BERKSHIRE HILLS BANCORP INC
Form 10-Q
November 09, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: September 30, 2016

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

For the transition period from to

Commission File Number: 001-15781

BERKSHIRE HILLS BANCORP, INC.
(Exact name of registrant as specified in its charter)

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

Registrant’s telephone number, including area code: (413) 236-3149

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 ý No o

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

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

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

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

The Registrant had 31,173,020 shares of common stock, par value $0.01 per share, outstanding as of November 4, 2016.

Table of Contents

BERKSHIRE HILLS BANCORP, INC.
FORM 10-Q

INDEX

Table of Contents

Table of Contents

PART I

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	September 30, 2016	December 31, 2015
Assets		
Cash and due from banks	$ 61,107	$ 72,918
Short-term investments	8,178	30,644
Total cash and cash equivalents	69,285	103,562
Trading security, at fair value	14,149	14,189
Securities available for sale, at fair value	946,853	1,154,457
Securities held to maturity (fair values of $139,358 and $136,904)	131,467	131,652
Federal Home Loan Bank stock and other restricted securities	61,277	71,018
Total securities	1,153,746	1,371,316
Loans held for sale	20,471	13,191
Commercial real estate	2,327,044	2,059,767
Commercial and industrial loans	994,874	1,048,263
Residential mortgages	1,818,111	1,815,035
Consumer loans	906,975	802,171
Total loans	6,047,004	5,725,236
Less: Allowance for loan losses	(43,105)	(39,308)
Net loans	6,003,899	5,685,928
Premises and equipment, net	85,794	88,072
Other real estate owned	80	1,725
Goodwill	339,975	323,943
Other intangible assets	8,308	10,664
Cash surrender value of bank-owned life insurance policies	127,880	125,233
Deferred tax assets, net	34,616	42,526
Other assets	87,107	64,926
Total assets	$ 7,931,161	$ 7,831,086
Liabilities		
Demand deposits	$ 1,113,733	$ 1,081,860
NOW deposits	476,189	510,807
Money market deposits	1,469,075	1,408,107
Savings deposits	607,868	601,761
Time deposits	2,082,889	1,986,600
Total deposits	5,749,754	5,589,135
Short-term debt	939,800	1,071,200
Long-term Federal Home Loan Bank advances	109,114	103,135
Subordinated borrowings	89,116	88,983
Total borrowings	1,138,030	1,263,318
Other liabilities	110,784	91,444
Total liabilities	$ 6,998,568	$ 6,943,897

(continued)

Shareholders’ equity		
Common stock ($.01 par value; 50,000,000 shares authorized and 32,321,962 shares issued and 31,121,676 shares outstanding in 2016; 32,321,962 shares issued and 30,973,986 shares outstanding in 2015)	322	322
Additional paid-in capital	747,844	742,619
Unearned compensation	(6,991)	(6,997)
Retained earnings	213,453	183,885
Accumulated other comprehensive income	8,411	(3,305)
Treasury stock, at cost (1,200,286 shares in 2016 and 1,179,045 shares in 2015)	(30,446)	(29,335)
Total shareholders’ equity	932,593	887,189
Total liabilities and Shareholders’ equity	$ 7,931,161	$ 7,831,086

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

Table of Contents

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2016	2015	2016	2015
Interest and dividend income				
Loans	$61,571	$56,343	$179,716	$152,292
Securities and other	8,940	9,109	28,289	26,314
Total interest and dividend income	70,511	65,452	208,005	178,606
Interest expense				
Deposits	7,790	6,046	22,327	16,287
Borrowings	4,750	2,435	12,569	7,218
Total interest expense	12,540	8,481	34,896	23,505
Net interest income	57,971	56,971	173,109	155,101
Non-interest income				
Loan related income	5,102	1,537	11,046	5,603
Mortgage banking income	1,862	693	4,018	3,492
Deposit related fees	6,278	6,549	18,678	18,668
Insurance commissions and fees	2,601	2,544	8,154	7,997
Wealth management fees	2,269	2,376	7,006	7,376
Total fee income	18,112	13,699	48,902	43,136
Other, net	188	(1,050)	(440)	(3,563)
Gain on sale of securities, net	78	49	101	2,467
Gain on branch sales, net	563	—	563	—
Total non-interest income	18,941	12,698	49,126	42,040
Total net revenue	76,912	69,669	222,235	197,141
Provision for loan losses	4,734	4,240	13,262	12,295
Non-interest expense				
Compensation and benefits	26,119	25,237	76,497	71,551
Occupancy and equipment	6,650	6,827	19,900	21,178
Technology and communications	4,902	4,645	14,573	12,328
Marketing and promotion	671	781	2,081	2,294
Professional services	1,744	1,053	4,533	3,700
FDIC premiums and assessments	1,208	1,157	3,644	3,429
Other real estate owned and foreclosures	46	298	702	800
Amortization of intangible assets	749	887	2,355	2,722
Acquisition, restructuring and conversion related expenses	2,170	3,361	3,828	16,493
Other	4,585	5,132	14,099	14,056
Total non-interest expense	48,844	49,378	142,212	148,551
Income before income taxes	23,334	16,051	66,761	36,295
Income tax expense	6,953	1,350	18,422	2,791
Net income	$16,381	$14,701	$48,339	$33,504
Earnings per share:				
Basic	$0.53	$0.49	$1.58	$1.21
Diluted	$0.53	$0.49	$1.57	$1.20

Weighted average common shares outstanding:				
Basic	30,621	29,893	30,584	27,685
Diluted	30,811	30,069	30,757	27,847

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

Table of Contents

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Net income	$16,381	$14,701	$48,339	$33,504
Other comprehensive income, before tax:				
Changes in unrealized gain on securities available-for-sale	(5,654)	8,207	21,639	1,474
Changes in unrealized loss on derivative hedges	2,730	(4,369)	(2,660)	(7,486)
Changes in unrealized loss on pension	—	65	—	(1,402)
Income taxes related to other comprehensive income:				
Changes in unrealized gain on securities available-for-sale	2,218	(3,186)	(8,330)	(692)
Changes in unrealized loss on derivative hedges	(1,096)	1,761	1,067	3,017
Changes in unrealized loss on pension	—	(26)	—	565
Total other comprehensive (loss) income	(1,802)	2,452	11,716	(4,524)
Total comprehensive income	$14,579	$17,153	$60,055	$28,980

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

Table of Contents

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)	Common stock Shares	Common stock Amount	Additional paid-in capital	Unearned compensation	Retained earnings	Accumulated other comprehensive income	Treasury stock	Total
Balance at December 31, 2014	25,183	$ 265	$585,289	$ (6,147)	$156,446	$ 6,579	$(33,145)	$709,287
Comprehensive income:								
Net income	—	—	—	—	33,504	—	—	33,504
Other comprehensive loss	—	—	—	—	—	(4,524)	—	(4,524)
Total comprehensive income								28,980
Acquisition of Hampden Bancorp, Inc	4,186	42	114,562	—	—	—	—	114,604
Acquisition of Firestone Financial	1,442	15	42,092	—	—	—	—	42,107
Cash dividends declared ($0.57 per share)	—	—	—	—	(16,016)	—	—	(16,016)
Treasury stock purchased	—	—	—	—	—	—	—	—
Forfeited shares	(19)	—	42	479	—	—	(521)	—
Exercise of stock options	11	—	—	—	(165)	—	281	116
Restricted stock grants	182	—	316	(4,804)	—	—	4,488	—
Stock-based compensation	—	—	—	3,378	—	—	—	3,378
Net tax benefit related to stock-based compensation	—	—	26	—	—	—	—	26
Other, net	(36)	—	7	—	—	—	(921)	(914)
Balance at September 30, 2015	30,949	$ 322	$742,334	$ (7,094)	$173,769	$ 2,055	$(29,818)	$881,568
Balance at December 31, 2015	30,974	$ 322	$742,619	$ (6,997)	$183,885	$ (3,305)	$(29,335)	$887,189
Comprehensive income:								
Net income	—	—	—	—	48,339	—	—	48,339
Other comprehensive income	—	—	—	—	—	11,716	—	11,716
Total comprehensive income								60,055
Acquisition of 44 Business Capital	45	—	—	—	—	—	1,217	1,217
Cash dividends declared ($0.60 per share)	—	—	—	—	(18,675)	—	—	(18,675)
Treasury stock adjustment (1)	—	—	4,632	—	—	—	(4,632)	—
Forfeited shares	(63)	—	106	1,592	—	—	(1,698)	—
Exercise of stock options	9	—	—	—	(96)	—	238	142

Restricted stock grants	185	—	504	(5,052)	—	—	4,548	—
Stock-based compensation	—	—	—	3,466	—	—	—	3,466
Net tax benefit related to stock-based compensation	—	—	(1)	—	—	—	—	(1)
Other, net	(28)	—	(16)	—	—	—	(784)	(800)
Balance at September 30, 2016	31,122	$ 322	$747,844	$ (6,991)	$213,453	$ 8,411	$(30,446)	$932,593

(1) Treasury stock adjustment represents the extinguishment of 168,931 shares of Berkshire Hills Bancorp stock held by the Company's subsidiary.

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

Table of Contents

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
(In thousands)	2016	2015
Cash flows from operating activities:		
Net income	$48,339	$33,504
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	13,262	12,295
Net amortization of securities	3,476	2,282
Change in unamortized net loan costs and premiums	(3,825)	(716)
Premises and equipment depreciation and amortization expense	6,226	6,443
Stock-based compensation expense	3,466	3,377
Accretion of purchase accounting entries, net	(7,266)	(6,383)
Amortization of other intangibles	2,355	2,722
Write down of other real estate owned	395	480
Excess tax loss from stock-based payment arrangements	(105)	(26)
Income from cash surrender value of bank-owned life insurance policies	(2,905)	(2,401)
Gain on sales of securities, net	(101)	(2,467)
Net (increase) in loans held for sale	(7,280)	(5,060)
Loss on disposition of assets	32	2,208
Loss on sale of real estate	62	240
Amortization of interest in tax-advantaged projects	4,454	8,577
Net change in other	(1,089)	(4,236)
Net cash provided by operating activities	59,496	50,839
Cash flows from investing activities:		
Net decrease in trading security	446	424
Proceeds from sales of securities available for sale	283,755	24,389
Proceeds from maturities, calls and prepayments of securities available for sale	128,566	143,489
Purchases of securities available for sale	(186,392)	(236,601)
Proceeds from maturities, calls and prepayments of securities held to maturity	5,946	6,889
Purchases of securities held to maturity	(5,969)	(62,074)
Net change in loans	(284,440)	(327,813)
Purchases of bank owned life insurance	—	554
Proceeds from surrender of bank-owned life insurance	258	—
Proceeds from sale of Federal Home Loan Bank stock	18,544	306
Purchase of Federal Home Loan Bank stock	(8,803)	(10,706)
Net investment in limited partnership tax credits	(5,189)	(2,500)
Proceeds from the sale of premises and equipment	226	1,932
Purchase of premises and equipment, net	(4,314)	(3,961)
Acquisitions, net of cash (paid) acquired	(55,542)	74,324
Proceeds from sale of other real estate	1,483	1,705
Net cash used in investing activities	$(111,425)	$(389,643)

(continued)

Table of Contents

(In thousands)	Nine Months Ended September 30, 2016	2015
Cash flows from financing activities:		
Net increase in deposits	161,114	393,762
Proceeds from Federal Home Loan Bank advances and other borrowings	7,264,120	6,441,300
Repayments of Federal Home Loan Bank advances and other borrowings	(7,389,048)	(6,458,567)
Exercise of stock options	141	116
Excess tax loss from stock-based payment arrangements	—	26
Common stock cash dividends paid	(18,675)	(16,016)
Net cash provided by financing activities	17,652	360,621
Net change in cash and cash equivalents	(34,277)	21,817
Cash and cash equivalents at beginning of year	103,562	71,754
Cash and cash equivalents at end of year	$69,285	$93,571
Supplemental cash flow information:		
Interest paid on deposits	$21,954	$15,833
Interest paid on borrowed funds	12,166	7,069
Income taxes paid, net	10,995	1,125
Acquisition of non-cash assets and liabilities:		
Assets acquired	56,976	948,796
Liabilities assumed	(109)	(762,261)
Other non-cash changes:		
Other net comprehensive income (loss)	11,716	(4,524)
Real estate owned acquired in settlement of loans	295	2,747

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

Table of Contents

NOTE 1. BASIS OF PRESENTATION

The consolidated financial statements (the “financial statements”) of Berkshire Hills Bancorp, Inc. and its subsidiaries (the “Company” or “Berkshire”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The Company is a Delaware corporation and the holding company for Berkshire Bank (the “Bank”), a Massachusetts-chartered trust company headquartered in Pittsfield, Massachusetts, and Berkshire Insurance Group, Inc. (“Berkshire Insurance Group” or “BIG”). These financial statements include the accounts of the Company, its wholly-owned subsidiaries and the Bank’s consolidated subsidiaries. In consolidation, all significant intercompany accounts and transactions are eliminated. The results of operations of companies or assets acquired are included only from the dates of acquisition. All material wholly-owned and majority-owned subsidiaries are consolidated unless GAAP requires otherwise.

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, 2015. In management's opinion, all adjustments necessary for a fair statement are reflected in the interim periods presented.

Recently Adopted Accounting Principles
Effective January 1, 2016, the following new accounting guidance was adopted by the Company:

- ASU No. 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis;
- ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs;
- ASU No. 2015-05, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement; and
- ASU No. 2015-16, Business Combinations (Topic 805) - Simplifying the Accounting for Measurement - Period Adjustments.

The adoption of these accounting standards did not have a material impact on the Company's financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Improvement to Employee Share-Based Payment Accounting”. This ASU contains targeted amendments to the accounting for shared based payment transactions, including income tax consequences for awards, classification of awards as either equity or liabilities, and classification of activity on the statement of cash flows. Specifically, some of the requirements under the amendments include: (1) excess tax benefits and/or tax deficiencies, determined as the difference between compensation cost recognized for financial reporting purposes and the deduction for tax, be recognized in the income statement as income tax expense or benefit in the period in which they occur, removing historical equity treatment; (2) excess tax benefits are no longer separately classified as a financing activity but rather should be classified with other income tax cash flows as an operating activity on the statement of cash flows; (3) cash paid by an employer when withholding shares for tax withholding purposes should be classified as a financing activity. Additionally, regarding forfeitures, this guidance permits a company to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. ASU No. 2016-09 is effective for annual periods beginning after December 15, 2016. The Company adopted ASU No. 2016-09 in April 2016 and the adoption of this accounting standard did not have a material impact on the Company's consolidated financial statements. The

Company chose a modified retrospective approach and a policy election to account for forfeitures when they occur. This change resulted in a cumulative adjustment immaterial to all periods presented.

Table of Contents

Future Application of Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 related to the recognition of revenue from contracts with customers. The new revenue pronouncement creates a single source of revenue guidance for all companies in all industries and is more principles based than current revenue guidance. The pronouncement provides a five-step model for a company to recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The five steps are (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations and (5) recognize revenue when each performance obligation is satisfied. The standard is effective for public entities for interim and annual reporting periods beginning after December 15, 2016; early adoption is not permitted. However, in August 2015, Accounting Standards Update No. 2015-14, “Deferral of the Effective Date” (“ASU 2015-14”) was issued and delayed the effective date of ASU 2014-09 to annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, but not before the original effective date (i.e., interim and annual reporting periods beginning after December 15, 2016). For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application.

In March, April and May 2016, the FASB issued ASU No. 2016-08, “Principal versus Agent Considerations,” ASU No. 2016-10, “Identifying Performance Obligations and Licensing,” and ASU 2016-12, “Narrow-Scope Improvements and Practical Expedients,” respectfully. The updates are not intended to change the core principles of the standard; however, they attempt to clarify important aspects of the guidance and improve its operability. The amendments have the same effective date and transition requirements as the new revenue standard. The Company is currently evaluating the provisions of ASU No. 2014-09, and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.” This ASU requires an entity to: i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in other comprehensive income the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price and; (v) assess a valuation allowance on deferred tax assets related to unrealized losses of AFS debt securities in combination with other deferred tax assets. The guidance provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. The guidance also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. The guidance is effective for annual periods beginning after December 15, 2017. Early adoption is only permitted for the provision related to instrument specific credit risk. The Company is currently evaluating the impact of the new standard on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases”. The new pronouncement improves the transparency and comparability of financial reporting around leasing transactions and more closely aligns accounting for leases with the recently issued International Financial Reporting Standard. The pronouncement affects all entities that are participants to leasing agreements. From a lessee accounting perspective, the ASU requires a lessee to recognize assets and liabilities on the balance sheet for operating leases and changes many key definitions, including the definition of a lease. The ASU includes a short-term lease exception for leases with a term of twelve months or less, in which a lessee can make an accounting policy election not to recognize lease assets and lease liabilities. Lessees will continue to differentiate between finance leases (previously referred to as capital leases) and operating leases, using classification criteria that are substantially similar to the previous guidance. For lessees, the recognition, measurement, and presentation of expenses and cash flows arising from a lease have not significantly changed from previous GAAP.

From a lessor accounting perspective, the guidance is largely unchanged, except for targeted improvements to align with new terminology under lessee accounting and with the updated revenue recognition guidance in Topic 606. For sale-leaseback transactions, for a sale to occur the transfer must meet the sale criteria under the new revenue standard, ASC 606. Entities will not be required to reassess transactions previously accounted under then existing guidance.

Additionally, the ASU includes additional quantitative and qualitative disclosures required by lessees and lessors to help users better understand the amount, timing, and uncertainty of cash flows arising from leases. ASU No. 2016-02 is effective for fiscal years beginning after December 31, 2018, and interim periods within those fiscal years. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply as well as transition guidance specific to nonstandard leasing transactions. The Company is currently evaluating the provisions of ASU No. 2016-02 to determine the potential impact the new standard will have on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-05, “Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships.” This ASU clarifies that changes in the counterparty to a derivative instrument designated as a hedge does not alone require it to be de-designated and therefore discontinue the application of hedge accounting. Companies are still required to evaluate whether it is probable that a counterparty will perform under the contract as part of the ongoing effectiveness assessment for hedge accounting. The new guidance is effective for annual periods beginning after December 15, 2016 and entities may adopt on a prospective or modified retrospective basis. The adoption of this pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-06, “Contingent Put and Call Options in Debt Instruments” clarifying the assessment of whether contingent call or put options that can accelerate the payment of principal on debt instruments are clearly and closely related to the economic characteristics and risks of their debt hosts, a criteria in assessing whether to bifurcate an embedded derivative. The new pronouncement clarifies the exercise contingency and the event triggering the contingency does not need to be evaluated in the clearly and closely analysis relative to interest rates or credit risks. Rather, the call or put would be evaluated as a derivative regardless of the exercise contingency. Further, if an entity is no longer required to bifurcate a put or call option per the new guidance, the entity has a one-time option to irrevocably elect to measure that debt instrument in its entirety at fair value with changes in fair value recognized in earnings. ASU No. 2016-06 is effective for annual periods beginning after December 15, 2016 and early adoption is permitted. The ASU should be applied using the modified retrospective basis to existing instruments as of the beginning of the annual period of adoption. The adoption of this pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07 “Simplifying the Transition to the Equity Method of Accounting” which eliminates the requirement to retroactively adjust an investment that becomes subject to the equity method of accounting as a result of an increase ownership interest or degree of influence. Alternatively, an investor entity adds the cost of acquiring the additional interest in the investee to the current basis of the investor’s previously held interest and adopts the equity method of accounting prospectively as of the qualifying date; no retroactive adjustment is required. Additionally, ASU No. 2016-07 specifies that when an available-for-sale equity security becomes qualified for the equity method of accounting, a company should recognize the unrealized holding gain or loss in accumulated other comprehensive income through earnings at the date the investment becomes qualified for use of the equity method. This guidance is effective for all entities for annual periods beginning after December 15, 2016, with early adoption permitted on a prospective basis. The adoption of this pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “Measurement of Credit Losses on Financial Instruments.” This ASU improves financial reporting by requiring timelier recording of credit losses on loans and other financial instruments.

The ASU requires companies to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Forward-looking information will now be used in credit loss estimates. The ASU requires enhanced disclosures to provide better understanding surrounding significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of a company’s portfolio. These disclosures include qualitative

Table of Contents

and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. Most debt instruments will require a cumulative-effect adjustment to retained earnings on the statement of financial position as of the beginning of the first reporting period in which the guidance is adopted (modified retrospective approach). However, there is instrument-specific transition guidance. ASU No. 2016-13 is effective for interim and annual periods beginning after December 15, 2019. Early application will be permitted for interim and annual periods beginning after December 15, 2018. The Company is evaluating the provisions of ASU No. 2016-13, and will closely monitor developments and additional guidance to determine the potential impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “Classification of Certain Cash Receipts and Cash Payments.” Current GAAP is unclear or does not include specific guidance on how to classify certain transactions in the statement of cash flows. The new guidance addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU No. 2016-15 is effective for interim and annual periods beginning after December 15, 2017. Early application will be permitted provided that all of the amendments are adopted in the same period. Entities will be required to apply the guidance retrospectively. If it is impracticable to apply the guidance retrospectively for an issue, the amendment related to that issue would be applied prospectively. As this guidance only affects the classification within the statement of cash flows, ASU No. 2016-15 is not expected to have a material impact on the Company’s consolidated financial statements.

Table of Contents

NOTE 2. ACQUISITION

44 Business Capital
On April 29, 2016, the Bank acquired and assumed the business model, certain assets, and certain liabilities of 44 Business Capital, along with certain loans and other assets of Parke Bank's ("Parke") SBA 7(a) loan program operations. 44 Business Capital was a joint venture of Parke (51%) and a management group (49%), 44 Amigos LLC, located in Blue Bell, Pennsylvania. 44 Business Capital was engaged in originating, servicing, and selling SBA loans using Parke's SBA PLP preferred lender license.

The transaction includes acquiring assets, key people, systems, and processes necessary for a market participant to run operations as a business. In accordance with ASC 805-10-55, the transaction was recorded as a business combination, resulting in acquisition accounting in which all assets acquired and liabilities are assumed at fair value.

The loans acquired by the Bank were the unguaranteed portions of SBA loans of which $35.6 million were recorded as commercial real estate and $1.2 million were recorded as commercial & industrial. Servicing rights on a notional loan balance of $148 million were also acquired. The Company expects the acquisition to expand its SBA lending program on a super-regional and national basis with the intent of selling many of these loans on the secondary market. It expands and diversifies the Company's fee revenue sources. Additionally, the acquisition of 44 Business Capital expands the Company's product lines, creates cross-selling opportunities, and adds niche lending to its portfolio. 44 Business Capital will operate as a direct small business lending department reporting up through the Company's established specialty lending division.

The following table provides a summary of the assets acquired and liabilities assumed and the associated fair value adjustments as recorded by the Company at acquisition:

(in thousands)	As Acquired	Fair Value Adjustments		As Recorded at Acquisition
Consideration paid:				
Company common stock issued to certain 44 Business Capital shareholders (44,840 shares)				$ 1,217
Cash paid to 44 Business Capital shareholders and Parke				55,649
Total consideration paid				$ 56,866
Recognized amounts of identifiable assets acquired and liabilities assumed, at fair value:				
Cash and short-term investments	$ 107	$ —		$ 107
Loans	42,627	(5,777)	(a)	36,850
Premises and equipment	69	(36)	(b)	$ 33
Other assets	3,076	639	(c)	3,715
Other liabilities	(108)	—		$ (108)
Total identifiable net assets	$ 45,771	$ (5,174)		$ 40,597
Goodwill				$ 16,269

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 book value of $6.3 million and have a fair value $2.6 million. Non-impaired loans accounted for under ASC 310-10 had a book value of $36.4 million and have a fair value of $34.3 million. ASC 310-30 loans have a $708 thousand fair value adjustment discount that is accretable in earnings over an average estimated six-year life using the effective yield as determined on the date of acquisition. The effective yield is periodically adjusted for changes in expected cash flows. ASC 310-10 loans have a $2.1 million fair value adjustment discount that is amortized into income over the remaining term of the loans using the effective interest method.

(b) The fair value of the equipment was assumed to approximate the net carrying value based on overall condition and age. The adjustment represents the immediate expensing of equipment not meeting the thresholds for

Table of Contents

capitalization in accordance with Company policy. The recorded amount will be depreciated over the remaining estimated economic lives of the assets.

(c) The adjustment represents the fair value write up of book value of the loan servicing right asset to its estimated fair value based on current interest rates and expected cash flows, which includes an estimate of cost of service and conditional prepayment rates applied to the underlying unpaid loan pool balance over the remaining life of the loans. The balance includes accrued interest of $221 thousand.

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. There was no carryover of the seller's allowance for credit losses associated with the loans that were acquired in the acquisition as the loans were initially recorded at fair value.

Information about the acquired loan portfolio subject to ASC 310-30 as of April 29, 2016 is, as follows (in thousands):

	ASC 310-30 Loans
Gross contractual receivable amounts at acquisition	$6,265
Contractual cash flows not expected to be collected (nonaccretable discount)	(3,000)
Expected cash flows at acquisition	3,265
Interest component of expected cash flows (accretable discount)	(708)
Fair value of acquired loans	$2,557

Capitalized goodwill, which is not amortized for book purposes, was assigned to the Company.

Direct acquisition and integration costs of the 44 Business Capital acquisition were expensed as incurred, and totaled $164 thousand during the nine months ending September 30, 2016 and $124 thousand for the same period of 2015. These costs totaled $66 thousand for the three months ended September 30, 2016 and $124 thousand for the same period of 2015.

Pro Forma Information (unaudited)

The following table presents selected unaudited pro forma financial information reflecting the acquisition of 44 Business Capital assuming the acquisition was completed as of January 1, 2015. The unaudited pro forma financial information includes adjustments for scheduled amortization and accretion of fair value adjustments recorded at the acquisitions. These adjustments would have been different if they had been recorded on January 1, 2015, and they do not include the impact of prepayments. 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 44 Business Capital 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 plus the 45 thousand shares issued as a result of the 44 Business Capital acquisition. The unaudited pro forma information is based on the actual financial statements of Berkshire and 44 Business Capital for the periods shown until the date of acquisition, at which time 44 Business Capital operations became included in Berkshire's financial statements. For the period from the date of acquisition through September 30, 2016, 44 Business Capital's net revenue was $2.8 million and net income was $593 thousand which includes $164 thousand of acquisition expenses.

The unaudited pro forma information, for the nine months ended September 30, 2016 and 2015, set forth below reflects adjustments related to amortization and accretion of purchase accounting fair value adjustments and an estimated tax rate of 40 percent. Direct acquisition expenses incurred by the Company during 2016, as noted above, are reversed for the purposes of this unaudited pro forma information. Furthermore, the unaudited pro forma information does not reflect management's estimate of any revenue-enhancing or anticipated cost-savings that could occur as a result of the acquisition.

Table of Contents

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

	Pro Forma (unaudited) Nine Months Ended September 30,	
	2016	2015
Net interest income	$173,421	$156,812
Non-interest income	51,279	46,196
Net income	49,170	35,567
Pro forma earnings per share:		
Basic	$1.61	$1.28
Diluted	$1.60	$1.28

NOTE 3. TRADING SECURITY

The Company holds a tax advantaged economic development bond accounted for at fair value. The security had an amortized cost of $11.5 million and $12.0 million, and a fair value of $14.1 million and $14.2 million, at September 30, 2016 and December 31, 2015, respectively. As discussed further in Note 12 - Derivative Financial Instruments and Hedging Activities, the Company has entered into a swap contract to swap-out the fixed rate of the security in exchange for a variable rate. The Company does not purchase securities with the intent of selling them in the near term, and there are no other securities in the trading portfolio at September 30, 2016.

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
September 30, 2016				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$ 114,866	$ 6,357	$ (97)	$ 121,126
Agency collateralized mortgage obligations	530,548	11,567	(118)	541,997
Agency mortgage-backed securities	103,261	1,463	(54)	104,670
Agency commercial mortgage-backed securities	61,673	627	—	62,300
Corporate bonds	46,869	359	(706)	46,522
Trust preferred securities	11,584	275	(58)	11,801
Other bonds and obligations	3,158	42	—	3,200
Total debt securities	871,959	20,690	(1,033)	891,616
Marketable equity securities	47,825	9,148	(1,736)	55,237
Total securities available for sale	919,784	29,838	(2,769)	946,853
Securities held to maturity				
Municipal bonds and obligations	95,457	5,708	—	101,165
Agency collateralized mortgage obligations	66	7	—	73
Tax advantaged economic development bonds	35,619	2,176	—	37,795
Other bonds and obligations	325	—	—	325
Total securities held to maturity	131,467	7,891	—	139,358
Total	$ 1,051,251	$ 37,729	$ (2,769)	$ 1,086,211
December 31, 2015				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$ 99,922	$ 4,763	$ (124)	$ 104,561
Agency collateralized mortgage obligations	833,633	4,957	(5,554)	833,036
Agency mortgage-backed securities	127,274	542	(987)	126,829
Agency commercial mortgage-backed securities	—	—	—	—
Corporate bonds	42,849	—	(1,826)	41,023
Trust preferred securities	11,719	182	(1)	11,900
Other bonds and obligations	3,175	—	(34)	3,141
Total debt securities	1,118,572	10,444	(8,526)	1,120,490
Marketable equity securities	30,522	5,331	(1,886)	33,967
Total securities available for sale	1,149,094	15,775	(10,412)	1,154,457
Securities held to maturity				
Municipal bonds and obligations	94,642	3,359	(34)	97,967
Agency collateralized mortgage obligations	68	3	—	71
Tax advantaged economic development bonds	36,613	1,924	—	38,537
Other bonds and obligations	329	—	—	329
Total securities held to maturity	131,652	5,286	(34)	136,904
Total	$ 1,280,746	$ 21,061	$ (10,446)	$ 1,291,361

Table of Contents

The amortized cost and estimated fair value of available for sale ("AFS") and held to maturity ("HTM") securities, segregated by contractual maturity at September 30, 2016 are presented below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are shown in total, as their maturities are highly variable. Equity securities have no maturity and are also shown in total.

	Available for sale		Held to maturity	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$—	$—	$2,580	$2,589
Over 1 year to 5 years	4,894	4,984	16,906	17,920
Over 5 years to 10 years	32,920	33,643	13,853	14,444
Over 10 years	138,663	144,022	98,062	104,332
Total bonds and obligations	176,477	182,649	131,401	139,285
Marketable equity securities	47,825	55,237	—	—
Mortgage-backed securities	695,482	708,967	66	73
Total	$919,784	$946,853	$131,467	$139,358

Table of Contents

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

	Less Than Twelve Months		Over Twelve Months		Total	
(In thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
September 30, 2016						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	$ 97	$ 12,160	$ —	$ —	$97	$12,160
Agency collateralized mortgage obligations	118	43,710	—	—	118	43,710
Agency mortgage-backed securities	30	12,901	24	1,349	54	14,250
Corporate bonds	—	—	706	19,998	706	19,998
Trust preferred securities	—	—	58	1,200	58	1,200
Total debt securities	245	68,771	788	22,547	1,033	91,318
Marketable equity securities	494	9,899	1,242	6,939	1,736	16,838
Total securities available for sale	739	78,670	2,030	29,486	2,769	108,156
Total	$ 739	$ 78,670	$ 2,030	$ 29,486	$2,769	$108,156
December 31, 2015						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	$ 9	$ 1,587	$ 115	$ 3,400	$124	$4,987
Agency collateralized mortgage obligations	2,958	304,907	2,596	136,988	5,554	441,895
Agency mortgage-backed securities	306	34,543	681	35,522	987	70,065
Corporate bonds	30	6,934	1,796	21,587	1,826	28,521
Trust preferred securities	1	1,269	—	—	1	1,269
Other bonds and obligations	—	108	34	3,032	34	3,140
Total debt securities	3,304	349,348	5,222	200,529	8,526	549,877
Marketable equity securities	534	2,908	1,352	5,729	1,886	8,637
Total securities available for sale	3,838	352,256	6,574	206,258	10,412	558,514
Securities held to maturity						
Tax advantaged economic development bonds	—	—	34	2,143	34	2,143
Total securities held to maturity	—	—	34	2,143	34	2,143
Total	$ 3,838	$ 352,256	$ 6,608	$ 208,401	$10,446	$560,657

Table of Contents

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 September 30, 2016, 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 September 30, 2016:

AFS municipal bonds and obligations
At September 30, 2016, 7 of the total 127 securities in the Company's portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 0.8% 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 quarter. All securities are performing.

AFS collateralized mortgage obligations
At September 30, 2016, 6 out of the total 112 securities in the Company's portfolios of AFS collateralized mortgage obligations were in unrealized loss positions. Aggregate unrealized losses represented 0.3% of the amortized cost of securities in unrealized loss positions. The Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC"), and Government National Mortgage Association ("GNMA") guarantee the contractual cash flows of all of the Company's collateralized mortgage obligations. The securities are investment grade rated and there were no material underlying credit downgrades during the quarter. All securities are performing.

AFS mortgage-backed securities
At September 30, 2016, 13 out of the total 87 securities in the Company's portfolios of AFS residential mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 0.4% of the amortized cost of securities in unrealized loss positions. The FNMA, FHLMC, and 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 quarter. All securities are performing.

AFS corporate bonds
At September 30, 2016, 2 out of 9 securities in the Company's portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represents 3.4% of the amortized cost of bonds in unrealized loss positions. The Company reviews the financial strength of all of these bonds and has concluded that the amortized cost remains supported by the expected future cash flows of these securities.

At September 30, 2016, $637.9 thousand of the total unrealized losses was attributable to a $17.5 million investment. The Company evaluated this security, with a Level 2 fair value of $16.9 million, for potential other-than-temporary impairment ("OTTI") at September 30, 2016 and determined that OTTI was not evident based on both the Company's ability and intent to hold the security until the recovery of its remaining amortized cost.

AFS trust preferred securities
At September 30, 2016 1 out of the 3 securities in the Company's portfolio of AFS trust preferred securities were in an unrealized loss position. Aggregate unrealized losses represented 4.6% of the amortized cost of these securities in an unrealized loss position. The Company's evaluation of the present value of expected cash flows on these securities

supports its conclusions about the recoverability of these securities' amortized cost basis. These securities are investment grade rated. The Company reviews the financial strength of all of the single issue trust issuers and

Table of Contents

has concluded that the amortized cost remains supported by the market value of these securities and they are performing.

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

At September 30, 2016, 10 out of the total 28 securities in the Company’s portfolio of marketable equity securities were in an unrealized loss position. The unrealized loss represented 9.4% of the amortized cost of the securities. The Company has the ability and intent to hold the securities until recovery of their cost basis and does not consider the securities other-than-temporarily impaired at September 30, 2016. 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.

Table of Contents

NOTE 5. LOANS

The Company’s loan portfolio is segregated into the following segments: commercial real estate, commercial and industrial, residential mortgage, and consumer. 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. Residential mortgage loans include classes for 1-4 family owner occupied and construction loans. 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 Parke Bank, Firestone Financial Corp., Hampden Bancorp, Inc., the New York branch acquisition, 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:

	September 30, 2016			December 31, 2015		
(In thousands)	Business Activities Loans	Acquired Loans	Total	Business Activities Loans	Acquired Loans	Total
Commercial real estate:						
Construction	$221,749	$19,850	$241,599	$210,196	$43,474	$253,670
Single and multi-family	271,844	40,696	312,540	214,823	36,783	251,606
Other commercial real estate	1,438,726	334,179	1,772,905	1,209,008	345,483	1,554,491
Total commercial real estate	1,932,319	394,725	2,327,044	1,634,027	425,740	2,059,767
Commercial and industrial loans:						
Asset based lending	327,100	—	327,100	331,253	—	331,253
Other commercial and industrial loans	520,769	147,005	667,774	495,979	221,031	717,010
Total commercial and industrial loans	847,869	147,005	994,874	827,232	221,031	1,048,263
Total commercial loans	2,780,188	541,730	3,321,918	2,461,259	646,771	3,108,030
Residential mortgages:						
1-4 family	1,513,122	287,574	1,800,696	1,454,233	332,747	1,786,980
Construction	16,600	815	17,415	26,704	1,351	28,055
Total residential mortgages	1,529,722	288,389	1,818,111	1,480,937	334,098	1,815,035
Consumer loans:						
Home equity	323,642	46,258	369,900	307,159	53,446	360,605
Auto and other	435,618	101,457	537,075	311,328	130,238	441,566
Total consumer loans	759,260	147,715	906,975	618,487	183,684	802,171
Total loans	$5,069,170	$977,834	$6,047,004	$4,560,683	$1,164,553	$5,725,236

22

Table of Contents

The carrying amount of the acquired loans at September 30, 2016 totaled $978 million. A subset of these loans was determined to have evidence of credit deterioration at acquisition date, which is accounted for in accordance with ASC 310-30. These purchased credit-impaired loans presently maintain a carrying value of $15.1 million (and a note balance of $29.9 million). These loans are evaluated for impairment through the periodic reforecasting of expected cash flows. Loans considered not impaired at acquisition date had a carrying amount of $962.7 million.

At December 31, 2015, acquired loans maintained a carrying value of $1.2 billion and purchased credit-impaired loans totaled $21.4 million (note balance of $40.2 million). Loans considered not impaired at acquisition date had a carrying amount of $1.1 billion.

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

	Three Months Ended September 30,	
(In thousands)	2016	2015
Balance at beginning of period	$6,213	$6,540
Acquisitions	—	684
Reclassification from nonaccretable difference for loans with improved cash flows	688	1,214
Accretion	(2,298)	(967)
Balance at end of period	$4,603	$7,471

	Nine Months Ended September 30,	
(In thousands)	2016	2015
Balance at beginning of period	$6,925	$2,541
Acquisitions	708	4,862
Reclassification from nonaccretable difference for loans with improved cash flows	2,106	2,950
Reclassification to TDR	(185)	—
Accretion	(4,951)	(2,882)
Balance at end of period	$4,603	$7,471

Table of Contents

The following is a summary of past due loans at September 30, 2016 and December 31, 2015:

Business Activities Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
September 30, 2016							
Commercial real estate:							
Construction	$ —	$ —	$—	$—	$221,749	$221,749	$ —
Single and multi-family	573	—	351	924	270,920	271,844	—
Other commercial real estate	568	473	7,240	8,281	1,430,445	1,438,726	2,292
Total	1,141	473	7,591	9,205	1,923,114	1,932,319	2,292
Commercial and industrial loans:							
Asset based lending	—	—	—	—	327,100	327,100	—
Other commercial and industrial loans	1,304	181	5,270	6,755	514,014	520,769	503
Total	1,304	181	5,270	6,755	841,114	847,869	503
Residential mortgages:							
1-4 family	1,446	1,602	3,411	6,459	1,506,663	1,513,122	944
Construction	—	—	45	45	16,555	16,600	—
Total	1,446	1,602	3,456	6,504	1,523,218	1,529,722	944
Consumer loans:							
Home equity	154	5	1,732	1,891	321,751	323,642	150
Auto and other	1,774	405	530	2,709	432,909	435,618	—
Total	1,928	410	2,262	4,600	754,660	759,260	150
Total	$ 5,819	$ 2,666	$18,579	$ 27,064	$5,042,106	$5,069,170	$ 3,889

Business Activities Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
December 31, 2015							
Commercial real estate:							
Construction	$ —	$ —	$ 58	$ 58	$210,138	$210,196	$ —
Single and multi-family	65	160	70	295	214,528	214,823	—
Other commercial real estate	1,523	831	3,286	5,640	1,203,368	1,209,008	—
Total	1,588	991	3,414	5,993	1,628,034	1,634,027	—
Commercial and industrial loans:							
Asset based lending	—	—	—	—	331,253	331,253	—
Other commercial and industrial loans	1,202	1,105	7,770	10,077	485,902	495,979	146
Total	1,202	1,105	7,770	10,077	817,155	827,232	146
Residential mortgages:							
1-4 family	3,537	857	4,304	8,698	1,445,535	1,454,233	2,006
Construction	—	—	—	—	26,704	26,704	—

Total	3,537	857	4,304	8,698	1,472,239	1,480,937	2,006
Consumer loans:							
Home equity	563	20	1,658	2,241	304,918	307,159	61
Auto and other	1,230	132	610	1,972	309,356	311,328	59
Total	1,793	152	2,268	4,213	614,274	618,487	120
Total	$ 8,120	$ 3,105	$17,756	$ 28,981	$4,531,702	$4,560,683	$ 2,272

24

Table of Contents

Acquired Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Acquired Credit Impaired	Total Loans	Past Due > 90 days and Accruing
September 30, 2016							
Commercial real estate:							
Construction	$ —	$ —	$ —	$ —	$ 1,082	$ 19,850	$ —
Single and multi-family	1,086	—	—	1,086	1,169	40,696	—
Other commercial real estate	431	—	996	1,427	9,580	334,179	—
Total	1,517	—	996	2,513	11,831	394,725	—
Commercial and industrial loans:							
Asset based lending	—	—	—	—	—	—	—
Other commercial and industrial loans	1,190	177	1,947	3,314	1,852	147,005	—
Total	1,190	177	1,947	3,314	1,852	147,005	—
Residential mortgages:							
1-4 family	764	441	1,951	3,156	1,337	287,574	89
Construction	—	—	—	—	—	815	—
Total	764	441	1,951	3,156	1,337	288,389	89
Consumer loans:							
Home equity	—	489	784	1,273	7	46,258	257
Auto and other	340	842	818	2,000	96	101,457	176
Total	340	1,331	1,602	3,273	103	147,715	433
Total	$ 3,811	$ 1,949	$ 6,496	$ 12,256	$ 15,123	$ 977,834	$ 522

Acquired Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Acquired Credit Impaired	Total Loans	Past Due > 90 days and Accruing
December 31, 2015							
Commercial real estate:				—			
Construction	$ —	$ —	$ —	$ —	$ 1,298	$ 43,474	$ —
Single and multi-family	—	176	227	403	1,380	36,783	127
Other commercial real estate	547	43	1,368	1,958	13,087	345,483	—
Total	547	219	1,595	2,361	15,765	425,740	127
Commercial and industrial loans:							
Asset based lending	—	—	—	—	—	—	—
Other commercial and industrial loans	1,214	505	1,420	3,139	2,775	221,031	785
Total	1,214	505	1,420	3,139	2,775	221,031	785
Residential mortgages:							
1-4 family	2,580	311	1,880	4,771	2,572	332,747	212
Construction	—	—	—	—	—	1,351	—
Total	2,580	311	1,880	4,771	2,572	334,098	212
Consumer loans:							

Home equity	82	277	837	1,196	118	53,446	111
Auto and other	1,491	145	1,081	2,717	132	130,238	187
Total	1,573	422	1,918	3,913	250	183,684	298
Total	$ 5,914	$ 1,457	$ 6,813	$ 14,184	$ 21,362	$ 1,164,553	$ 1,422

Table of Contents

The following is summary information pertaining to non-accrual loans at September 30, 2016 and December 31, 2015

(In thousands)	September 30, 2016 Business Activities Loans	Acquired Loans (1)	Total	December 31, 2015 Business Activities Loans	Acquired Loans (2)	Total
Commercial real estate:						
Construction	$—	$ —	$—	$59	$ —	$59
Single and multi-family	351	—	351	70	100	170
Other commercial real estate	4,948	996	5,944	3,285	1,368	4,653
Total	5,299	996	6,295	3,414	1,468	4,882
Commercial and industrial loans:						
Other commercial and industrial loans	4,767	1,695	6,462	7,624	597	8,221
Total	4,767	1,695	6,462	7,624	597	8,221
Residential mortgages:						
1-4 family	2,467	1,862	4,329	2,298	1,668	3,966
Construction	45	—	45	—	—	—
Total	2,512	1,862	4,374	2,298	1,668	3,966
Consumer loans:						
Home equity	1,582	526	2,108	1,597	727	2,324
Auto and other	530	643	1,173	551	893	1,444
Total	2,112	1,169	3,281	2,148	1,620	3,768
Total non-accrual loans	$14,690	$ 5,722	$20,412	$15,484	$ 5,353	$20,837

(1) At quarter end September 30, 2016, acquired credit impaired loans accounted for $252 thousand of non-accrual loans that are not presented in the above table.
(2) At December 31, 2015, acquired credit impaired loans accounted for $39 thousand of non-accrual loans that are not presented in the above table.

Table of Contents

Loans evaluated for impairment as of September 30, 2016 and December 31, 2015 were as follows:

Business Activities Loans

(In thousands)	Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Total
September 30, 2016					
Loans receivable:					
Balance at end of period					
Individually evaluated for impairment	$ 14,058	$ 3,955	$ 3,045	$ 1,483	$ 22,541
Collectively evaluated	1,918,261	843,914	1,526,677	757,777	5,046,629
Total	$ 1,932,319	$ 847,869	$ 1,529,722	$ 759,260	$ 5,069,170

Business Activities Loans

(In thousands)	Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Total
December 31, 2015					
Loans receivable:					
Balance at end of year					
Individually evaluated for impairment	$ 11,560	$ 7,191	$ 2,812	$ 1,810	$ 23,373
Collectively evaluated for impairment	1,622,467	820,041	1,478,125	616,677	4,537,310
Total	$ 1,634,027	$ 827,232	$ 1,480,937	$ 618,487	$ 4,560,683

Acquired Loans

(In thousands)	Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Total
September 30, 2016					
Loans receivable:					
Balance at end of Period					
Individually evaluated for impairment	$ 4,190	$ 1,144	$ 315	$ 415	$ 6,064
Purchased credit-impaired loans	11,831	1,852	1,337	103	15,123
Collectively evaluated	378,704	144,009	286,737	147,197	956,647
Total	$ 394,725	$ 147,005	$ 288,389	$ 147,715	$ 977,834

Acquired Loans

(In thousands)	Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Total
December 31, 2015					
Loans receivable:					
Balance at end of year					
Individually evaluated for impairment	$ 3,749	$ —	$ 570	$ 487	$ 4,806
Purchased credit-impaired loans	15,765	2,775	2,572	250	21,362
Collectively evaluated for impairment	406,226	218,256	330,956	182,947	1,138,385
Total	$ 425,740	$ 221,031	$ 334,098	$ 183,684	$ 1,164,553

Table of Contents

The following is a summary of impaired loans at September 30, 2016 and December 31, 2015:

Business Activities Loans

	September 30, 2016		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Commercial real estate - construction	$—	$ —	$ —
Commercial real estate - single and multifamily	—	—	—
Other commercial real estate loans	3,593	3,593	—
Other commercial and industrial loans	218	218	—
Residential mortgages - 1-4 family	2,367	2,367	—
Consumer - home equity	380	380	—
Consumer - other	3	3	—
With an allowance recorded:			
Commercial real estate - construction	$—	$ —	$ —
Commercial real estate - single and multifamily	—	—	—
Other commercial real estate loans	10,275	10,465	190
Other commercial and industrial loans	3,543	3,737	194
Residential mortgages - 1-4 family	589	678	89
Consumer - home equity	841	999	158
Consumer - other	94	101	7
Total			
Commercial real estate	$13,868	$ 14,058	$ 190
Commercial and industrial loans	3,761	3,955	194
Residential mortgages	2,956	3,045	89
Consumer	1,318	1,483	165
Total impaired loans	$21,903	$ 22,541	$ 638

Table of Contents

Business Activities Loans

	December 31, 2015		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Commercial real estate - construction	$2,000	$ 2,000	$ —
Commercial real estate - single and multifamily	—	—	—
Other commercial real estate loans	4,613	4,613	—
Other commercial and industrial loans	5,828	5,828	—
Residential mortgages - 1-4 family	1,181	1,181	—
Consumer - home equity	702	702	—
Consumer - other	1	1	—
With an allowance recorded:			
Commercial real estate - construction	$—	$ —	$ —
Commercial real estate - single and multifamily	—	—	—
Other commercial real estate loans	4,798	4,947	149
Other commercial and industrial loans	1,341	1,362	21
Residential mortgages - 1-4 family	1,479	1,632	153
Consumer - home equity	903	999	96
Consumer - other	101	108	7
Total			
Commercial real estate	$11,411	$ 11,560	$ 149
Commercial and industrial loans	7,169	7,190	21
Residential mortgages	2,660	2,813	153
Consumer	1,707	1,810	103
Total impaired loans	$22,947	$ 23,373	$ 426

Table of Contents

Acquired Loans

	September 30, 2016		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Commercial real estate - construction	$—	$ —	$ —
Commercial real estate - single and multifamily	—	—	—
Other commercial real estate loans	632	632	—
Other commercial and industrial loans	—	—	—
Residential mortgages - 1-4 family	211	211	—
Consumer - home equity	—	—	—
Consumer - other	—	—	—
With an allowance recorded:			
Commercial real estate - construction	$—	$ —	$ —
Commercial real estate - single and multifamily	891	930	39
Other commercial real estate loans	1,963	2,628	665
Other commercial and industrial loans	1,023	1,144	121
Residential mortgages - 1-4 family	92	104	12
Consumer - home equity	280	415	135
Consumer - other	—	—	—
Total			
Commercial real estate	$3,486	$ 4,190	$ 704
Commercial and industrial loans	1,023	1,144	121
Residential mortgages	303	315	12
Consumer	280	415	135
Total impaired loans	$5,092	$ 6,064	$ 972

Acquired Loans

	December 31, 2015		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Other commercial real estate loans	$1,722	$ 1,722	$ —
Residential mortgages - 1-4 family	274	274	—
Consumer - home equity	117	117	—
Consumer - other	177	177	—
With an allowance recorded:			
Commercial real estate - single and multifamily	$638	$ 655	$ 17
Other commercial real estate loans	1,964	2,032	68
Residential mortgages - 1-4 family	266	296	30
Consumer - home equity	167	192	25
Total			
Other commercial real estate loans	$4,324	$ 4,409	$ 85
Other commercial and industrial loans	—	—	—
Residential mortgages	540	570	30

Consumer	461	486	25
Total impaired loans	$5,325	$ 5,465	$ 140

30

Table of Contents

The following is a summary of the average recorded investment and interest income recognized on impaired loans as of September 30, 2016 and 2015:

Business Activities Loans

	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
(in thousands)	Average Recorded Investment	Cash Basis Interest Income Recognized	Average Recorded Investment	Cash Basis Interest Income Recognized
With no related allowance:				
Commercial real estate - construction	$ —	$ —	$ 2,326	$ 1
Commercial real estate - single and multifamily	48	1	80	—
Other commercial real estate loans	2,624	111	9,787	157
Other commercial and industrial loans	805	26	234	7
Residential mortgages - 1-4 family	2,309	51	1,264	32
Consumer - home equity	693	5	155	6
Consumer - other	1	—	—	—
With an allowance recorded:				
Commercial real estate - construction	$ —	$ —	$ —	$ —
Commercial real estate - single and multifamily	—	—	—	—
Other commercial real estate loans	10,266	351	7,725	199
Other commercial and industrial loans	4,609	154	3,610	103
Residential mortgages - 1-4 family	684	21	1,795	60
Consumer - home equity	999	26	248	—
Consumer - other	104	3	113	3
Total				
Commercial real estate	$ 12,938	$ 463	$ 19,918	$ 357
Commercial and industrial loans	5,414	180	3,844	110
Residential mortgages	2,993	72	3,059	92
Consumer loans	1,797	34	516	9
Total impaired loans	$ 23,142	$ 749	$ 27,337	$ 568

Table of Contents

Acquired Loans

(in thousands)	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	Average Recorded Investment	Cash Basis Interest Income Recognized	Average Recorded Investment	Cash Basis Interest Income Recognized
With no related allowance:				
Commercial real estate - construction	$ —	$ —	$ 593	$ 60
Commercial real estate - single and multifamily	—	—	169	—
Other commercial real estate loans	546	20	1,824	5
Other commercial and industrial loans	191	1	42	3
Residential mortgages - 1-4 family	321	9	423	—
Consumer - home equity	—	—	39	—
Consumer - other	140	1	—	—
With an allowance recorded:				
Commercial real estate - construction	$ —	$ —	$ —	$ —
Commercial real estate - single and multifamily	942	37	2,878	82
Other commercial real estate loans	2,606	127	1,266	77
Other commercial and industrial loans	404	10	—	—
Residential mortgages - 1-4 family	117	4	409	13
Consumer - home equity	356	13	309	11
Consumer - other	—	—	19	4
Total				
Other commercial real estate loans	$ 4,094	$ 184	$ 6,730	$ 224
Commercial and industrial loans	595	11	42	3
Residential mortgages	438	13	832	13
Consumer loans	496	14	367	15
Total impaired loans	$ 5,623	$ 222	$ 7,971	$ 255

Table of Contents

Troubled Debt Restructuring Loans

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

The following tables include the recorded investment and number of modifications identified during the three and nine months ended September 30, 2016 and for the three and nine months ended September 30, 2015, respectively. The table includes the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured. The modifications for the three and nine months ended September 30, 2016 were attributable to interest rate concessions, maturity date extensions, modified payment terms, reamortization, and accelerated maturity. The modifications for the three and nine months ending September 30, 2015 were attributable to interest rate concessions, maturity date extensions, modified payment terms, reamortization, and accelerated maturity.

	Three Months Ended September 30, 2016		
(Dollars in thousands)	Number of Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial and industrial - Other	2	$ 404	$ 404
Residential - 1-4 Family	2	5	5
Total	4	$ 409	$ 409

	Nine Months Ended September 30, 2016		
(Dollars in thousands)	Number of Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial - Other	2	$ 1,049	$ 1,049
Commercial and industrial - Other	4	555	555
Residential - 1-4 Family	2	5	5
Consumer - Home Equity	1	117	117
Total	9	$ 1,726	$ 1,726

	Three Months Ended September 30, 2015		
(Dollars in thousands)	Number of Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial - Single and multifamily	2	307	307
Total	2	$ 307	$ 307

	Nine Months Ended September 30, 2015		
(Dollars in thousands)	Number of Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial - Construction	1	$ 2,000	$ 2,000

Commercial - Single and multifamily	2	307	307
Commercial - Other	2	1,694	1,694
Commercial and industrial - Other	5	8,192	8,192
Total	10	12,193	12,193

33

Table of Contents

The following tables disclose the recorded investments and numbers of modifications for TDRs for the prior year where a concession has been made, that then defaulted in the respective reporting period. For the three and nine months ended September 30, 2016, there were no loans that were restructured that had subsequently defaulted during the period.

	Modifications that Subsequently Defaulted Three Months Ended September 30, 2015	
	Number of Contracts	Recorded Investment
Troubled Debt Restructurings		
Commercial and industrial- Other	2	$ 5,742

	Modifications that Subsequently Defaulted Nine Months Ended September 30, 2015	
	Number of Contracts	Recorded Investment
Troubled Debt Restructurings		
Commercial - Other	1	$ 649
Commercial and industrial - Other	2	$ 5,742

The following table presents the Company's TDR activity for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,	
(In thousands)	2016	2015
Balance at beginning of the period	$22,122	$25,716
Principal payments	(932)	(1,538)
TDR status change (1)	—	—
Other reductions/increases (2)	—	(69)
Newly identified TDRs	409	307
Balance at end of the period	$21,599	$24,416

	Nine Months Ended September 30,	
(In thousands)	2016	2015
Balance at beginning of the period	$22,048	$16,714
Principal payments	(2,041)	(2,629)
TDR status change (1)	2,236	—
Other reductions/increases (2)	(2,370)	(1,862)
Newly identified TDRs	1,726	12,193
Balance at end of the period	$21,599	$24,416

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(1) TDR status change classification represents TDR loans with a specified interest rate equal to or greater than the rate that the Company was willing to accept at the time of the restructuring for a new loan with comparable risk and the loan was on current payment status and not impaired based on the terms specified by the restructuring agreement.
(2) Other reductions classification consists of transfer to other real estate owned and charge-offs and advances to loans.

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

As of September 30, 2016, the Company maintained foreclosed residential real estate property with a fair value of $80 thousand. Additionally, residential mortgage loans collateralized by real estate property that are in the process of foreclosure as of September 30, 2016 and December 31, 2015 totaled $6.3 million and $7.5 million, respectively. As of December 31, 2015, foreclosed residential real estate property totaled $675 thousand.

Table of Contents

NOTE 6. LOAN LOSS ALLOWANCE

Activity in the allowance for loan losses for the three and nine months ended September 30, 2016 and 2015 was as follows:

	At or for the three months ended September 30, 2016					
Business Activities Loans (In thousands)	Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Unallocated	Total
Balance at beginning of period	$16,895	$ 8,296	$ 7,526	$ 4,769	$ (362)	$37,124
Charged-off loans	—	1,599	253	434	—	2,286
Recoveries on charged-off loans	114	37	96	61	—	308
Provision/(releases) for loan losses	507	1,776	37	904	251	3,475
Balance at end of period	$17,516	$ 8,510	$ 7,406	$ 5,300	$ (111)	$38,621
Individually evaluated for impairment	190	194	89	165	—	638
Collectively evaluated	17,326	8,316	7,317	5,135	(111)	37,983
Total	$17,516	$ 8,510	$ 7,406	$ 5,300	$ (111)	$38,621

	At or for the nine months ended September 30, 2016					
Business Activities Loans (In thousands)	Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Unallocated	Total
Balance at beginning of period	$14,508	$ 7,317	$ 7,566	$ 4,956	$ 227	$34,574
Charged-off loans	1,578	4,145	1,340	1,175	—	8,238
Recoveries on charged-off loans	242	114	101	183	—	640
Provision/(releases) for loan losses	4,344	5,224	1,079	1,336	(338)	11,645
Balance at end of period	$17,516	$ 8,510	$ 7,406	$ 5,300	$ (111)	$38,621
Individually evaluated for impairment	190	194	89	165	—	638
Collectively evaluated	17,326	8,316	7,317	5,135	(111)	37,983
Total	$17,516	$ 8,510	$ 7,406	$ 5,300	$ (111)	$38,621

	At or for the three months ended September 30, 2015					
Business Activities Loans (In thousands)	Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Unallocated	Total
Balance at beginning of period	$12,967	$ 9,166	$ 6,471	$ 4,914	$ (292)	$33,226
Charged-off loans	1,329	916	316	353	—	2,914
Recoveries on charged-off loans	—	6	28	86	—	120
Provision/(releases) for loan losses	2,623	(223)	1,187	281	263	4,131
Balance at end of period	$14,261	$ 8,033	$ 7,370	$ 4,928	$ (29)	$34,563
Individually evaluated for impairment	410	1,032	248	38	—	1,728
Collectively evaluated	13,851	7,001	7,122	4,890	(29)	32,835
Total	$14,261	$ 8,033	$ 7,370	$ 4,928	$ (29)	$34,563

Table of Contents

Business Activities Loans (In thousands)	At or for the nine months ended September 30, 2015 Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Unallocated	Total
Balance at beginning of period	$14,690	$ 5,206	$ 6,836	$ 5,928	$ 135	$32,795
Charged-off loans	5,751	1,288	762	815	—	8,616
Recoveries on charged-off loans	146	160	141	213	—	660
Provision/(releases) for loan losses	5,176	3,955	1,155	(398)	(164)	9,724
Balance at end of period	$14,261	$ 8,033	$ 7,370	$ 4,928	$ (29)	$34,563
Individually evaluated for impairment	410	1,032	248	38	—	1,728
Collectively evaluated	13,851	7,001	7,122	4,890	(29)	32,835
Total	$14,261	$ 8,033	$ 7,370	$ 4,928	$ (29)	$34,563

Acquired Loans (In thousands)	At or for the three months ended September 30, 2016 Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Unallocated	Total
Balance at beginning of period	$2,140	$ 776	$ 881	$ 476	$ —	$4,273
Charged-off loans	662	84	332	77	—	1,155
Recoveries on charged-off loans	—	37	37	33	—	107
Provision for loan losses	907	210	111	31	—	1,259
Balance at end of period	$2,385	$ 939	$ 697	$ 463	$ —	$4,484
Individually evaluated for impairment	704	121	12	135	—	972
Purchased credit-impaired loans	—	—	—	—	—	—
Collectively evaluated	1,681	818	685	328	—	3,512
Total	$2,385	$ 939	$ 697	$ 463	$ —	$4,484

Acquired Loans (In thousands)	At or for the nine months ended September 30, 2016 Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Unallocated	Total
Balance at beginning of period	$1,903	$ 1,330	$ 976	$ 525	$ —	$4,734
Charged-off loans	788	359	696	457	—	2,300
Recoveries on charged-off loans	—	213	141	79	—	433
Provision for loan losses	1,270	(245)	276	316	—	1,617
Balance at end of period	$2,385	$ 939	$ 697	$ 463	$ —	$4,484
Individually evaluated for impairment	704	121	12	135	—	972
Purchased credit-impaired loans	—	—	—	—	—	—
Collectively evaluated	1,681	818	685	328	—	3,512
Total	$2,385	$ 939	$ 697	$ 463	$ —	$4,484

Table of Contents

Acquired Loans (In thousands)	At or for the three months ended September 30, 2015					
	Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Unallocated	Total
Balance at beginning of period	$1,786	$ 973	$ 808	$ 404	$ —	$3,971
Charged-off loans	38	318	66	206	—	628
Recoveries on charged-off loans	23	130	1	11	—	165
Provision for loan losses	(252)	(133)	182	312	—	109
Balance at end of period	$1,519	$ 652	$ 925	$ 521	$ —	$3,617
Individually evaluated for impairment	199	—	48	71	—	318
Purchased credit-impaired loans	—	—	—	—	—	—
Collectively evaluated	1,320	652	877	450	—	3,299
Total	$1,519	$ 652	$ 925	$ 521	$ —	$3,617

Acquired Loans (In thousands)	At or for the nine months ended September 30, 2015					
	Commercial real estate	Commercial and industrial loans	Residential mortgages	Consumer	Unallocated	Total
Balance at beginning of period	$790	$ 1,093	$ 615	$ 369	$ —	$2,867
Charged-off loans	625	654	441	814	—	2,534
Recoveries on charged-off loans	418	186	42	67	—	713
Provision for loan losses	936	27	709	899	—	2,571
Balance at end of period	$1,519	$ 652	$ 925	$ 521	$ —	$3,617
Individually evaluated for impairment	199	—	48	71	—	318
Purchased credit-impaired loans	—	—	—	—	—	—
Collectively evaluated	1,320	652	877	450	—	3,299
Total	$1,519	$ 652	$ 925	$ 521	$ —	$3,617

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.

For commercial credits, 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.

Table of Contents

Acquired Loans Credit Quality Analysis
Upon acquiring a loan portfolio, the Company's 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 ratings system is similar to loans originated through business activities.

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

Additionally, the Company considers the need for an additional reserve for acquired loans accounted for outside of the scope of ASC 310-30 under ASC 310-20. At acquisition date, the Bank determined a fair value mark with credit and interest rate components. Under the Company's model, the impairment evaluation process involves comparing the carrying value of acquired loans, including the entire unamortized premium or discount, to the recorded reserve allowance. If necessary, the Company books an additional reserve to account for shortfalls identified through this calculation. Fair value marks are not bifurcated when evaluating for impairment.

A decrease in the expected cash flows in subsequent periods requires the establishment of an allowance for loan losses at that time for ASC 310-30 loans. At September 30, 2016 the allowance for loan losses related to acquired loans under ASC 310-30 and ASC 310-20 was $4.5 million using the above mentioned criteria.

Table of Contents

The following tables present the Company’s loans by risk rating at September 30, 2016 and December 31, 2015:

Business Activities Loans
Commercial Real Estate
Credit Risk Profile by Creditworthiness Category

(In thousands)	Construction		Single and multi-family		Other		Total commercial real estate	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Grade:								
Pass	$221,749	$208,138	$ 269,342	$ 212,900	$1,378,353	$1,155,770	$ 1,869,444	$ 1,576,808
Special mention	—	—	348	—	21,533	3,449	21,881	3,449
Substandard	—	2,058	2,154	1,923	38,803	49,716	40,957	53,697
Doubtful	—	—	—	—	37	73	37	73
Total	$221,749	$210,196	$ 271,844	$ 214,823	$1,438,726	$1,209,008	$ 1,932,319	$ 1,634,027

Commercial and Industrial Loans
Credit Risk Profile by Creditworthiness Category

(In thousands)	Asset based lending		Other		Total comm. and industrial loans	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Grade:						
Pass	$327,100	$331,253	$499,953	$455,710	$827,053	$786,963
Special mention	—	—	484	24,578	484	24,578
Substandard	—	—	20,332	15,691	20,332	15,691
Total	$327,100	$331,253	$520,769	$495,979	$847,869	$827,232

Residential Mortgages
Credit Risk Profile by Internally Assigned Grade

(In thousands)	1-4 family		Construction		Total residential mortgages	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Grade:						
Pass	$1,508,109	$1,449,073	$16,555	$ 26,704	$ 1,524,664	$ 1,475,777
Special mention	1,602	857	—	—	1,602	857
Substandard	3,411	4,303	45	—	3,456	4,303
Total	$1,513,122	$1,454,233	$16,600	$ 26,704	$ 1,529,722	$ 1,480,937

Consumer Loans
Credit Risk Profile Based on Payment Activity

(In thousands)	Home equity		Auto and other		Total consumer loans	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Performing	$322,060	$305,562	$435,088	$310,777	$757,148	$616,339
Nonperforming	1,582	1,597	530	551	2,112	2,148
Total	$323,642	$307,159	$435,618	$311,328	$759,260	$618,487

Table of Contents

Acquired Loans
Commercial Real Estate
Credit Risk Profile by Creditworthiness Category

(In thousands)	Construction		Single and multi-family		Other		Total commercial real estate	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Grade:								
Pass	$18,768	$ 42,176	$35,812	$ 32,796	$317,894	$324,614	$372,474	$399,586
Special mention	—	—	—	655	1,630	352	1,630	1,007
Substandard	1,082	1,298	4,884	3,332	14,655	20,517	20,621	25,147
Total	$19,850	$ 43,474	$40,696	$ 36,783	$334,179	$345,483	$394,725	$425,740

Commercial and Industrial Loans
Credit Risk Profile by Creditworthiness Category

(In thousands)	Asset based lending		Other		Total comm. and industrial loans	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Grade:						
Pass	$ —	$ —	$141,843	$212,825	$ 141,843	$ 212,825
Special mention	—	—	180	487	180	487
Substandard	—	—	4,813	7,719	4,813	7,719
Doubtful	—	—	169	—	169	—
Total	$ —	$ —	$147,005	$221,031	$ 147,005	$ 221,031

Residential Mortgages
Credit Risk Profile by Internally Assigned Grade

(In thousands)	1-4 family		Construction		Total residential mortgages	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Grade:						
Pass	$285,167	$329,375	$815	$ 1,351	$ 285,982	$ 330,726
Special mention	441	311	—	—	441	311
Substandard	1,966	3,061	—	—	1,966	3,061
Total	$287,574	$332,747	$815	$ 1,351	$ 288,389	$ 334,098

Consumer Loans
Credit Risk Profile Based on Payment Activity

(In thousands)	Home equity		Auto and other		Total consumer loans	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Performing	$45,732	$ 52,719	$100,814	$129,345	$146,546	$182,064
Nonperforming	526	727	643	893	1,169	1,620
Total	$46,258	$ 53,446	$101,457	$130,238	$147,715	$183,684

40

Table of Contents

The following table summarizes information about total loans rated Special Mention or lower as of September 30, 2016 and December 31, 2015. 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)	September 30, 2016 Business Activities Loans	Acquired Loans	Total	December 31, 2015 Business Activities Loans	Acquired Loans	Total
Non-Accrual	$14,690	$ 5,974	$20,664	$15,484	$ 5,391	$20,875
Substandard Accruing	52,352	23,223	75,575	60,549	32,560	93,109
Total Classified	67,042	29,197	96,239	76,033	37,951	113,984
Special Mention	24,378	3,583	27,961	29,036	2,259	31,295
Total Criticized	$91,420	$ 32,780	$124,200	$105,069	$ 40,210	$145,279

Table of Contents

NOTE 7. DEPOSITS

A summary of time deposits is as follows:

(In thousands)	September 30, 2016	December 31, 2015
Time less than $100,000	$ 535,655	$ 545,819
Time $100,000 or more	1,547,234	1,440,781
Total time deposits	$ 2,082,889	$ 1,986,600

Included in time deposits are brokered deposits of $810.0 million and $784.1 million at September 30, 2016 and December 31, 2015, respectively. Included in the deposit balances contained on the balance sheet are reciprocal deposits of $102.4 million and $101.5 million at September 30, 2016 and December 31, 2015, respectively.

NOTE 8. BORROWED FUNDS

Borrowed funds at September 30, 2016 and December 31, 2015 are summarized, as follows:

	September 30, 2016			December 31, 2015		
(dollars in thousands)	Principal	Weighted Average Rate		Principal	Weighted Average Rate	
Short-term borrowings:						
Advances from the FHLBB	$924,800	0.55	%	$1,071,200	0.43	%
Other Borrowings	15,000	2.17		—	—	
Total short-term borrowings:	939,800	0.58		1,071,200	0.43	
Long-term borrowings:						
Advances from the FHLBB	109,114	1.61		103,135	1.89	
Subordinated borrowings	73,652	7.00		73,519	7.00	
Junior subordinated borrowings	15,464	2.67		15,464	2.23	
Total long-term borrowings:	198,230	3.69		192,118	3.88	
Total	$1,138,030	1.12	%	$1,263,318	0.96	%

Short term debt includes Federal Home Loan Bank of Boston (“FHLBB”) advances with an original maturity of less than one year and a short-term line-of-credit drawdown through a correspondent bank. The Bank also maintains a $3.0 million secured line of credit with the FHLBB that bears a daily adjustable rate calculated by the FHLBB. There was no outstanding balance on the FHLBB line of credit for the periods ended September 30, 2016 and December 31, 2015.

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 took place for the periods ended September 30, 2016 and December 31, 2015.

Long-term FHLBB advances consist of advances with an original maturity of more than one year. The advances outstanding at September 30, 2016 include callable advances totaling $11.0 million, and amortizing advances totaling $1.2 million. The advances outstanding at December 31, 2015 include callable advances totaling $11.0 million, and amortizing advances totaling $1.2 million. All FHLBB borrowings, including the line of credit, are secured by a blanket security agreement on certain qualified collateral, principally all residential first mortgage loans and certain securities.

Table of Contents

A summary of maturities of FHLBB advances as of September 30, 2016 is as follows:

	September 30, 2016	
(in thousands, except rates)	Principal	Weighted Average Rate
Fixed rate advances maturing:		
2016	$835,308	0.54 %
2017	183,154	1.08
2018	1,018	2.62
2019	—	—
2020 and beyond	14,434	2.41
Total FHLBB advances	$1,033,914	0.66 %

The Company does not have variable-rate FHLBB advances for the periods ended September 30, 2016 and December 31, 2015.

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 5.113%. The subordinated note includes reduction to the note principal balance of $737 thousand and $829 thousand for unamortized debt issuance costs as of September 30, 2016 and December 31 2015, respectively.

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 2.67% and 2.23% at September 30, 2016 and December 31, 2015, 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 shareholders 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.

Table of Contents

NOTE 9. CAPITAL RATIOS AND SHAREHOLDERS' EQUITY

The actual and required capital ratios were as follows:

	September 30, 2016		Regulatory Minimum to be Well Capitalized		December 31, 2015		Regulatory Minimum to be Well Capitalized	
Company (consolidated)								
Total capital to risk weighted assets	11.5	%	10.0	%	11.9	%	10.0	%
Common equity tier 1 capital to risk weighted assets	9.5		6.5		9.8		6.5	
Tier 1 capital to risk weighted assets	9.6		8.0		9.9		8.0	
Tier 1 capital to average assets	7.7		5.0		7.7		5.0	
Bank								
Total capital to risk weighted assets	10.9	%	10.0	%	11.2	%	10.0	%
Common equity tier 1 capital to risk weighted assets	9.6		6.5		9.9		6.5	
Tier 1 capital to risk weighted assets	9.6		8.0		9.9		8.0	
Tier 1 capital to average assets	7.6		5.0		7.7		5.0	

At each date shown, the Company and the Bank met the conditions to be classified as "well capitalized" under the relevant regulatory framework. 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.

Effective January 1, 2015, the Company and the Bank became subject to the Basel III rule that requires the Company and the Bank to assess their Common equity tier 1 capital to risk weighted assets and the Company and the Bank each exceed the minimum to be well capitalized. In addition, the final capital rules added a requirement to maintain a minimum conservation buffer, composed of Common equity tier 1 capital, of 2.5% of risk-weighted assets, to be phased in over three years and applied to the Common equity tier 1 risk-based capital ratio, the Tier 1 risk-based capital ratio and the Total risk-based capital ratio. Accordingly, banking organizations, on a fully phased in basis no later than January 1, 2019, must maintain a minimum Common equity tier 1 risk-based capital ratio of 7.0%, a minimum Tier 1 risk-based capital ratio of 8.5% and a minimum Total risk-based capital ratio of 10.5%.

The required minimum conservation buffer began to be phased in incrementally, starting at 0.625% on January 1, 2016 and will increase to 1.25% on January 1, 2017, 1.875% on January 1, 2018 and 2.5% on January 1, 2019. The final capital rules impose restrictions on capital distributions and certain discretionary cash bonus payments if the minimum capital conservation buffer is not met.

At September 30, 2016, the capital levels of both the Company and the Bank exceeded all regulatory capital requirements and their regulatory capital ratios were above the minimum levels required to be considered well capitalized for regulatory purposes. The capital levels of both the Company and the Bank at September 30, 2016 also exceeded the minimum capital requirements including the currently applicable capital conservation buffer of 0.625%.

Table of Contents

Accumulated other comprehensive income (loss)

Components of accumulated other comprehensive income is as follows:

(In thousands)	September 30, 2016	December 31, 2015
Other accumulated comprehensive income, before tax:		
Net unrealized holding gain on AFS securities	$ 27,955	$ 6,316
Net unrealized loss on effective cash flow hedging derivatives	(11,191)	(8,532)
Net unrealized holding loss on pension plans	(3,469)	(3,469)
Income taxes related to items of accumulated other comprehensive income:		
Net unrealized holding gain on AFS securities	(10,766)	(2,437)
Net unrealized loss on effective cash flow hedging derivatives	4,490	3,425
Net unrealized holding loss on pension plans	1,392	1,392
Accumulated other comprehensive income (loss)	$ 8,411	$ (3,305)

The following table presents the components of other comprehensive income for the three and nine months ended September 30, 2016 and 2015:

(In thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended September 30, 2016			
Net unrealized holding (loss) on AFS securities:	x		
Net unrealized (loss) arising during the period	$ (5,576)	$ 2,190	$ (3,386)
Less: reclassification adjustment for gains realized in net income	78	(28)	50
Net unrealized holding (loss) on AFS securities	(5,654)	2,218	(3,436)
Net unrealized gain on cash flow hedging derivatives:			
Net unrealized gain arising during the period	1,363	(547)	816
Less: reclassification adjustment for (losses) realized in net income	(1,367)	549	(818)
Net unrealized gain on cash flow hedging derivatives	2,730	(1,096)	1,634