investors and it excludes goodwill and other intangible assets. Berkshire Bank's total risk based capital ratio decreased to 11.0% from 11.6% and its Tier 1 risk based capital ratio decreased to 9.5% from 10.0%. The Company converted its holding company status to a bank holding company after midyear and will begin reporting consolidated holding company capital measures as of September 30, 2014. At midyear, the Company estimated that its consolidated holding company capital measures were consistent with a Well Capitalized status for the holding company.

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013

Summary: Berkshire's results in 2014 included the New York branch operations acquired on January 17, 2014. As a result, many measures of revenue, expense, income, and average balances increased compared to prior periods. As noted previously, Berkshire uses certain non-GAAP measures related to core income and core expenses in order to supplement its evaluation of its operating results.

During 2013, changes in market conditions resulted in a downturn in mortgage banking revenue and accelerated runoff of acquired impaired and non-relationship loans. Quarterly earnings per share decreased to \$0.33 in the third quarter from \$0.48 in the second quarter of 2013. Management restructured its expenses in the second half of the 2013, and quarterly earnings improved to \$0.42 per share in the fourth quarter. Quarterly net income has further improved to \$0.46 per share in the second quarter of 2014. Quarterly core earnings per share have increased by 10% from the low of \$0.40 recorded in the fourth quarter of 2013, despite a \$0.04 per share after-tax reduction in the contribution from purchased loan accretion. This increase reflected the benefit of expense restructuring initiatives, the branch acquisition, and business development in the Company's larger footprint as a result of its expansion.

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Due to the loss recorded in the first quarter of 2014 as a result of acquisition related charges, the Company recorded six month net income of \$10.4 million (\$0.42 per share) in 2014 compared to net income of \$22.5 million (\$0.90 per share) in 2013. Excluding net non-core charges, the Company's second quarter core earnings per share were \$0.44 in 2014, compared to \$0.48 per share in 2013.

In the most recent quarter, the Company recorded a 0.75% return on assets and a 6.6% return on equity. This return on equity is the highest result since the 7.2% return on equity recorded in the second quarter of 2013.

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Revenue. Total net revenue increased by \$2.1 million (4%) in the second quarter and decreased by \$7.4 million (7%) for the first six months of 2014 compared to 2013. Second quarter revenue also increased compared to the linked quarter including the full benefit of first quarter balance sheet strategies and second quarter loan growth. Berkshire's strategy is to produce positive operating leverage from revenue growth as it develops revenue synergies in its expanded footprint and from integrated product sales that deepen wallet share. Revenue growth in 2014 included increases in both net interest income and in fee income excluding mortgage banking fees. Annualized second quarter revenue per share increased by 4% to \$9.49 in 2014 compared to \$9.09 in 2013.

Net Interest Income. Net interest income increased by \$3.2 million (8%) in the second quarter and by \$4.1 million (5%) in the first half of 2014 compared to 2013. This growth was driven by balance sheet growth which offset a reduction in the net interest margin. Second quarter average earning assets increased by 21% from year to year and benefited from business development and the branch acquisition.

The second quarter net interest margin decreased to 3.26% in 2014 from 3.63% in 2013 due to both lower purchased loan accretion and ongoing market compression in asset yields. Second quarter purchased loan accretion totaled \$1.0 million in 2014 and \$3.4 million in 2013, consisting primarily of recoveries on the collection of purchased impaired loans in both periods. Excluding this accretion, the second quarter net interest margin was 3.19% in 2014 and 3.33% in 2013. The impact of lower loan yields was partially offset by reductions in the cost of funds, which declined to 0.51% from 0.77% in these periods due to the Company's balance sheet strategies and the branch acquisition.

The yield on loans averaged 3.96% in the most recent quarter, and measured 3.86% excluding purchased loan accretion. The weighted average interest rate on loans originated in the second quarter was approximately 3.50%. The Company's focus on adjustable rate loans and credit quality have contributed to loan yield compression as the Company accepts near term margin compression in order to protect future interest income. Berkshire maintains a close focus on its loan and deposit pricing disciplines to lessen the impact of market yield compression and regularly evaluates balance sheet management strategies to support growth and profitability.

Non-Interest Income. Non-interest income decreased by \$1.1 million (7%) for the second quarter and by \$11.5 million (38%) for the first six months of 2014 compared to 2013. This decrease was due to reductions in mortgage banking revenue totaling \$1.4 million in the second quarter and \$3.3 million in the first six months from year to year. Additionally, six month 2014 results included the impact of an \$8.8 million charge for the termination of hedges in the first quarter.

Total second quarter fee income before mortgage banking revenue increased by \$1.3 million from year to year. Deposit related fees increased by \$1.8 million, including an estimated \$1.0 million benefit from the branch acquisition. These fees increased to 0.62% (annualized) as a percentage of average deposits in the second quarter of 2014, compared to 0.49% of average deposits, including the higher fee product utilization of the acquired deposits. Loan related fee income decreased by \$0.8 million due to a reduction on gains from the sale of seasoned loans which was partially offset by an increase in commercial loan interest rate swap fee income to \$1.2 million in the most recent quarter. Wealth management fees increased by \$0.2 million (11%) due to ongoing business development. Wealth assets under management stood at \$1.3 billion at midyear 2014. Insurance fees increased by \$0.1 million (2%). Second quarter non-interest income in both years included net gains on the sale of investment securities consisting primarily of sales of equity securities to realize the strong market price appreciation.

Loan Loss Provision. The provision for loan losses is a charge to earnings in an amount sufficient to maintain the allowance for loan losses at a level deemed adequate by the Company as an estimate of the probable and estimable loan losses in the portfolio as of period-end. The level of the allowance is a critical accounting estimate, which is subject to uncertainty. The level of the allowance was included in the discussion of financial condition. Due primarily to loan growth, the provision increased by \$1.3 million and \$2.3 million for the second

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quarter and first six months of 2014 compared to 2013.

Non-Interest Expense and Income Tax Expense. Total non-interest expense increased by \$1.3 million (4%) in the second quarter and by \$7.2 million (9%) in the first half of 2014 compared to 2013. This increase was primarily due to the New York branch acquisition, which added an estimated \$3.5 million in expenses per quarter related to the operation of these branches. The Company recorded acquisition, restructuring, and conversion related expenses in all periods in 2014 and 2013. These expenses in 2014 were primarily related to the branch acquisition and in 2013 were primarily related to the integration and systems conversion of the operations of Beacon Federal Bancorp which was acquired in the fourth quarter of 2012.

Full time equivalent staff totaled 1,014 positions at midyear 2013 and declined to 939 at year-end 2013 following expense restructuring initiatives. The staff count increased to 1,050 at the end of the first quarter of 2014 due to the branch acquisition and further increased to 1,077 positions as of midyear 2014. In addition to the staff related to the acquired branches, expense growth in the most recent quarter also included targeted investment in commercial and retail market teams. During the first quarter of 2014, the Company consolidated two of the 20 acquired branches along with two existing branches, and it opened a new branch in Loudonville, N.Y.

The second quarter effective income tax rate was 26% in 2014 and 25% in 2013. For the first half of the year, the effective tax rate was 26% in 2014 and 27% in 2013. In 2013, the Company benefited from adjustments to the tax rate primarily related to reductions in the deferred tax valuation allowance on capital gains due to appreciation in its equity securities.

Results of Segment and Parent Operations. Berkshire Hills Bancorp (the Parent) has two subsidiary operating segments banking and insurance. Results in the banking segment generally followed the levels and trends of consolidated results, which have been previously discussed. In the insurance segment, first half net income increased by 6% to \$0.8 million from \$0.7 million due to revenue growth. For the Parent, operating results primarily reflected changes in the operations of its bank subsidiary.

Total Comprehensive Income. Total comprehensive income includes net income together with other comprehensive income/(loss). For the first six months of the year, total comprehensive income increased to \$23.7 million in 2014 compared to \$19.3 million in 2013. While net income decreased by \$12.1 million primarily related to the branch acquisition in 2014, the Company recorded a change of \$18.6 million in first half unrealized after-tax securities gains year over year. The second quarter 2013 increase in medium term interest rates produced an \$8.4 million after-tax securities loss in that period. In contrast, the second quarter 2014 increase in medium term interest rates produced a \$6.9 million after-tax securities gain in 2014.

Liquidity and Cash Flows. During the first half of 2014, acquired deposits and brokered deposits were the primary source of funds and net growth in loans and investment securities were the primary use of funds. Targeted deposit reductions were also a use of funds. Berkshire generally plans that over the medium term, deposit growth will be the primary source of funds and loan growth will be the primary use of funds. The Bank is diversifying its deposit sources including institutional and wholesale sources as part of the expansion of its liquidity management program and to provide additional options for managing its funds costs and asset/liability objectives.

In 2014, the Bank has begun actively utilizing brokered deposits as an alternative funding source to FHLBB borrowings. These are primarily time deposits solicited through established brokerage services. The Bank monitors the total amount of these deposits as a component of its

funding strategies. One element of the brokered deposits are balances raised through the Certificate of Deposit Account Registry Service (CDARS). This registry

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allows the Bank's customers to utilize a bank network to obtain FDIC insurance on large balances deposited through an account at the Bank.

The Bank is also expanding its use of short term institutional borrowings and FHLBB borrowings will continue to be a significant source of liquidity for daily operations and borrowings targeted for specific asset/liability purposes. The Company also uses interest rate swaps in managing its funds sources and uses. As of midyear, the Company had approximately \$585 million in borrowing availability with the Federal Home Loan Bank. This was increased from \$416 million at the start of the year due to the added liquidity resulting from the branch purchase and including increased securities collateral.

Berkshire Hills Bancorp had a cash balance totaling \$20 million as of June 30, 2014, which was on deposit with Berkshire Bank. The primary long run routine sources of funds for the Parent are expected to be dividends from Berkshire Bank and Berkshire Insurance Group, as well as cash from the exercise of stock options. There were no dividends paid from subsidiaries in the half of 2014. The Parent also has a \$10 million revolving line of credit provided by a correspondent bank. The primary long run uses of funds by the Parent include the payment of cash dividends on common stock and debt service.

Capital Resources. Please see the Stockholders' Equity section of the Comparison of Financial Condition for a discussion of stockholders' equity together with the Stockholders' Equity note to the consolidated financial statements. At June 30, Berkshire Bank continued to be classified as Well Capitalized. Additional information about regulatory capital is contained in the notes to the consolidated financial statements and in the 2013 Form 10-K.

As previously noted, the Company changed its holding company status from a savings and loan holding company to a bank holding company as of July 11, 2014. With this change, the Company has become subject to bank holding company regulatory capital requirements. The Company believes that its capital presently conforms to requirements for the Well Capitalized designation for a bank holding company and it does not expect any near term impact to its capital management as a result of this change.

Berkshire views its earnings and related internal capital generation as a primary source of capital to support dividends and growth of the franchise. Additionally, the Company generally uses the issuance of common stock as the primary source of consideration for bank acquisitions, and such acquisitions may result in net increases or decreases in its capital ratios. Berkshire's long term objective is to generate a double digit annual return on equity, and the Company evaluates lending, investment, and acquisition decisions with this objective as a benchmark. The Capital Committee of Berkshire's Board of Directors is responsible for assisting the Board in planning for future capital needs and for ensuring compliance with regulations pertaining to capital structure and levels. The Company believes that the market for its stock is an additional capital resource over the long run. Additionally, the Company continues to monitor market conditions for other forms of regulatory capital such as preferred stock or subordinated debt, which are additional potential future capital resources to the Company and/or the Bank.

Off-Balance Sheet Arrangements and Contractual Obligations. In the normal course of operations, Berkshire engages in a variety of financial transactions that, in accordance with generally accepted accounting principles are not recorded in the Company's financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit. Further information about the Company's off-balance sheet arrangements is contained in the Company's 2013 Form 10-K and information relating to payments due under contractual obligations is presented in the 2013 Form 10-K. Changes in the fair value of derivative financial instruments and hedging activities are included on the balance sheet and information related to these matters is reported in the related footnote to the consolidated financial statements, and was included in management's discussion of changes in financial condition. Aside from the completion of the branch acquisition in January, there were no significant changes in off-balance sheet arrangements and contractual obligations during the first half of 2014.

Fair Value Measurements. The Company records fair value measurements of certain assets and liabilities, as described in the related note in the financial statements. There were no significant changes in the fair value measurement methodologies at June 30, 2014 compared to December 31, 2013. The Company compares the carrying value to fair value for major categories of financial assets and liabilities. The biggest difference relates

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to loans and normally varies inversely to the direction of longer term interest rates during the subject period. During the first half of 2014, the fair market value premium related to loans increased to \$53 million (1.2% of loans) from \$7 million (0.2%) at the start of the year due to the impact of lower medium term interest rates as well as continuing improvements in the quality of the portfolio, which offset the impact of loan yield compression. This increase contributed to an increase in the net economic value of equity related to financial assets and liabilities based solely on the measures used for the purpose of this analysis.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to the way that the Company measures market risk during the first half of 2014. For further discussion about the Company's Quantitative and Qualitative Aspects of Market Risk, please review Item 7A of the Report 10-K filed for the fiscal year ended December 31, 2013. Berkshire has a targeted position to maintain an asset sensitive interest rate risk profile, as measured by the sensitivity of net interest income to market interest rate changes. The Company measures this sensitivity primarily by evaluating the impact of ramped interest rate changes on net interest income in the 12 month and 24 month time horizons. The primary focus is on a two year scenario where interest rates ramp up by 200 basis points in the first year. The Bank also evaluates its equity at risk from interest rate changes through discounted cash flow analysis. This measure assesses the present value changes to equity based on long term impacts of rate changes beyond the time horizons evaluated for net interest income at risk.

During the first half of the year, the Company increased its investment in earning assets by 12%, with growth in loans and securities funded by the branch acquisition and brokered deposits. The Company also terminated and replaced its cash flow hedges. The Company's primary focus has been on the potential of a ramped interest rate increase starting a year or more in the future. The Company has used interest rate swaps which are forward starting in 1.8 years to hedge a portion of existing short term variable rate borrowings. Beginning at the end of the second year in the model, the Company expects that net interest income will increase by 5% or more compared to projected income in a flat interest rate scenario. Including the higher forward payment rates of 2.29% on the interest rate swaps, the projected actual increase in net interest income in this scenario is modeled to be modestly higher than the current run rate of net interest income approximately two years from now in this upward rate scenario. This is primarily due to the benefit from the ongoing upward repricing of assets that would be experienced in this scenario.

The Company's interest rate model shows that it continues to be asset sensitive in the first two years of a 100 basis point upward ramp in interest rates, with an interest income sensitivity in the range of 1-2%. In a 200 basis point ramp, interest income is asset sensitive in the first year and becomes approximately 2% liability sensitive in the second year as deposit price changes take effect. Income again becomes asset sensitive near the end of the two year period based on the loan repricings noted above.

The Company's sensitivity of equity at risk was projected to be liability sensitive at year-end 2013. The Company modeled that at midyear, this sensitivity had decreased to the mid single digits as a percentage of equity due to the origination of variable rate loans, the benefits of the deposit acquisition, and improved valuations for municipal securities. The Company monitors its equity at risk as it manages the overall level and composition of assets with medium and long term interest rates and related funding strategies.

The interest rate risk models assume a parallel shift in the yield curve and are based on the composition of the balance sheet as of the estimation date. The models are based on a static balance sheet and rely on assumptions on how customer behaviors will impact market pricing spreads and the durations of assets and liabilities. Due to the unusual monetary policy and interest rate conditions that prevail, these assumptions involve significant subjective assumptions. Overall, the Company assumes that deposit costs would adjust by 40% of the modeled interest rate changes over the course of the modeling period, which the Company views as a reasonable and conservative estimate for modeling its interest rate sensitivity. This is the projected change in total deposit interest expense necessary to retain existing deposits in the modeled scenario. The

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Company would expect to adjust its balance sheet composition to adjust to changing interest rate conditions as they emerge. Please see the additional discussion in Item 7A of the Report 10-K filed for the fiscal year ended December 31, 2013 regarding the Company's asset liability management strategies in the current and anticipated interest rate environment. In

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In addition to its traditional market risk measures, the Company also evaluates the impact of interest rate changes on fee revenue and considers these impacts in managing its market risk strategies.

ITEM 4. CONTROLS AND PROCEDURES

a) Disclosure controls and procedures.

The principal executive officers, including the principal financial officer, based on their evaluation of disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that the Company's disclosure controls and procedures were effective.

b) Changes in internal control over financial reporting.

There were no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II

ITEM 1. LEGAL PROCEEDINGS

As of June 30, 2014, neither the Company nor the Bank was involved in any pending legal proceedings believed by management to be material to the Company's financial condition or results of operations. Periodically, there have been various claims and lawsuits involving the Bank, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Bank's business. However, neither the Company nor the Bank is a party to any pending legal proceedings that it believes, in the aggregate, would have a material adverse effect on the financial condition or operations of the Company.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our business, financial condition or future results. Further information is presented in Item 1A in the Form 10-Q for the period ended March 31, 2014. The risks described in these forms are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

The availability of brokered deposits as a funding source to the Bank is subject to market conditions and the Bank's financial condition.

Beginning in 2014, the Bank has begun actively utilizing brokered deposits as a funding source. The Bank is allowed to solicit such deposits without regulatory preapproval as long as it maintains a "Well Capitalized" status. These deposits are generally time deposits with maturities up to three years. If the Bank became unable to utilize this funding source, it would have to find other funding sources as these deposits mature or are withdrawn. The availability of brokered deposits can be affected by market conditions and the Bank's financial condition. The Bank monitors its reliance on this funding source in order to manage these amounts within appropriate concentration limits. In the event that brokered deposits are unavailable, the Bank may need to replace brokered deposits that have matured with higher cost funding sources, which would impact the Bank's net income.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

- (a) No Company unregistered securities were sold during the quarter ended June 30, 2014.
- (b) Not applicable.

(c) The following table provides certain information with regard to shares repurchased by the Company in the second quarter of 2014.

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| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Maximum number of shares that may yet be purchased under the plans or programs |
|------------------|----------------------------------|------------------------------|--|--|
| April 1-30, 2014 | | \$ | | 18,113 |
| May 1-31, 2014 | | | | 18,113 |
| June 1-30, 2014 | | | | 18,113 |
| Total | | \$ | | 18,113 |

On March 26, 2013, the Company announced that its Board of Directors authorized a new stock repurchase program, pursuant to which the Company may repurchase up to 500,000 shares of the Company's common stock, which represents approximately 2.0% of the Company's issued and outstanding shares. The timing of the purchases will depend on certain factors, including but not limited to, market conditions and prices, available funds, and alternative uses of capital. The stock repurchase program may be carried out through open-market purchases, block trades, negotiated private transactions and pursuant to a trading plan adopted in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934. Any repurchased shares will be recorded as treasury shares. The program will continue until it is completed or terminated by the Board of Directors. The Company has no intentions to terminate this program or to cease any future potential purchases.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 3.1 Certificate of Incorporation of Berkshire Hills Bancorp, Inc. (1)
- 3.2 Amended and Restated Bylaws of Berkshire Hills Bancorp, Inc.(2)
- 4.1 Form of Common Stock Certificate of Berkshire Hills Bancorp, Inc. (1)
- 4.2

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- Note Subscription Agreement by and among Berkshire Hills Bancorp, Inc. and certain subscribers dated September 20, 2012 (3)
- 10.1 Amended and Restated Employment Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Michael P. Daly (4)
- 10.2 Amended and Restated Supplemental Executive Retirement Agreement between Berkshire Bank and Michael P. Daly (5)
- 10.3 Three Year Executive Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and George F. Bacigalupo (6)
- 10.4 Three-Year Executive Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Josephine Iannelli (6)
- 10.5 Amended and Restated Three Year Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Richard M. Marotta (7)
- 10.6 Amended and Restated Three Year Change in Control Agreement by and among Berkshire Bank, Berkshire Hills Bancorp, Inc. and Sean A. Gray (8)
- 10.7 Form of Split Dollar Agreement entered into with Michael P. Daly, Sean A. Gray, and Richard M. Marotta (9)
- 10.8 Berkshire Hills Bancorp, Inc. 2011 Equity Incentive Plan (10)
- 10.9 Berkshire Hills Bancorp, Inc. 2013 Equity Incentive Plan (11)

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| 10.10 | Legacy Bancorp, Inc. Amended and Restated 2006 Equity Incentive Plan (12) |
| 10.11 | Berkshire Bank 2013 Executive Short Term Incentive Plan (6) |
| 11.0 | Statement re: Computation of Per Share Earnings is incorporated herein by reference to Part II, Item 8, Financial Statements and Supplementary Data |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101 | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements tagged as blocks of text and in detail |

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- (1) Incorporated herein by reference from the Exhibits to Form S-1, Registration Statement and amendments thereto, initially filed on March 10, 2000, Registration No. 333-32146.
 - (2) Incorporated herein by reference from the Exhibits to the Form 8-K as filed on December 18, 2012.
 - (3) Incorporated by reference from the Exhibits to the Form 8-K as filed on September 26, 2012.
 - (4) Incorporated herein by reference from the Exhibits to the Form 8-K as filed on January 6, 2009.
 - (5) Incorporated herein by reference from the Exhibits to Form 10-K as filed on March 16, 2009.
 - (6) Incorporated herein by reference from the Exhibits to the Form 10-K as filed on March 17, 2014.
 - (7) Incorporated herein by reference from the Exhibits to the Form 10-K as filed on March 16, 2010.
 - (8) Incorporated herein by reference from the Exhibits to the Form 10-K as filed on March 16, 2011.
 - (9) Incorporated herein by reference from the Exhibit to the Form 8-K as filed on January 19, 2011.
 - (10) Incorporated herein by reference from the Appendix to the Proxy Statement as filed on March 24, 2011.
 - (11) Incorporated herein by reference from the Appendix to the Proxy Statement as filed on April 2, 2013.
 - (12) Incorporated herein by reference from the Exhibits to the Form 8-K filed by Legacy Bancorp, Inc. on December 22, 2010.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BERKSHIRE HILLS BANCORP, INC.

Dated: August 11, 2014

By: */s/ Michael P. Daly*
Michael P. Daly
President and Chief Executive Officer

Dated: August 11, 2014

By: */s/ Josephine Iannelli*
Josephine Iannelli
Executive Vice President, Chief Financial Officer